



Franshaires®

# Franchise Investing Guide

Everything you need to know about passively investing in the \$787B franchise industry.



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# An Introduction to Franchise Investing

For decades, private equity firms, celebrities, and ultra-wealthy investors have recognized the value of franchise investments due to their potential for steady income distributions, portfolio diversification, and inflation hedging, all while avoiding the daily fluctuations and volatility that are often associated with public markets like stocks and crypto.

These investors often choose franchise investing over investing in startups due to their proven business models, the extensive training and support franchisors provide, and the lower failure rate than independent startups.

However, the traditional franchise model presents challenges that deter everyday investors from participating. For instance, franchise ownership requires significant initial investments, often ranging from hundreds of thousands to millions of dollars. Furthermore, franchise ownership necessitates a certain level of experience in franchise management, which disqualifies many otherwise eligible investors from entering the franchising sector.

Another obstacle for the average investor is the substantial time commitment associated with franchising. Managing a franchise location involves numerous responsibilities, such as hiring, scheduling, and procurement, which can be challenging for investors who lack the necessary time to devote.

Despite these challenges, a new approach to franchise investment has emerged. In this guide, we present an alternative franchise investment strategy: a lower-risk, democratized method that allows the everyday investor to access this essential asset class without facing the aforementioned barriers.

We will dig deeper into this new way of investing in franchises later in this guide. However, an in-depth exploration of franchising is first warranted.





# The Rise of Franchise Investment

Franchising has been around for over a century, with early brands such as Singer and Ford licensing their products and procedures to resellers and dealerships to increase profits and expand their reach. Singer licensed its sewing machine technology to independent operators, while Ford allowed dealerships to operate under a franchise model, with both providing support to franchisees to maintain control over quality.

In the 1960s and 1970s, McDonald's capitalized on the success of franchising by licensing independently owned locations. The company's strong brand recognition and evolving consumer preferences helped drive its growth, with the proven system making it easy for franchisees to replicate. By granting franchisees the right to use the McDonald's brand name and operating system, the company expanded rapidly while maintaining consistency in its products and services. This allowed McDonald's to spread its brand across different regions, resulting in ever-increasing revenue and brand awareness.

Franchising provides a win-win solution for both franchisors and franchisees. For franchisors, it enables them to expand their brand and revenue without the risk and capital required for opening company-owned locations. For franchisees, it allows them to operate under an established brand and operating system, reducing the risk of failure. As franchising continues to evolve, it remains a popular and effective business model for many companies.

## 780,000 locations, 4,000 brands, and 100 industries

Today, more than 4,000 franchised brands across over 100 industries are operating 780,000+ franchised locations throughout the United States. In spite of the severe economic downturn caused by the COVID-19 pandemic, the International Franchise Association estimates that global franchise employment grew by 3.1 percent in 2022 after a massive 8.8% increase in employment in 2021. The franchising industry added an estimated 660,295 jobs to the U.S. economy in 2021, and is estimated to have driven more than 256,000 in 2022.



# Franchise Business Economic Output



Before the pandemic, the average annual growth in terms of Gross Domestic Product (GDP) was approximately 4-5%. Despite 2021’s negative growth due to COVID-19, franchising’s economic output neared pre-pandemic levels in 2022, with a projected 5.7% expansion in 2023.

Market research and advisory firm FRANdata emphasizes that franchise businesses frequently spearhead business growth and job creation after a recession, as evidenced by data from four preceding recessionary cycles. This phenomenon can be attributed to several factors.

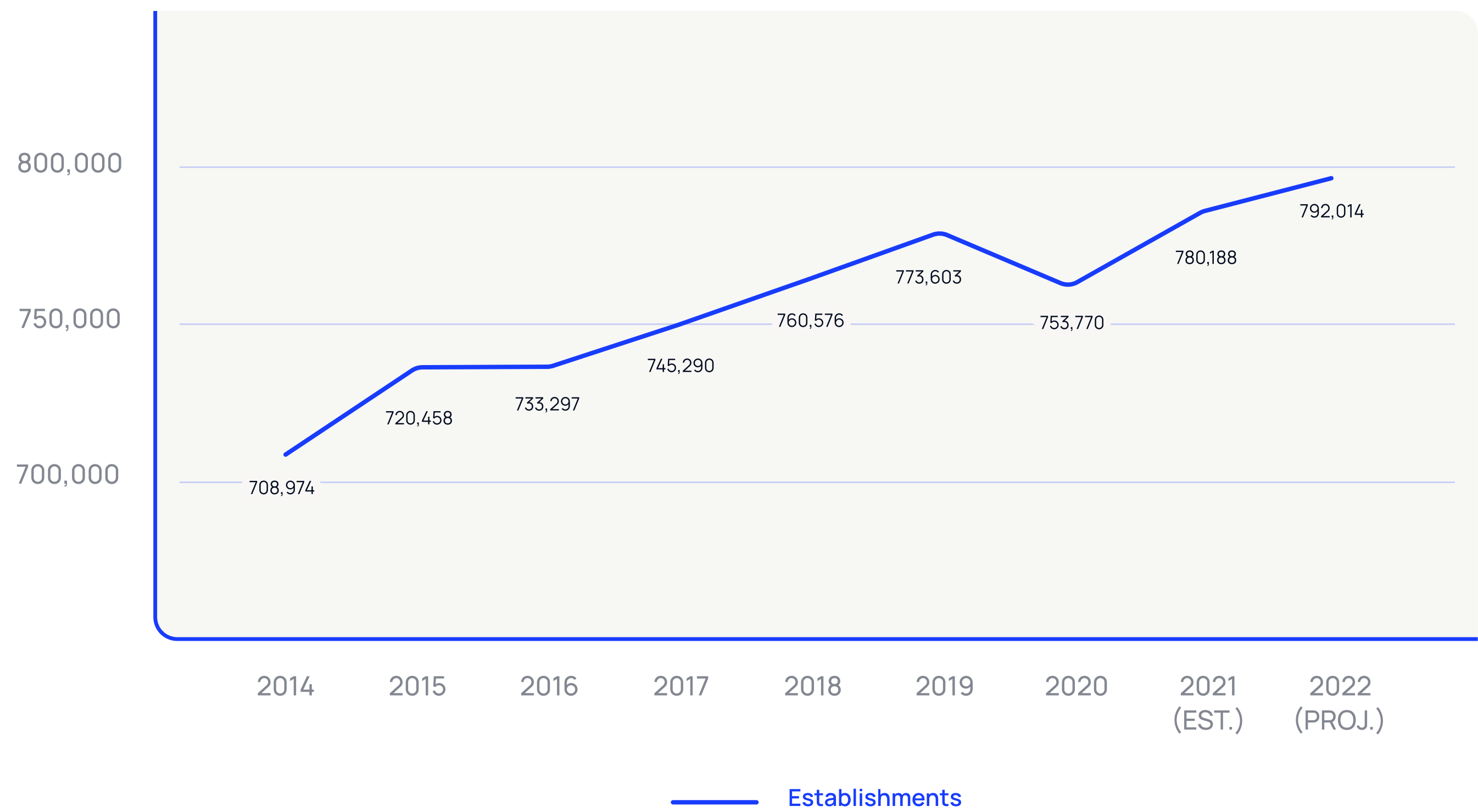
First, franchises possess proven and established business models, providing them a competitive advantage during an economic recovery. As the economy rebounds, franchises are well-positioned to capitalize on the uptick in consumer spending and market opportunities, fostering business growth and job creation.

Second, franchisors offer extensive support to franchisees, including marketing assistance, operational guidance, and financial backing. This support enables franchise businesses to navigate post-recession challenges more effectively than independent startups, leading to accelerated growth and employment generation.

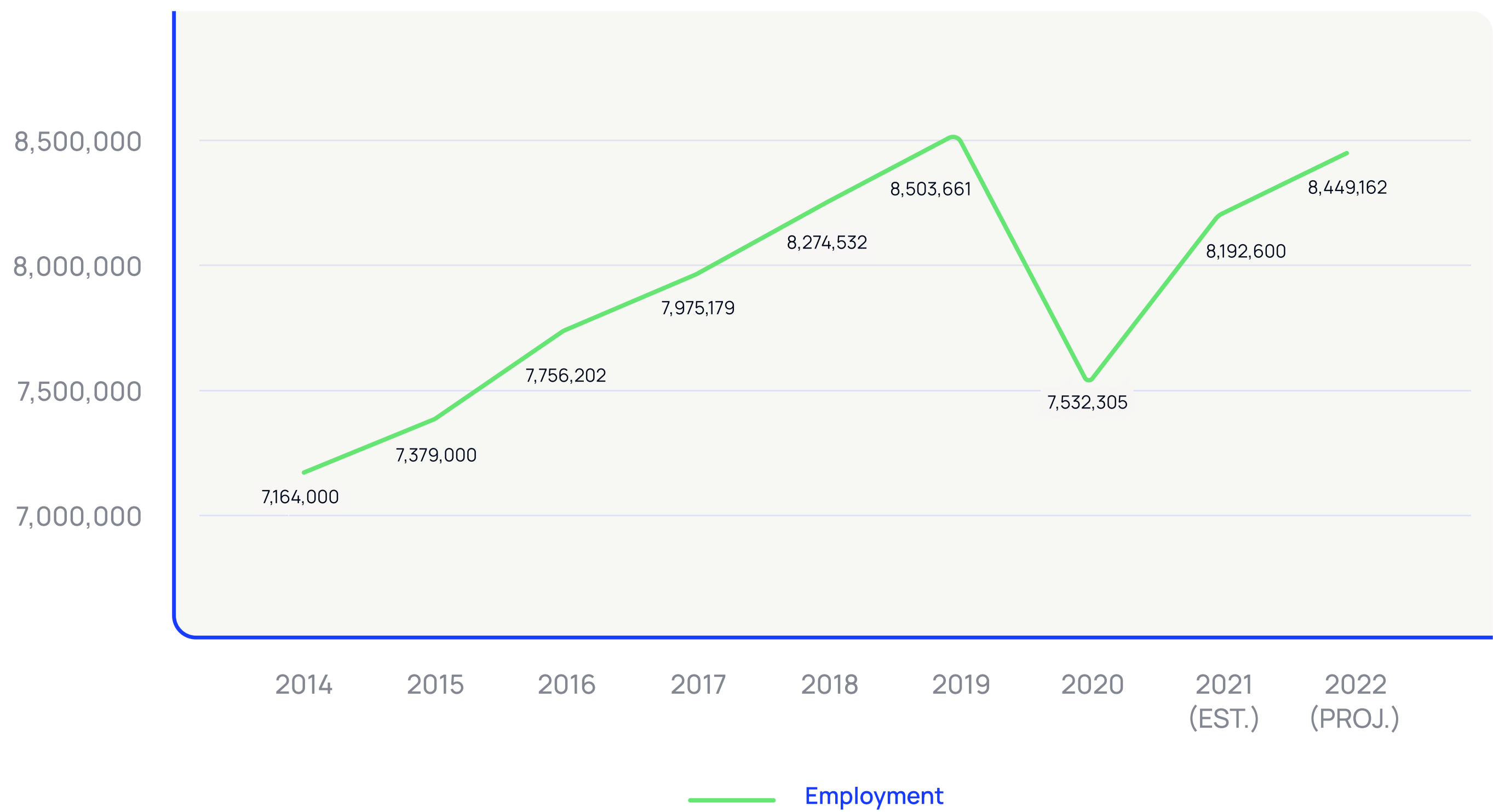
Finally, the franchise industry is known for innovation and adaptability. Franchise businesses can swiftly respond to changing market conditions and consumer preferences, adopting new technologies and business practices faster than their non-franchise counterparts. This agility allows franchises to drive growth in the post-recession landscape.



# Franchise Business Establishments



# Franchise Business Employment







# What Is a Financial Disclosure Document?

In the franchising world, a financial disclosure document (FDD) is a legally mandated document that provides comprehensive information about a franchise system to potential franchisees. The FDD aims to ensure transparency, facilitate informed decision-making, and protect the interests of prospective franchisees before they invest in a franchise. The document contains extensive information about the franchisor and the franchise system and generally features 23 sections that delve into various aspects of a potential franchise investment.

While every section of a Franchise Disclosure Document (FDD) plays a crucial role in understanding the franchise opportunity, several key aspects require close examination:

1. **Initial Investment and Fees (Items 5, 6, and 7):** Understand the upfront costs, such as the franchise fee and ongoing fees like royalties, marketing fees, and other expenses.
2. **Franchisor's Experience and Background (Item 1):** Assess the franchisor's history, stability, and potential for long-term success based on their experience and the performance of predecessors and affiliates.
3. **Franchisor's Support and Training (Items 11 and 17):** Evaluate the level of support, training, and assistance the franchisor offers to franchisees.
4. **Financial Performance Representations (Item 19):** Review any available financial performance data from the franchisor, which can provide valuable insights into the potential profitability and financial viability of the franchise opportunity.
5. **Franchise System Growth and Stability (Item 20):** Investigate the growth, turnover, and overall stability of the franchise system, as well as the contact details for current and former franchisees.
6. **Franchisor's Financial Health (Item 21):** Evaluate the franchisor's financial statements to determine the financial stability and viability of the franchise system.

To learn more about franchise financial disclosure documents, please visit the [FTC's webpage on buying a franchise](#).





# Why Franchise Investing Works

The numerous benefits of franchise ownership make it an attractive option for those with the time, expertise, and capital to invest. A combination of potential distributions and equity appreciation has made the franchise model a perennial favorite of investors looking to better diversify their portfolio and income streams.

Let's review the key benefits of franchise investing.

## Strong prospects for success

Unlike traditional small businesses or startups, franchises benefit from their affiliation with a broader brand ecosystem, enhancing their prospects for success. Notable advantages include:

1. **Established business model:** Franchises typically operate with a proven business model that has demonstrated success across various locations. Franchisees can simply adopt the pre-existing model and processes for their new venture.
2. **Brand recognition:** Franchisees inherit a recognizable brand, attracting customers and providing immediate credibility. This offers an advantage over new ventures that require brand development from scratch.
3. **Training and support:** Franchisors generally offer training and ongoing support, including assistance with site selection, marketing, and operations. Such support can benefit investors who lack comprehensive business management experience.
4. **Economies of scale:** Franchises can leverage the economies of scale associated with a larger organization, potentially reducing costs for supplies, marketing, and other business expenses.



However, franchise investments also entail drawbacks:

1. **Initial investment and fees:** Franchisees often need to make a substantial initial investment, which potentially poses financial challenges for some investors.
2. **Management responsibility and time:** Franchisees require skill and time to manage effectively. Despite receiving proven processes, successful implementation remains the franchisee's responsibility.
3. **Franchisor dependency:** A franchise's success may be contingent upon the franchisor's performance. Financial difficulties or loss of competitiveness can adversely impact the franchisee's business, emphasizing the importance of judicious franchisor selection.

While franchising offers benefits, it has risks. To ensure success, franchisees must possess exceptional franchisor selection capabilities, strong implementation skills, and effective management of locations, adhering to franchisor stipulations.

## Potential passive income and equity appreciation

Investing in franchise shares offers investors the opportunity to engage with a real asset that may generate consistent income, enabling them to receive regular distributions. This distinguishes franchising from other investment options, such as stocks, cryptocurrencies, pre-IPO company investments, wine, art, and other collectibles, which may not consistently provide cash distributions.

Moreover, as franchise locations thrive and expand, their value may appreciate, affording shareholders capital gains alongside consistent distributions. This dual-income potential makes franchising an appealing choice for investors seeking portfolio diversification.

However, it is crucial for investors to carefully evaluate the specific franchise they are considering investing in, as not all franchises are created equal. Factors such as the overall health of the franchisor, the industry's growth potential, and the track record of success in the franchise system should be taken into account before making an investment decision. As stated previously, franchisees also must consider if they have the time, expertise, and initial capital to invest in franchises.

## An active regulatory environment

Franchising in the United States is subject to regulation at both federal and state levels, ensuring a framework of legal oversight and protection for all parties involved. At the federal level, the Federal Trade Commission (FTC) oversees franchising, primarily through the Franchise Rule, which mandates specific disclosures and practices designed to protect prospective franchisees.

The Franchise Rule requires franchisors to provide a Franchise Disclosure Document (FDD) to potential franchisees. This comprehensive document contains crucial information about the franchisor, the franchise system, fees, contractual obligations, and more, enabling informed decision-making by prospective franchisees.

At the state level, various franchise registration and disclosure laws exist, which may require franchisors to register their FDDs with state regulatory authorities before offering or selling franchises within that jurisdiction. These state-specific regulations may impose additional disclosure requirements or stipulations to further protect franchisees.

While this level of government oversight cannot remove all risk from investing in a franchise, regulatory reporting requirements provide potential investors with the essential information necessary for a comprehensive evaluation of franchising as a component of their investment portfolio.

## A potential long-term inflation hedge

Income-generating real assets, such as franchises, possess an inherent ability to adjust their prices in response to inflation, which can potentially serve as a long-term hedge against rising costs. As inflation occurs, the general price level for goods and services in an economy increases, causing the purchasing power of currency to decline. In these circumstances, franchises can adjust their pricing strategies to account for higher costs, thereby maintaining or even increasing their profit margins.

As a result of this adaptability, franchises can continue to generate income and maintain their value even in the face of inflationary pressures.

Moreover, franchises often operate in industries that provide essential goods and services, such as food, retail, or healthcare, which are less susceptible to economic downturns. These sectors may demonstrate greater resilience during periods of inflation, further bolstering the franchise's ability to serve as an inflation hedge.

It is essential to note, however, that not all franchises are equally well-equipped to handle inflation. Their success can depend on factors such as the franchisor's overall health and the franchisee's management skill.



## Lower volatility

Franchises derive their value primarily from the performance of the underlying business, focusing on factors such as revenue, profitability, and growth potential. This is in contrast to the valuation of assets like cryptocurrencies, stocks, or bonds, which can be significantly influenced by market sentiment, speculative behavior, or fluctuations in macroeconomic indicators.

The valuation of a franchise is generally based on more stable and predictable factors, such as the strength of the brand, the efficiency of operations, and the effectiveness of marketing strategies. As a result, franchises are less susceptible to the volatility often experienced in financial markets, offering a degree of stability for investors.

In addition to being less influenced by market sentiment, franchises are also less sensitive to changes in interest rates compared to real estate investments. While rising or falling interest rates can have a significant impact on real estate prices and mortgage affordability, the effect on franchises is typically more indirect and subdued.

Franchises may still be affected by interest rate changes through increased borrowing costs, which can impact expansion plans or working capital management. However, the primary drivers of a franchise's value remain rooted in the operational performance of the business. This characteristic can be particularly appealing to investors seeking a more stable and predictable investment option that is less influenced by external market forces or interest rate fluctuations.

## Potential recession resistance

Many franchises operate in recession-resistant industries, exhibiting resilience during economic downturns. As the stock market declines, people still engage in essential activities and services, supporting franchises in these sectors.

For example, personal care services like haircuts and grooming remain in demand despite market fluctuations. Fitness centers like gyms and wellness studios enjoy steady patronage as consumers prioritize health and well-being.

Waste management services, including trash collection and disposal, are indispensable regardless of the economy. The food service industry, which includes restaurants, fast-food chains, and delivery services, also thrives as consumers depend on them for sustenance and convenience.

Overall, franchises in these sectors can endure economic challenges due to the sustained demand for their offerings. Their resilience makes them appealing investment opportunities, providing stability and consistent returns amid market volatility.





# Franchise Investing Return Potential

The return potential for a franchise location depends on factors such as the specific industry, the strength of the franchise brand, and the franchisee's management skill.

**Industry:** The franchise's industry significantly influences its return potential. Fast-growing industries with high demand and low competition offer better opportunities for higher returns, while franchises in saturated or declining industries may struggle to generate substantial returns. Investors should research market trends, consumer behavior, and future growth prospects

**Specific brand:** The franchise brand's strength also impacts return potential. Established and reputable brands with proven success records are more likely to yield higher returns, thanks to brand recognition, customer loyalty, and proven, effective business models.

**Management skill:** The franchisee's management skill is another critical factor affecting a franchise location's return potential. Franchisees with strong management skills can successfully implement proven processes, optimize costs, and create a positive work environment, leading to improved financial performance. Effective management, efficient operations, and adaptability to market changes can result in higher profitability and better returns.

Providing a specific percentage or figure is difficult, given the various factors influencing a franchisee's return potential. However, choosing a strong franchise brand in a thriving industry and possessing the management skill to implement proven processes effectively is crucial.

**Ready to explore passive franchise investing?**

Join more than 39,000 investors ready to passively invest in franchises through FranShares.

[Start Today](#)



# Challenges and Risks of Franchise Investment

Franchise investing offers the prospects of consistent income streams, asset growth, diversification, inflation protection, and various other potential advantages. However, it also presents its own set of challenges.

Prospective franchisees often face three key hurdles when pursuing a franchise opportunity:



**Up-front costs** — Investment capital is one of the primary barriers to establishing a franchise location. Costs for licensing, real estate, materials, and fees can range from \$100,000 to more than \$1M in cash. Many franchise owners need millions more in additional liquid assets.



**Time** — Traditional franchise investment is not a purely passive income model. Although running a franchise location can be easier than starting from scratch with a single-location business, it is still a time-consuming process. As the franchisee, you are responsible for implementing the management and marketing plans laid out by your franchisor. Standard operations like hiring, personnel management, ordering, and scheduling all require a significant time investment.



**Operational expertise** — As with running any business, operating a franchise business requires a certain level of business management knowledge. Franchise operators must be able to perform due diligence on the investment and must understand the market forces at play in establishing and running a franchise location. While the licensing agreement entitles the franchisee to benefit from branding and marketing, the success of the location hinges heavily upon the ability of operators to successfully run and promote the business.



With these challenges in mind, many investors might determine that franchise ownership is not an ideal fit for their financial circumstances or lifestyle preferences. Despite the potential benefits of franchising, these investors may lack the necessary capital, time, or expertise to operate a thriving franchise.

## Bridging the gap

This is where FranShares steps in to bridge the gap. Our mission is to provide an accessible solution for investors who aspire to participate in the franchise industry without the burdens of direct ownership. Through our innovative platform, we offer an opportunity to invest in a diversified portfolio of heavily vetted and professionally managed franchise locations, enabling investors to potentially reap the financial rewards without the time, expertise, or capital requirements of traditional franchise investing.







# Franchising for All: A Better Approach

If you're an investor who is interested in diversifying through franchise investing, FranShares is here to help you accomplish your objectives while avoiding the typical challenges associated with the franchise model. We are proud to introduce FranShares as the pioneering platform that enables investors like you to access the benefits of this asset class through fractional franchise investing.

## What is fractional franchise investing?

Fractionalized franchise investment is a method of ownership that allows a pool of investors to participate in locally owned, professionally managed franchise locations. The fractional investment model has successfully helped accredited and non-accredited investors place investments in a wide array of assets such as stocks, real estate, art, wine, private jets, and even racehorses.

By applying this well-established method to the franchise asset class, fractionalized franchise investing empowers investors to acquire partial ownership in a carefully curated portfolio of highly vetted, professionally managed locations. This innovative investment strategy effectively addresses the three primary barriers to entry, up-front costs, time, and operational expense, for those seeking to diversify their investment portfolio through franchise opportunities. These benefits make franchise investing an attractive and accessible choice for investors of all backgrounds.

## How does a FranShares franchise portfolio work?

At FranShares, we invest in locally operated franchise locations in collaboration with our community of investors. Our approach involves constructing and staffing new establishments with a proficient team of franchise managers or partnering with high-performing operators to provide liquidity and capital for expansion. FranShares and our operators diligently oversee day-to-day operations and ensure that the resulting recurring franchise profits are distributed to every investor.



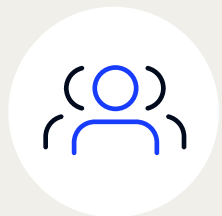
# What Are the Benefits of Investing with FranShares?

Fractionalized franchise ownership through our franchise portfolios offers investors many of the benefits of traditional franchise investment, while mitigating its challenges and removing the barriers to entry. As a FranShares investor, you will enjoy benefits including:



## Accessible to all

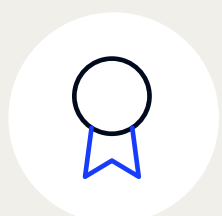
In contrast with outright ownership, fractional franchise ownership allows investors to contribute the amount of capital that aligns with their financial capabilities. Both accredited and non-accredited investors can invest as little as \$500 or as much as \$500,000. Our inclusive approach to franchising ensures that every investor has the opportunity to invest in franchise locations.



## 100% passive income

As a co-owner in our investment portfolios, FranShares takes on all management responsibilities for its franchise locations. Depending on the portfolio, locations are expertly managed by either proficient management teams or high-performing operators.

FranShares investors, unlike traditional franchisees, can relish the potential returns on their franchise investment without the large capital requirements, time, or management expertise. This makes FranShares a truly passive income opportunity designed to cater to the diverse needs of our valued investor community.

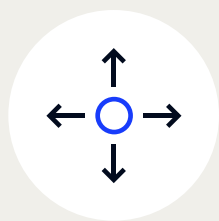


## Superior deals

At FranShares, we diligently assess franchise opportunities, presenting only the finest investment options to our investors. We employ key, data-driven metrics to identify the most promising franchises with the most significant potential for passive income, resulting in less than 1% of opportunities meeting our stringent criteria.

Our strategic approach to bulk purchasing franchises grants us significant buying power and enables us to obtain optimal valuations while saving an average of 27% on franchise fees.





## True diversification

FranShares allows investors to invest in a tangible asset class with a diversified portfolio across industries, locations, and service offerings. This well-rounded approach helps mitigate risks and enhances potential returns.

By diversifying across various industries, your portfolio is strategically balanced to minimize reliance on any single sector's performance. This approach means that positive performance in one industry can counterbalance potential losses in others, helping to mitigate risks.

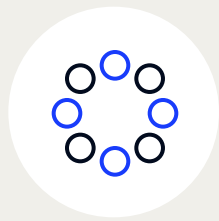
Geographical diversification helps mitigate localized economic challenges or fluctuations, reducing risks linked to regional conditions and fostering portfolio resilience.

Diversifying across service offerings enables investors to capitalize on diverse consumer preferences and demands.



## Transparency and reporting

At FranShares, we take pride in offering our investors comprehensive reporting and a strong adherence to compliance and stewardship standards. Investors will receive yearly audited financial statements, quarterly progress reports, and monthly update emails. Our commitment to transparency ensures you can rest easy, knowing your investment dollars are being put to work.



## Effortless investing

FranShares offers its members a one-stop shop for investing in franchises through our streamlined portal. Here, you can effortlessly browse various offerings and easily purchase shares in a franchise portfolio. Our platform is designed to be intuitive, informative, and a breeze to navigate, ensuring that newcomers to franchise investing can quickly learn the ins and outs of franchising and franchise investments.

## Are you considering passive franchise investing?

Explore our available offerings and join more than 39,000 investors on our waitlist today.

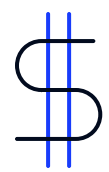
[Join Now](#)



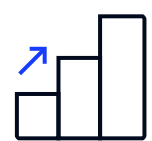
# FAQs

## How does FranShares choose what franchises to invest in?

Based on years of franchise investing expertise, we use a variety of criteria to select which franchises to invest in.



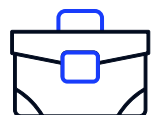
**Return On Investment (ROI)** – The FTC regulates franchising, requiring franchises to disclose their full itemized startup costs. While optional, franchises may also share a Financial Performance Representation (FPR) for their locations, including gross revenue, net profit, and financial figures. FranShares focuses on partnering with franchises that display a profitability metric, such as EBITDA or net profits, in their FPR, allowing our investors to better understand potential returns. To maximize ROI, we carefully avoid franchises with high buildout costs, large employee headcounts, and substantial inventory to maximize return potential.



**Growth** – We examine each franchise brand's same-store sales and overall location growth, ensuring efficient and sustainable investments in rapidly growing brands.



**Availability** – We prioritize growing franchise brands that have high availability for multiple locations in good markets – not established, highly saturated franchises whose availability is limited to non-existent in good markets.

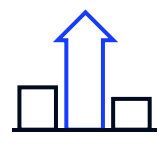


**Leadership** – As part of FTC regulation, each franchisor's leadership must be disclosed. We look for experienced teams based on their involvement in their franchise's industry and in franchising as a whole.



**Sustainability** – While they may not always be the “sexiest” businesses, FranShares looks for those that are more essential services with great long-term outlooks. We avoid quick fads and stick with staples like haircare, automotive, fitness, etc.





**Competition and Competitive Advantages** – When evaluating a franchise brand, we analyze its competition, assess competitor growth, and identify its competitive edge. This approach helps us measure a franchise’s growth potential, ensuring well-vetted investment opportunities for our investors.



**Manageability** – FranShares, Inc. takes responsibility for the operations and management of each offering, either by enlisting professional management teams or collaborating with experienced operators who have a history of success with their brand.

We concentrate on franchise models that generally demand a lower employee headcount, which streamlines operations. Additionally, we incorporate a general manager layer (uncommon in typical franchises) to achieve exceptional operational efficiency and provide our investors with investment opportunities that best meet their needs.



**Recession and Pandemic Resistance** – Predicting the future or perfect investment is impossible, but we aim to make informed decisions. We target essential, need-based industries known for resilience in diverse economic conditions, including past recessions or COVID lockdowns. This approach ensures that we’re offering our investors the best franchise investing opportunities.



# How are FranShares investments structured?

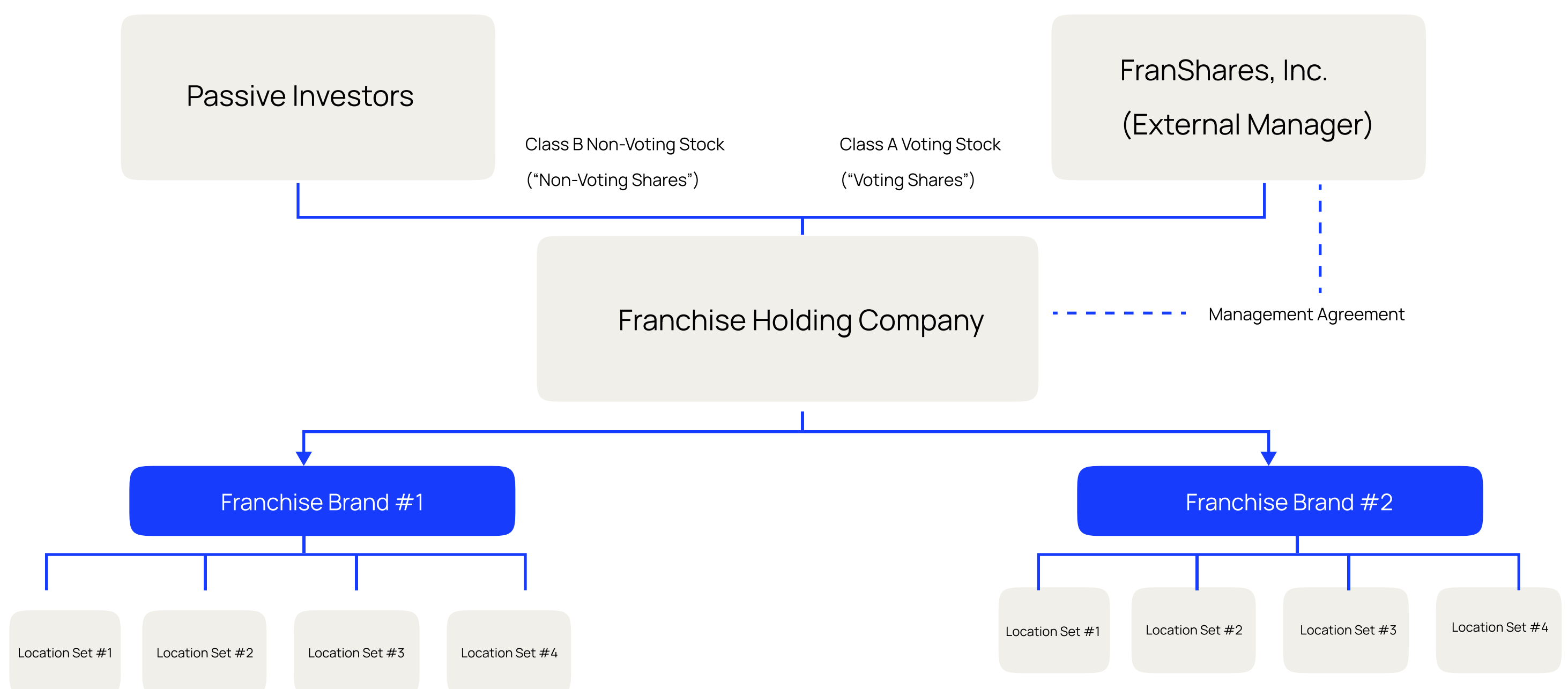
At FranShares, we leverage various SEC offering types, including Regulation A+, D, and CF, tailoring our selection to the specific needs of each investment opportunity.

Our offerings are designed with a subsidiary holding company for each franchise brand, and within these, additional subsidiaries for individual locations, or subsets of individual locations. The fund will hold 100% ownership in these subsidiaries.

As stated above, we take responsibility for the operations and management of each offering, either by partnering with a professional management team with a strong track record, or collaborating with experienced operators who have already had success within their industry and brand.

This structure resembles a standard private equity (PE) fund model, in which the PE fund owns and manages multiple franchises, providing a well-rounded and strategic investment approach.

## Offering structure example





## How long should I expect to hold my investment?

Franchise ownership is designed as a long-term investment strategy. Although we cannot guarantee liquidity, FranShares does provide a trading platform to facilitate liquidity. We highly recommend retaining your FranShares investment for a period of five years or more to fully reap the benefits of this asset class.

## Who can invest through FranShares?

At FranShares, we welcome all retail and institutional investors, although certain investments may be exclusively accessible to accredited investors. Our commitment lies in democratizing franchise investing, and we strive to make as many offerings as possible available to a wide range of investors.

## When and how will I receive distributions from my investment?

Distributions are generally disbursed on a quarterly, semi-annual, or annual basis, depending on the specific offering. These distributions are automatically deposited into investors' brokerage accounts. The amount of each distribution is contingent upon your investment allocation and the profits generated during the relevant period.

## When will the franchise be sold and what happens then?

Each portfolio is tailored to suit the unique circumstances of the investment type. For an income fund, we aim to hold the portfolios for 10 to 15 years. In the case of a growth fund, we typically maintain a minimum holding period of five years, with an anticipated sale within a five-to seven-year timeframe, subject to franchisor approval. Upon a sale, we distribute a portion of the buyout price to each investor, corresponding to their share of ownership in the fund. We then encourage investors to diversify their holdings by reinvesting into various other FranShares funds.



## How can I learn more about a particular offering?

To discover more about investment opportunities with FranShares, we invite you to join our waitlist. By doing so, you'll receive updates and information on new offerings as they become available.

## Can someone help me with additional questions?

Please email any questions to [support@franshares.com](mailto:support@franshares.com) and we will be happy to help.

### Join 39,000+ investors ready to for passive franchise investing

Explore our offerings and learn how you can potentially earn passive income through franchise investing.

[Start Today](#)





# Disclosures

The information contained herein neither constitutes an offer for nor a solicitation of interest in any specific securities offering. For any proposed offering pursuant to an offering statement that has not yet been qualified by the SEC, no money or other consideration is being solicited, and if sent in response, will not be accepted.

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Diversification and asset allocation do not ensure profit or guarantee against loss. Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk.

Our materials may include historical franchise returns that are based on Franchise Disclosure Documents required of franchises from the Federal Trade Commission. Such information is not intended to be indicative of returns that would have been achieved with FranShare during such periods. Images shown are for illustrative purposes only.

FranShares, Inc. and TNT Franchise Fund Inc. (“Fund”) are conducting public offerings pursuant to Regulation A+, D, or CF under the Securities Act of 1933. An indication of interest involves no obligation or commitment of any kind.