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FDD Item 19 Financial Performance Representations Guide

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Executive Summary

An Item 19 financial performance representation (FPR) is a statement of sales or earnings that a franchisor chooses to make in its franchise disclosure document (FDD), and it is, subject to two narrow exceptions, the only place a franchisor may put such a claim (www.ftc.gov). For a private equity origination analyst, the practical question is narrower than the one franchise buyers ask: does a given Item 19 support a provisional claim about outlet performance, and what does it leave unsaid about the franchisor company itself? This report answers with a claim-level extraction method built on the federal rule text, which the eCFR showed as current through 16 October 2026 (www.ecfr.gov).

Three findings drive the method. First, Item 19 is optional. The Federal Trade Commission (FTC) kept it voluntary in 2007 (www.federalregister.gov), so a franchisor with no FPR produces an **unavailable** figure, not a poor one. Estimates of how many franchisors make FPRs range from "approximately 20% or more" in the 2007 rulemaking record (www.federalregister.gov) to between one-half and two-thirds in a 2022 practitioner paper (www.franchise.org); those estimates use different bases and are not a trend line.

Second, every historic FPR must carry denominators: the total outlets in the relevant period, the outlets whose data were used, and the number and percent that attained or surpassed the stated result (www.ecfr.gov). From these, **reporting fraction = reporting / eligible** and **attainment fraction = attained / reporting** can be computed, and the gap between them is where selection bias lives. A fictional worked example below shows 240 of 332 eligible outlets reporting (72.3%) and 96 of 240 attaining the headline average (40.0%), which leaves the attained share of all eligible outlets anywhere between 28.9% and 56.6%.

Third, outlet performance is not franchisor performance. Public franchisors' own filings make the point: one reports system-wide sales of approximately $5.3 billion against total revenue of $696.9 million (www.sec.gov), and another states that franchisee sales are not recorded as its revenue (www.sec.gov). Franchisor economics sit in Item 21, the audited statements, while outlet counts and closures sit in Item 20. The three items cover different populations and dates and should be reconciled by annotation, not forced to agree.

The method ends in four claim statuses (verified-as-disclosed, inconsistent, insufficient, unavailable) with escalation to counsel or an accountant where a claim matters to a decision. This is a research evidence guide, not legal advice and not a guide to buying a franchise.

Introduction and Background

The FTC's Franchise Rule requires a franchisor to give a prospective buyer a disclosure document containing 23 specific items of information (www.ftc.gov). Three of those items matter most to a screening analyst. Item 19 holds the franchisor's chosen sales or earnings claims. Item 20 holds outlet counts, transfers, closures and contact lists. Item 21 holds the franchisor's audited financial statements. The FTC's own consumer guidance describes Item 19 as optional but common: the rule does not require a franchisor to provide sales or earnings information, but most do (www.ftc.gov).

This report is written for private equity origination teams screening franchise-system companies, not for franchise buyers. A buyer asks whether a particular outlet will earn enough. A screening analyst asks whether the disclosed outlet data support a provisional statement about system health, and whether anything in the document speaks to the franchisor's own revenue and margins. The answer to the second question is mostly no.

Three entities that are easy to conflate

Most errors in reading an Item 19 start with a blurred entity. The method keeps three apart:

- **Franchisor platform:** the legal entity that grants the franchise, earns royalties and fees, and is the potential acquisition target. Item 1 requires the FDD to name the franchisor, any parents, and any affiliates that offer franchises.
- **Franchisee outlet:** an independently owned location whose sales or earnings an Item 19 may describe. Its revenue is the franchisee's, and the franchisor receives only the fees it is contractually owed.
- **Company-owned outlet:** a location operated by the franchisor or an affiliate. Item 19 may describe these too, because the rule permits information on the performance of franchised and/or franchisor-owned outlets.

The issuer on the FDD cover can differ from the brand name on the storefront, and Item 21 can present an affiliate's statements instead of the franchisor's, but only where that affiliate absolutely and unconditionally guarantees to assume the franchisor's duties and obligations (www.ecfr.gov). Resolving a brand to its legal entity is a research task in its own right; here the point is only that the first extraction field is the issuer.

What an FDD does and does not prove

The FDD cover carries a statement that no governmental agency has verified the information in the document (www.ecfr.gov), and Wisconsin, for example, describes itself as not a franchise merit-review state (dfi.wi.gov). An FDD is a franchisor-authored disclosure. "Verified-as-disclosed" in this report therefore means only that the wording, denominators and arithmetic are internally complete, not that the underlying data were independently audited.

Key Changes: How the Amended Rule Shaped Item 19

The current Item 19 is the product of the FTC's 2007 amendments, which took effect on 1 July 2007 (www.federalregister.gov). The changes below matter to an analyst because each one determines what a reader can and cannot infer from the table in front of them.

Change 1: Performance claims live in Item 19 only

The amended rule requires any performance claim to appear in Item 19 of the disclosure document itself (www.federalregister.gov). The FTC's compliance guide adds that a franchisor making no FPR in Item 19 is prohibited from making such representations outside the disclosure document (www.ftc.gov). Two narrow exceptions exist: the actual records of a specific outlet being offered for sale (www.ecfr.gov), and a separate written supplement about a particular location or variation (www.ecfr.gov).

For screening, marketing material or broker statements that cite franchisee earnings outside Item 19 cannot be treated as FDD-grade evidence; they are unverified claims to be reconciled with the Item 19 text, if any.

Change 2: Subgroup disclosure with required denominators

The 2007 rule permits franchisors to disclose truthful performance information about a subgroup of existing franchisees (www.federalregister.gov). The FTC reasoned that the older approach of comparing the number attaining a level against all system franchisees can mislead a prospective franchisee (www.govinfo.gov), and it addressed cherry-picking concerns by requiring substantiation that discloses how subgroup results were derived (www.federalregister.gov).

The current text of 16 CFR 436.5(s)(3)(ii) turns that reasoning into a checklist the analyst can extract field by field:

- **Scope:** whether the representation relates to all of the system's existing outlets or only a subset sharing particular characteristics (www.ecfr.gov).
- **Period:** the dates when the reported level of performance was achieved (www.ecfr.gov).
- **Eligible universe:** the total number of outlets that existed in the relevant period (www.ecfr.gov).
- **Reporting set:** the number of outlets whose actual performance data were used in arriving at the representation (www.ecfr.gov).
- **Attainment:** among those outlets, the number and percent that actually attained or surpassed the stated results (www.ecfr.gov).
- **Comparability:** characteristics of the included outlets that may differ materially from those of the outlet that may be offered (www.ecfr.gov).

The FTC compliance guide states that franchisors must disclose both the number and the percentage that attained the stated result (www.ftc.gov).

Change 3: The GAAP requirement for historical data was dropped

The 2007 rule removed the requirement that historical financial performance data be prepared according to generally accepted accounting principles (GAAP) (www.federalregister.gov). A law-firm explainer notes that Item 19 backup data do not need to be audited (www.franchiselawsolutions.com). This is a sharp difference

from Item 21, and it is why the worksheet records a basis-of-preparation caveat rather than assuming audited figures.

Change 4: Item 20 became a stronger cross-check

The FTC noted that where a prospect cannot see actual earnings, the gap is mitigated by Item 20, which compels the disclosure of franchise turnover rates (www.federalregister.gov). The 2007 revision also raised the minimum current-franchisee contact list to at least 100 outlets (www.federalregister.gov). Item 20 requires system-level tables of franchised and company-owned outlets for each of the last three fiscal years (www.ecfr.gov), a transfer table, and state-by-state status tables, five tables in all (www.ftc.gov). Former franchisees are listed when they terminated, canceled, did not renew, or otherwise voluntarily or involuntarily ceased to do business (www.ecfr.gov).

Change 5: Timing rules fix which FDD is "current"

The disclosure document must be furnished at least 14 calendar days before the prospect signs a binding agreement (www.ecfr.gov). Its content must be current as of the close of the franchisor's most recent fiscal year (www.ecfr.gov), and the franchisor has 120 days after year-end to prepare a revised document (www.ecfr.gov). For a franchisor with a 31 December year-end, that annual deadline falls on 30 April of the following year (a calendar calculation, not a quoted figure). An analyst reading in October 2026 should expect fiscal 2025 data in a current edition, with a possible lag in state-held copies.

Change 6: What has and has not changed recently

The most recent Franchise Rule action listed on the Federal Register in the research record took effect on 12 July 2024 (www.federalregister.gov). The eCFR text reviewed for this report carries inflation-adjusted exemption thresholds, for example a large-investment exemption where the initial investment totals at least $1,469,600 and the prospective franchisee signs an acknowledgment (www.ecfr.gov). Those thresholds determine whether an FDD exists at all; they do not alter the Item 19, 20 or 21 content rules. State overlays differ: the North American Securities Administrators Association (NASAA) adopted an FPR Commentary on 8 May 2017 (www.nasaa.org), which addresses data sources, medians and closed-outlet disclosure, and current state rules should be confirmed.

Implementation Considerations and Process Changes

The seven steps below convert the rule text into a repeatable worksheet, ordered so that identity and edition errors are caught before any arithmetic is done.

Step 1: Define the entity and the decision

Record the target's legal name, the FDD issuer, parents and affiliates (www.ecfr.gov), and the trade names under which outlets operate. State the decision in one line, for example: "Does Item 19 support a provisional statement that mature franchised outlets in the measured group averaged X in the stated period?" Writing the decision first prevents drift into claims about the platform.

Step 2: Obtain a dated FDD through a lawful route

The FDD is delivered to prospects, and public access is uneven. Several states have registration or disclosure laws (www.ftc.gov), and FTC staff report that only four of the registration states make FDDs publicly available in state databases (www.ftc.gov), naming California, Indiana, Minnesota and Wisconsin (www.ftc.gov). The points below reflect what state pages said when reviewed:

- **California:** a franchisor offering in the state must file an application for registration or an exemption notice (dfpi.ca.gov).
- **Wisconsin:** the public can search for the current registration status and history of a franchise (dfi.wi.gov). Its issuance date should change each year when the franchisor files its annual renewal (dfi.wi.gov), which helps separate annual editions from mid-year amendments.
- **Minnesota:** the state's CARDS system holds franchise registration information and documents from the last 10 years (mn.gov), and its search lists document types such as "Revised FDD - Clean" (www.cards.commerce.state.mn.us).
- **New York and Washington:** New York directs the public to NASAA's electronic filing depository to find out whether a franchisor is registered (ag.ny.gov), and Washington directs inquirers to contact its Division of Securities (dfi.wa.gov).

NASAA's franchise filing depository was meant in part to give prospective franchisees greater access to state registration data, including FDDs (www.nasaa.org). Whether each portal lets a non-registrant view or download documents, and at what fee, was not confirmed for every state in this research and should be verified directly. The same dating discipline applies to an FDD supplied in a data room.

Record three version fields: the issuance date, the fiscal year-end it covers, and the source (franchisor-supplied, state portal, or other). Edition currency is a real risk because the FTC staff acknowledge that registration of an updated FDD may not occur until weeks or months after the 120-day deadline (www.ftc.gov), and New York renewals include a redline against the most recently registered document (ag.ny.gov). A state-held FDD can legitimately be the prior year's edition.

Step 3: Extract each Item 19 representation literally

Copy the wording before interpreting it. The rule's definition of an FPR is broad: a specific level or range of actual or potential sales, income, gross profits or net profits (www.ecfr.gov), extending to any chart, table or calculation that shows possible results. A franchisor with no FPR must instead include a prescribed statement (www.ecfr.gov). For each representation, fill the fields below (laid out as columns in Table 1) and keep the verbatim sentence in a quotation column:

- **Edition:** issuance date, fiscal year-end covered, and source of the copy.
- **Wording:** the sentence exactly as written, including defined terms.
- **Metric:** gross sales, revenue, gross profit, net profit or another measure, with the franchisor's own definition.
- **Outlet class:** franchised, company-owned or affiliate-owned, and mature or new.
- **Counts:** eligible, reporting and threshold-attaining outlets, each with its stated date.
- **Period and exclusions:** the dates covered and any outlets left out, including closed outlets.

- **Calculation:** both fractions, recomputed from the disclosed counts.
- **Missing evidence:** anything the rule requires that the table does not show.

Source labeling matters at this step. NASAA's commentary requires a franchisor to clearly identify the sources of all data presented in an FPR (www.nasaa.org), and generally requires company-owned and franchise data to be disclosed separately (www.nasaa.org).

Step 4: Test selection bias

Selection bias enters at four points, each with a ratio or question attached:

- **Reporting fraction (reporting / eligible):** what share of the outlets that could have been measured actually supplied data. A low fraction means the headline describes whoever reported.
- **Attainment fraction (attained / reporting):** what share of reporting outlets reached the threshold. The FTC's consumer guide expects the FDD to report the number and percentage of franchisees who reported earnings at the level claimed (www.ftc.gov).
- **Maturity mix:** whether new outlets are included. NASAA defines an "operational franchise outlet" as one that has been fully operational for one full year (www.nasaa.org).
- **Franchised versus company-owned mix:** the FTC notes that company-owned outlets often have lower costs, so their results may differ from a franchisee's (www.ftc.gov).

Closed outlets are the survivorship channel. NASAA's commentary allows a franchisor to exclude closed outlets from an average or median (www.nasaa.org), but requires disclosure of the number of excluded outlets that closed during the same time (www.nasaa.org). A practitioner paper for the International Franchise Association (IFA) reports that state examiners cite failure to properly account for closed outlets among recurring FPR issues (www.franchise.org). The analyst should find the closed-outlet count in the Item 19 notes and compare it with Item 20.

Distribution shape is the other half. The FTC warns that averages can allow a few highly successful outlets to hide disappointing results (www.ftc.gov). NASAA requires a median to accompany an average because outliers may skew it (www.nasaa.org), and says a presentation built only on the best performing outlets is likely to be misleading (www.nasaa.org). Where a franchisor shows a top tier, NASAA's example requires the average and median sales of the lowest grossing 10% of outlets as well (www.nasaa.org).

Step 5: Separate gross sales, revenue, profit and royalties

Item 19 metrics differ in meaning. The FTC notes that an outlet with high gross sales on paper might be losing money (www.ftc.gov), and its compliance guide says cost data alone is not an FPR, while cost data coupled with sales or earnings figures from which net profit can be calculated is (www.ftc.gov). NASAA defines gross profit as gross sales minus cost of goods sold (www.nasaa.org). None of these is the franchisor's revenue. The franchisor earns a percentage of franchisee sales plus other fees, and the Data Analysis section shows how large the gap can be.

Reconciliation, Status Rules and Reference Tables

The last two steps reconcile the three items and assign a status. The fictional matrix and the two reference tables follow them.

Step 6: Reconcile Items 19, 20 and 21 without forcing agreement

The rule is to annotate differences in scope and timing, and to flag only contradictions that remain. For example, Item 20's status tables report only the last event for an outlet with several changes in a year (www.ftc.gov), so a closure count from Item 20 and a closed-outlet count in an Item 19 note may differ legitimately. Item 20 "company-owned" outlets can also include substantially similar affiliate-owned outlets under FTC staff guidance (www.ftc.gov), which can widen the Item 20 universe beyond what Item 19 measures.

Step 7: Assign a status and escalate

Table 3 defines the four statuses. A prospective franchisee has a legal right to written substantiation of earnings claims (www.ftc.gov). FTC staff have said the franchisor bears the burden of proving that its written substantiation supports the representation (www.ftc.gov). An investor in diligence usually gets more: practitioners note that buyers typically have access to a much wider universe of financial data than prospective franchisees (www.franchise.org). Anything rated inconsistent or insufficient that bears on a decision should go to a franchise lawyer or accountant for professional review. Neither this report nor the worksheet is a substitute for that review.

Table 1: A fictional Item 19 claim matrix (Hypothetical Example)

The table below is **entirely fictional**. "Example Franchisor" and every number in it are invented to demonstrate the calculations, and none of it describes a real company or provides a performance benchmark. The columns follow the fields in the worksheet. The fictional system has 400 franchised outlets at year-end, plus 12 that closed during the year after at least 12 months of operation.

Table 1 below applies the two formulas to four hypothetical claims.

Field	Claim A: franchised average	Claim B: company-owned average	Claim C: top quartile	Claim D: profit
FDD edition	Fictional, issued 2026-04-15, fiscal year ended 2025-12-31	Same	Same	Same
Representation wording	"Average gross sales of $1,000,000 for franchised outlets open at least 12 months"	"Average gross sales of $1,300,000 for company-owned outlets"	"Top-quartile franchised outlets averaged $1,600,000"	"No representation about net profit or EBITDA"
Metric	Gross sales	Gross sales	Gross sales	None
Outlet class	Franchised, mature	Company-owned	Franchised, top quartile of reporters	Not applicable

Field	Claim A: franchised average	Claim B: company-owned average	Claim C: top quartile	Claim D: profit
Eligible count	332 (320 operating at year-end plus 12 closed during the year)	20	332	Not applicable
Reporting count	240	18	60	Not applicable
Threshold-attaining count	96 (at or above $1,000,000)	12 (at or above $1,300,000)	60 (by construction)	Not applicable
Period	Fiscal 2025	Fiscal 2025	Fiscal 2025	Not applicable
Exclusions	Outlets open under 12 months (80); the 12 closed outlets	None stated	Bottom three quartiles of reporters	Not applicable
Calculation	Reporting fraction = 240 / 332 = **72.3%** Attainment fraction = 96 / 240 = **40.0%** Bounds on attained share of eligible: 96 / 332 = **28.9%** to (96 + 92) / 332 = **56.6%**	Reporting fraction = 18 / 20 = **90.0%** Attainment fraction = 12 / 18 = **66.7%**	Reporting fraction = 60 / 332 = **18.1%** Attainment is trivially 60 / 60 = 100%	None
Supported conclusion	Among the 240 reporters, 40.0% reached the average. The statement is about reporters only.	Describes company-owned results only.	None about the system.	None.
Missing evidence	Whether non-reporters differ; closed-outlet sales; median, high and low	Cost differences versus franchisees	Full distribution including the lowest tier	Not applicable
Status	**Insufficient** until median, range and closed-outlet note are checked	**Verified-as-disclosed**, but not transferable to franchised outlets	**Insufficient**	**Unavailable**

The interpretive point is Claim A. The 332 eligible outlets include the 12 that closed; those 12 are not among the 240 reporters and so sit among the 92 non-reporters. The 80 outlets open under 12 months fall outside the eligible 332 altogether (400 franchised outlets less 80 gives the 320 operating at year-end). Claim C's 60 is the top quartile of the 240 reporters. Because 92 eligible outlets did not report, the attained share of all eligible outlets could be anywhere from 28.9% (if every non-reporter fell below the threshold) to 56.6% (if every non-reporter reached it). The disclosed 40.0% lies inside that range, but the disclosure does not say which end is closer. A reporting fraction of 72.3% is informative only alongside what is known about the 27.7% that did not report. Claim C fails for a different reason: a result chosen after ranking is guaranteed to meet its own threshold, which is why NASAA expects the lowest tier to be shown alongside the highest (www.nasaa.org). Claim D is not a poor result. It is an absent one.

Table 2: Cross-item scope

Table 2 below compares the three items on content, period and audit status.

Dimension	Item 19: outlet performance	Item 20: outlet counts	Item 21: franchisor statements
What it reports	A franchisor-chosen sales or earnings claim, if any	Growth and turnover tables, transfers and contact lists	Audited financial statements of the franchisor
Unit of analysis	Outlet or group of outlets	Outlet status by state	The franchisor entity (or a guaranteeing affiliate)
Population	All outlets or a disclosed subset	Franchised and company-owned outlets, three fiscal years	Not applicable
Period	Dates disclosed in the representation	Fiscal years, with only the last event per outlet reported	Balance sheets for two fiscal year-ends and operations for three years (www.ecfr.gov)
Audit status	Not required to be audited	Not an audited financial statement	Audited, with a start-up phase-in
Can support	A statement about the measured group in the stated period	Universe size, openings, closures and transfers	Franchisor revenue mix, such as royalties versus franchise sales (www.ftc.gov)
Cannot support	Franchisor revenue or margin; unmeasured outlets	Outlet profitability	Franchisee profitability
Typical reconciling note	Closed-outlet exclusions	Affiliate-owned outlets counted as company-owned	Timing: balance sheets precede the issuance date

Item 19 describes outlet results in a group the franchisor selected, Item 20 describes counts, and only Item 21 describes the franchisor. The start-up phase-in means a young system may offer little franchisor-level audited evidence at all. Franchisor-level inference should come only from Item 21 and the company's own records.

Table 3: Claim status and escalation

Table 3 below defines the four statuses and their escalation paths.

Status	Criteria	What it permits	Escalation
Verified-as-disclosed	Wording extracted; group, period, eligible, reporting and attaining counts all disclosed; arithmetic reproduces; sources identified	A provisional statement limited to the measured group and period	None beyond routine review
Inconsistent	Two disclosed figures cannot both hold after scope and timing annotation, for example reporting count above eligible count	Nothing until resolved	Request written substantiation; refer to counsel or an accountant
Insufficient	A required element is missing, only a percentage is shown, or median, range or closed-outlet note is absent	A flagged, unquantified mention only	Request missing elements; do not publish the figure
Unavailable	No Item 19 representation; the prescribed no-FPR statement is present	No outlet-performance claim; no inference of weakness	Seek other lawful evidence; record the gap

The statuses are deliberately about evidence, not about quality. A franchisor in the "unavailable" row has made a permitted choice, and the same absence cannot be read as poor results.

Data Analysis and Evidence

How common is Item 19, and why the estimates differ

Published estimates of Item 19 prevalence use different bases, so they should be reported side by side and not as a series. In the 2007 rulemaking the FTC recorded that approximately 20% or more of franchisors choose to make financial performance disclosures (www.federalregister.gov). A 2017 trade-press account of FRANdata research reports that 66% of franchisors included FPRs in their FDDs in 2016 (australia.franchising.com), based on over 3,000 franchise brands examined (australia.franchising.com). A 2022 paper prepared for an IFA legal symposium estimates that between one-half and two-thirds of franchisors now include an FPR, without a stated sample size (www.franchise.org). The 2007 figure rests on rulemaking commenters, the FRANdata figure is reported secondhand, and the 2022 figure is an estimate. The evidence supports the statement "most, but not all, systems now make some FPR" with moderate confidence and no more precise claim.

System sales versus franchisor revenue: public filings

Public franchisors disclose both figures, which makes the gap measurable. *The ratios below are scope illustrations from fiscal 2025 annual reports, not benchmarks*, because each company's revenue mix differs.

- **Wingstop:** system-wide sales represent net sales for all company-owned and franchised restaurants (www.sec.gov), and were approximately $5.3 billion (www.sec.gov), against total revenue of $696.9 million (www.sec.gov). That is a revenue-to-system-sales ratio of about **13%** (696.9 / 5,300, computed from the rounded system-wide sales figure). The standard royalty is 6.0% of gross sales net of discounts (www.sec.gov), and company-owned restaurants accounted for 2.4% of system-wide sales (www.sec.gov). With 57 company-owned restaurants among 2,999 franchised ones (www.sec.gov), company-owned results are a small proxy for the system.
- **Planet Fitness:** total revenues were $1.3 billion (www.sec.gov), against total system-wide sales of $5.3 billion, of which $4.7 billion were attributable to franchisee-owned clubs (www.sec.gov), a revenue-to-system-sales ratio of about **24.5%** (1.3 / 5.3, computed from the rounded totals). The company states it does not record sales by franchisees as revenue (www.sec.gov), and that it does not bear costs of operating franchisee-owned clubs (www.sec.gov). It reports royalty up to 7.0% of dues and annual fees (www.sec.gov).
- **Domino's:** global retail sales cover company-owned and franchised stores (www.sec.gov), and franchised-store retail sales are reported by franchisees and not included in revenues (www.sec.gov). Total revenues were about $4.94 billion, which is roughly **25%** of global retail sales (computed from the 10-K tables), with a generally required royalty of 5.5% of sales (www.sec.gov). The revenue figure also includes supply-chain and advertising lines, so it is not a royalty measure.

Royalty rates in these filings sit between 5.5% and 7.0% of franchisee sales in the three restaurant and fitness cases, while the total-revenue-to-system-sales ratios are about 13% to 25%, because advertising funds, supply chain, equipment and company-owned sales are in revenue too. Using outlet sales as a stand-in for franchisor revenue would overstate it, and a royalty rate alone would miss non-royalty lines. Revenue recognition adds a timing wedge: sales-based royalties are usually recognized when franchisee sales occur (kpmg.com), while under Accounting Standards Codification (ASC) 606 an entity may not presume that an initial franchise fee would always be recognized over the license term (viewpoint.pwc.com).

Outlet-weighted metrics versus franchisee-weighted reality

Item 19 percentages count outlets, not owners. Domino's reports 6,924 U.S. franchise stores owned and operated by 754 independent franchisees (www.sec.gov), about 9.2 stores per franchisee (computed). FRANdata reports that 19.3% of franchisees operate multiple units (frandata.com). Where a few multi-unit operators account for many reporting outlets, an outlet-weighted attainment fraction can reflect their practices. Item 20 contact lists, which the FTC calls a key source of data (www.ftc.gov), are the route to test that.

What the survivorship literature says

Survivorship bias is the loss of failed entities from a dataset, which flatters the remaining sample. In finance, funds that disappear tend to do so due to poor performance (ideas.repec.org), and one hedge fund study found the resulting bias averaged more than 5 percent a year (rpc.cfainstitute.org); that magnitude is not transferable to franchising. In franchising, Census Bureau researchers restricted their comparison to businesses started in the survey years to avoid survivorship bias in the data (www2.census.gov), and found a one-year survival rate for the 2002 cohort of 98.3 percent for franchised businesses (www2.census.gov) in their restricted sample of franchising-intensive sectors. The published version says the difference from independents is small compared with claims in the trade press (ideas.repec.org), and that conditional on surviving a year or two they no longer find survival differences (ideas.repec.org).

Earlier Census work shows denominator sensitivity: analyses of corporate establishment data generate high franchisee survival rates relative to independents (www.census.gov), while among the true newcomers franchise survival rates are low (www.census.gov). The two results come from different populations. For an Item 19 reader the lesson is the same: the conclusion depends on whether the denominator includes the outlets that left.

Implications and Future Directions

For PE origination and screening

A screening team can use Item 19 in three bounded ways: to establish whether a franchisor makes any representation, to support a provisional, group-limited statement about outlet performance when the status is verified-as-disclosed, and to generate diligence questions such as why a subset was chosen. Practitioners describe the same use: buyers' wider data can test the credibility of the Item 19 representations (www.franchise.org), and diligence checklists include how many franchisees pay nonstandard royalty rates (www.wiley.law), former-franchisee lists and the reasons for leaving (www.wiley.law), and the accounting treatment of franchisee payments (www.lw.com). A panel of private equity practitioners reported that unit

economics generally outweigh the number of units in a system (franchiselaw.foxrothschild.com), though that source dates from 2012 and is practitioner opinion. A 2025 session summary lists franchisee satisfaction surveys, store closure rates and transfer activity among the diligence items (prod-bo.ibanet.org).

Domino's defines net store growth as gross openings netted against gross closures (www.sec.gov), which is why Item 20 net figures should be unpacked into gross openings and closures before a turnover view is formed. The same reasoning applies to Item 20 in private systems; Item 20 system and outlet-count extraction is covered in a companion article; here Item 20 appears only where it bears on Item 19 denominators.

Limits and open questions

- **Demand and use:** public explanations of Item 19 are mostly written for franchisees and franchisors, so direct buyer demand for a target-screening matrix is a hypothesis, not a finding.
- **Portal access:** public FDD access varies by state and by portal terms. The analyst should verify the edition and any fees on the day of access.
- **Franchisor economics:** nothing in Item 19 reveals franchisor margins. Item 21 and company records do.
- **No benchmarks:** this report supplies no outlet-performance benchmarks, and none should be inferred from the fictional example.
- **Professional review:** claims that influence a transaction decision belong with a franchise lawyer and an accountant. No such review was performed on this article.

Docket, a deal-origination and evidence-backed acquisition target research platform and service for private equity firms, treats this worksheet as one input to sourced target research. Teams that want the broader method can start from the research library.

Frequently Asked Questions (FAQs)

How do you read FDD Item 19?

Check whether the franchisor makes a representation at all or includes the prescribed no-FPR statement. If it does make one, extract the group, period, eligible, reporting and attaining counts, then compute the two fractions in Table 1 and confirm that franchised and company-owned data are labeled separately (www.nasaa.org).

What is an example of an Item 19 financial performance representation?

Table 1 gives a fully fictional (hypothetical) example with four claims. A real representation usually resembles Claim A: an average, with a median, of gross sales for a defined group over a defined period, plus the number and percent that attained the stated result.

Does Item 19 describe the franchisor's revenue?

No. It covers franchised and/or franchisor-owned outlets, while the franchisor's own results are in Item 21. The public-filer examples above show system sales and revenue as different figures.

What does a missing Item 19 mean?

It means no outlet-performance claim is available from the FDD. The FTC compliance guide adds that a franchisor making none may not make such representations elsewhere. Absence is not evidence of weak results.

How should Item 20 turnover and closures be used?

As a universe and turnover check kept separate from Item 19. The FTC notes that some franchisors buy back failed outlets and list them for sale (www.ftc.gov), and Item 20 supplies former-franchisee contacts for validation.

What is the sample-bias risk, and how does franchisor unit economics inform a private equity view?

Reporting outlets may not represent eligible outlets, and closed outlets may be excluded from averages, so the excluded-closure count and the median and range are the checks. Outlet-level unit economics determine franchisee health, while franchisor economics depend on royalty rates, fee mix and revenue recognition (kpmg.com). The two are linked but separate.

How do you evaluate a franchisor acquisition target using the FDD?

Resolve the entity, date the edition, extract Item 19 claims, test denominators, reconcile with Items 20 and 21 as in Table 2, and assign a status from Table 3. Where the answer matters to a decision, add professional review.

Conclusion

An Item 19 representation is a franchisor-chosen, optional, group-limited statement about outlets. It is useful when its group, period and denominators are disclosed and the arithmetic reproduces, and it is silent about everything else. The method in this report keeps three things apart that public explainers often run together: outlet performance (Item 19), outlet counts and turnover (Item 20), and franchisor financial statements (Item 21). Public explainers summarize the document for a different audience; the FTC describes Item 19 as containing claims the franchisor chooses to make about sales or earnings (www.ftc.gov). A screening analyst needs the additional step of checking whether the franchisor chose to make any representation at all (franchise.law).

The reporting fraction and the attainment fraction are the two numbers that most improve a reading, and the bounds on the attained share of eligible outlets show how much the unreported outlets can matter. The status labels (verified-as-disclosed, inconsistent, insufficient, unavailable) record what the evidence supports. They do not rate a franchisor, and they do not state or imply that any company is a good or poor target. Current rule text, state portal terms and the edition in hand should be re-checked on the day of use, and any claim that influences a transaction decision should be reviewed by a franchise lawyer and an accountant.

Source links

Links cited in this article, in order of first appearance. Full addresses are provided for readers using extracted text.

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