

 **FRANCHISING ALERT****WHAT HAPPENS IF THE FRANCHISOR SELLS THE FRANCHISE SYSTEM**

Franchisors have the ability to sell their rights and interest in the brand and the system.

Moreover, most Franchise Agreements contain provisions that enable the Franchisor to transfer its rights under the agreement to a third party buyer without the need to obtain consent of the existing Franchisees.

The Code also does not restrict a Franchisor from transferring its rights and obligations under a Franchise Agreement.

The sale of the system by a Franchisor does not normally entitle a Franchisee to terminate the Franchise Agreement. The Franchisee is still contractually bound to meet its obligations under the Franchise Agreement.

The incoming 3rd party Franchisor buyer takes on the rights and obligations of the outgoing Franchisor under the Franchise Agreement.

From a practical perspective, the sale of the brand and system is likely to bring about certain changes, which may be positive or negative depending on the circumstances.

The new Franchisor would not normally be entitled to unilaterally make any changes to the fee structure under the existing Franchise Agreements with its franchisees. However, the Franchisor may be entitled, for example, to introduce new ideas and ways of improving the system, initiate marketing campaigns, alter operational procedures or update the look of the brand.

You should also note that the liquidation of a Franchisor does not automatically entitle a Franchisee to terminate a Franchise Agreement.

We recommend if you are a Franchisee that you contact one of our commercial or litigation lawyers to obtain appropriate advice and assistance if there has been a change in the ownership of the franchise brand and system, or if the Franchisor is likely to (or has entered) liquidation.

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