

FRANdex

Index of Publicly-Traded Franchise

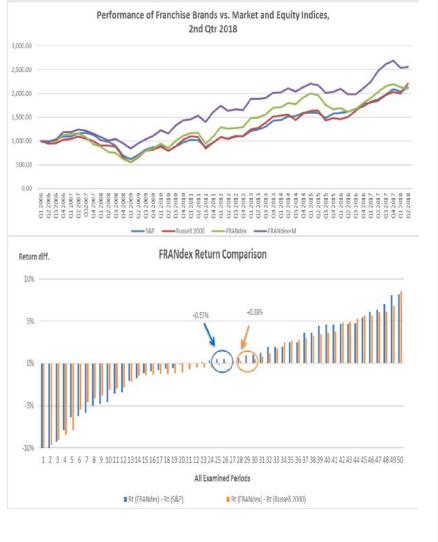
M&A Activity and Spin-Offs at Franchise Companies Impacts FRANdex Performance

FRANdex has started showing signs of recovery in Q2-2018. While the index's returns were down by -2.99% Q-o-Q in Q1, the change in Q2-2018 was tempered to -1.53%. FRANdex continued to underperform both the broader indices. S&P 500's returns were up 10.28% q-o-q, while Russell 2000 by 4.32%.

Food franchises' returns were impacted the most, likely due to performance issues at major players such as Biglari Holdings and Zoe's Kitchen. Non-food franchises were tempered by lower performances in among lodging companies. M&A activity and stock splits have largely impacted the index performance in the past year. M&As resulted in Popeye's, Ruby Tuesday, Buffalo Wild Wings, La Quinta and Panera Bread ceasing trade on the public markets after getting acquired, while there were spin-offs and stock splits at Jack in the Box and Wyndham Group.

Small cap stocks and growth-oriented categories fared better than large caps and value categories during the quarter. Lower tax burdens and access to offshore cash may provide companies with additional spending capacity, which they may use on a wide variety of activities, including investor-friendly actions (buybacks, dividends, M&A) as well as direct boosts to the real economy (raising wages, capital expenditures). On the other hand, the conflicts in tariffs could have long-term impacts on the U.S. economy with recession being a worst-case scenario.

FRANdex tracks the performance, based on market capitalization, of 63 U.S.based publicly-traded companies operating under and generating income through the franchise business model. All index levels are normalized to 1,000 at Q1 2006 for comparison purposes, and all remaining periods are adjusted accordingly. As McDonald's represents over 25% of the overall market capitalization of publicly-traded franchise companies, it is excluded from the base FRANdex, but shown above as FRANdex+M.



2nd Quarter 2018