FRANdex

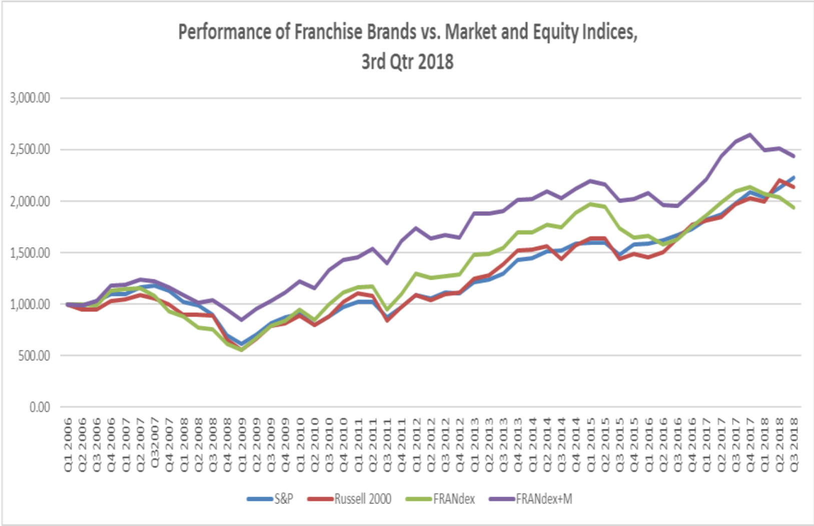
Index of Publicly-Traded Franchise

3rd Quarter 2018

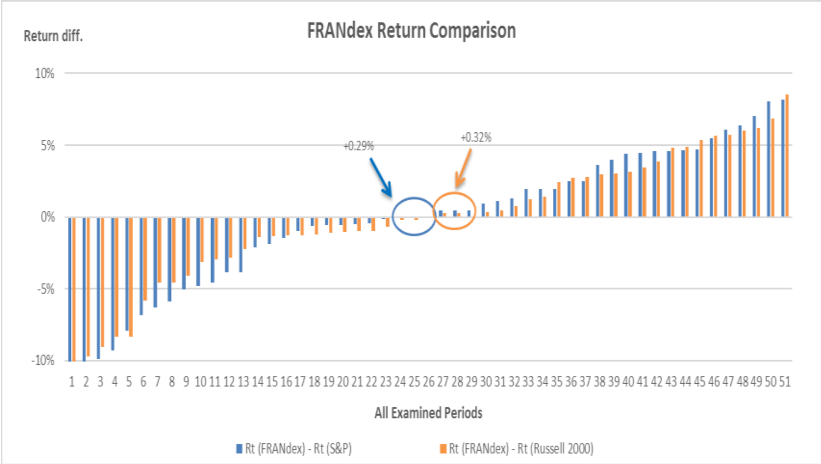
Rise in “Take-Private" PE Transactions Impacts FRANdex Performance

Just as the FRANdex had started showing signs of recovery in the previous quarter, the rise in take-private PE acquisitions created dents to the index performance in Q3-2018. FRANdex underperformed both the broad indices. While the S&P 500 rose by 4.8%, Russell 500 declined by 3.2%; in the same period FRANdex declined by 5.1% q-o-q.

Overall FRANdex performance was negatively impacted by acquisition of companies like Jamba Juice, Sonic Drive-In, Zoe’s Kitchen, etc., which were taken private in multi-billion-dollar acquisitions, by private equity investors. These types of transactions have led to FRANdex losing $15.9 billion in market cap. The decline in returns from lodging concepts like Marriott, IHG and Hilton also added to the overall index’s underperformance. While Marriott’s performance suffered as its share prices fell following its quarterly revenues falling short of guidance; Hilton too missed analyst expectations.



A decided shift took place in Q3, as large-cap outperformed small-cap on the quarter and the year. Thanks to strong earnings, the mega-cap stocks of Amazon, Apple, and Microsoft posted double-digit returns and drove growth among large cap stocks. Going forward, the guidance for small-cap is tempered with potential headwinds from macro factors like the escalating US-China trade war. FRANdex is likely to be further hit as more ‘take-private’ deals appear on the near-term horizon with PE investors sitting on more a trillion dollars in ‘dry-powder’.



FRANdex tracks the performance, based on market capitalization, of 60 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.