The Behaviour of Franchisor Stock Prices

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ABSTRACT
The franchise business model has unique features that may translate into superior financial performance. This study examines whether these unique features translate into excess returns for publicly listed franchise stockholders. To measure excess returns, this study evaluates the risk-adjusted performance of U.S. publicly listed franchise stock returns against the broad U.S. stock market. The findings reveal that franchise stock returns significantly outperform broad U.S. stocks on a raw and risk-adjusted basis in the first half of the sample period. This outperformance remains economically significant but loses its statistical significance in the second half of the sample period. These findings suggest that the benefits of franchising have been apportioned to the franchise stockholders but are slowly being priced into the valuation of these stocks. The study also reveals that franchise stocks outperform the broad U.S. market in both expansionary and contractionary phases of the U.S. business cycle. Finally, we show that franchise stocks returns are more sensitive than broad U.S. stocks to changes in U.S. monetary conditions due to the higher concentration of small market capitalization firms inherent in the franchise portfolio compared to the broad U.S. market. Overall, this study provides new insights into the long-term returns and risks associated with the ownership of publicly listed franchise businesses.

KEYWORDS:
Risk-adjusted performance, business cycle, monetary conditions, market capitalization

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