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The Journal

Cold Stone Creamery triumphant come back

MTY Food Group ready to serve up growth in the U.S

Cold Stone's New look with Oscartek display

Montréal, Canada October 28, 2016; After years of quietly building a hefty stable of Canadian restaurant franchises, MTY Food Group's stock is poised to heat up through its expansion into the U.S. after acquiring the Cold Stone ice cream parlour, says a National Bank Financial analyst.

In a note to clients Wednesday, Leon Aghazarian raised the target price on the Montreal-based company's stock from $44 to $51, citing a positive impression of its new U.S. chief operating officer, Jeff Smit, future acquisition opportunities and plans to bring a few more of its 48 franchise banners south of the border.

After staying relatively flat between the later half of 2013 and 2015, MTY's stock has gained more than 50 per cent in the past year, boosted by the US$300 million friendly takeover of Kahala announced in May, which includes Cold Stone, Baja Fresh and Pinkberry banners.
MONTREAL — With the patience of a hungry customer who carefully looks over the restaurants at a food court before ordering a meal, MTY Food Group Inc. has acquired the Arizona-based Kahala Brands

Ltd. franchise company, which will finally bring it into the U.S. market in a big way.

MTY has been looking to grow, and on Wednesday the Montreal-based company announced it has paid US$300 million for Kahala in a friendly deal that will add 18 brands to its current 30 restaurant banners, familiar to just about anyone who has been to a mall or airport across Canada, including Mr. Sub, Thai Express and Jugo Juice.

At the moment, MTY has just 80 stores in the U.S., but with the Kahala banners it will add close to 2,000 in July when the deal is expected to close. “The two companies share the same philosophy, the same platform and same background. I think it’s the perfect fit,” said MTY founder and CEO Stanley Ma in an interview with the Financial Post, adding that the headquarters will be staying in the Montreal area.

About US$240 million of the price will be paid in cash and the rest with 2.25 million MTY shares to acquire Kahala and its brands, including as Cold Stone Creamery, America’s Taco Shop and Kahala Coffee Traders.

“Most of the time these days it’s a U.S. company buying a Canadian company,” Ma said. “This is good news for Quebec.”
Ma started his first restaurant, Le Paradis du Pacifique, in 1979 with a single location in Laval, Que.

“It’s the only way I know how to make a living,” he said. Although Ma speaks with the modesty of a small business owner, the combined MTY entity will have approximately 5,500 stores under 57 brands across North America.

MTY generated more than $1 billion in system sales last year while Kahala brought in about $950 million.

During the 12 months following the acquisition, the company expects to generate more than $90 million in EBITDA, $250 million in revenues and $2 billion in system sales.

Kahala CEO, Michael Serruya, says he sees an opportunity to introduce MTY’s Canadian brands into the U.S., though Ma said he would wait until after the deal closes before rolling out major changes to the businesses. Ma wouldn’t say whether any of the existing Kahala brand locations would be transitioned to MTY brand locations.

“Kahala represents a strong and unique platform for MTY to continue its U.S. and international growth,” said Serruya. “The deal represents an amazing opportunity for both companies to leverage their unique platforms and to dramatically accelerate their growth plans going forward."

Although there is some risk involved in stepping into the U.S. market, Jesse Gamble, an associate portfolio manager at Donville Kent Asset Management, says the conservative nature of MTY's management team makes him confident this is a well-planned decision.

"We've known something like this has been coming for a while … we understood that if they did a deal it would be the right deal and we trust in them," said Gamble. "This is just a game they have to play because they are a growth by acquisition company and as you get bigger, you have to do bigger deals."

Following the news of the acquisition, MTY's stock popped 16.48 per cent to $41.56 by 12:03 and even at these levels Gamble says the stock is undervalued as the company has now doubled its size and issued just 20 per cent equity. "Based on simple numbers like this you know how much value this is going to create," he said.

Still, Gamble says this stock is not for day traders, as the stock has seen modest though very sustained growth and the small daily volumes do not allow for quick sales. "You've got to stay in that stock, you've got to trust management, you have to know what your valuations are and then you just have to ride it," he said.

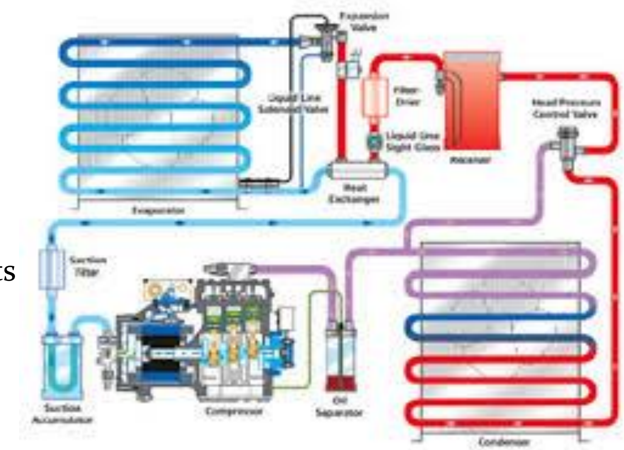
"MTY has historically relied on acquiring a mix of growing and challenged brands (allowing it to pay a reasonable price), having successfully executed upon 29 acquisitions since 1999 by expanding them geographically to generate additional free cash flow," wrote Aghazarian. "Kahala and Baja were no different." Aghazarian warns that the company may now start seeing a winter chill in sales that it didn't before, due to its Cold Stone acquisition accounting for over 20 per cent of MTY's consolidated sales.

In Canada, some of MTY's best known brands are Mr. Sub, Thai Express and Jugo Juice. As of the third quarter ended Oct. 12, the company had 5,534 locations in operations, of which 77 were corporate and 5,457 franchised. Following the acquisition of Kahala, 46 per cent of MTY's locations were in the United States, 45 per cent in Canada and nine per cent abroad.

Aghazarian says MTY's primary focus in the next year will be to pay down debt and drop leverage below the 2.4x EBITDA level. He sats this means that there will be a temporary shift from large-scale acquisitions to opportunistic tuck-ins until the company de-levers. "Our take-away is that MTY is seeing a substantial flow of opportunities in the U.S., but management will remain prudent yet opportunistic in its pursuit of growth via acquisitions," wrote Aghazarian.

About Cold Stone Creamery:
Cold Stone Creamery® delivers the Ultimate Ice Cream Experience® through a community of franchisees who are passionate about ice cream. The secret recipe for smooth and creamy ice cream is handcrafted fresh daily in each store, and then customized by combining a variety of mix-ins on a frozen granite stone. Headquartered in Scottsdale, Arizona, Cold Stone Creamery is owned by parent company Kahala Brands™, one of the fastest growing franchising companies in the world, with a portfolio of 18 quick-service restaurant concepts. The Cold Stone Creamery brand operates approximately 1,500 locations in over 27 countries.

The Consumer Goods Forum Announces New Refrigeration Resolution



Oct 06, 2016, 04:07 ET from The Consumer Goods Forum

PARIS and NEW YORK, October 6, 2016 /PRNewswire/ --

Retailers and manufactures re-emphasize their commitment to phase out HFC refrigerants and build on initial successes from over the last six years

The Board of The Consumer Goods Forum (CGF) today announced a new resolution on refrigeration, calling on all consumer goods companies to phase out harmful hydrofluorocarbons (HFCs). This ambitious new commitment is seen as a vital next step in helping to meet the goal of keeping the global average temperature rise to well below 2°C. HFCs represent 1.5% of total warming potential today, and are expected to increase to 6-9% of total GHG by 2050 unless action is taken.

The resolution focuses on four key areas; the installation of new refrigeration equipment in markets where viable, the engagement with key stakeholders to overcome barriers in markets where installation is not currently viable, the reduction of the environmental impact of existing refrigeration systems and the development of individual targets and action plans to measure the first three points.

The Board also recognizes the important role that regulation plays in ensuring the equitable global phase down of HFCs and thus calls for the inclusion of HFCs within the Montreal protocol.

Mike Coupe, CEO of Sainsbury's, said, "Once again CGF members are showing global and environmental leadership, and this latest move will play important role in achieving wider sustainability standards in the industry. As we move away from HFC gases and towards cleaner business practices, it's crucial that the consumer goods industry continues to lead the way and stay ahead of the curve."

Alan Clark, CEO of SABMiller, said, "Positive actions by leading global consumer goods companies over the last six years have proved the commercial and operational viability of low carbon refrigeration systems in many parts of the world. As part of our Prosper sustainable development ambition, SABMiller has a 2020 target to purchase no new HFC fridges. This new Refrigeration Resolution will help the whole industry move towards eliminating high global warming-potential refrigerants from our sector, as part of our active commitment to the Paris Climate Agreement."

To full resolution is available via the CGF website.

Building on the Industry's Results Following the CGF's 2010 Refrigeration Resolution

Back in 2010, when the CGF's original Refrigeration Resolution was announced, refrigeration was already playing a key role in the consumer goods industry, but the low carbon technologies to replace HFCs were unproven. The CGF, therefore, decided to show leadership by taking the decision to commit to trialing new approaches to refrigeration by 2015.

As a consequence, CGF members have installed low carbon refrigeration systems in over 4,000 supermarkets, four million ice cream and drinks chiller units worldwide and industrial plants with the majority being natural refrigerants. The recently-published Refrigeration Booklet also highlights these successes and more. The 2010 Refrigeration Resolution was closed in January 2016.

The CGF, however, acknowledges that while the testing of pilots and introduction of natural refrigerants has been positive, the new resolution announced today is necessary to help drive further uptake and ensure HFCs are permanently removed from operational systems globally.

This second Refrigeration resolution is the fourth environmental resolution as part of the CGF Sustainability Pillar, complementing the other active resolutions on deforestation and food waste.

About The Consumer Goods Forum

The Consumer Goods Forum ("CGF") is a global, parity-based industry network that is driven by its members to encourage the global adoption of practices and standards that serves the consumer goods industry worldwide. It brings together the CEOs and senior management of some 400 retailers, manufacturers, service providers, and other stakeholders across 70 countries, and it reflects the diversity of the industry in geography, size, product category and format. Its member companies have combined sales of EUR 3.5 trillion and directly employ nearly 10 million people, with a further 90 million related jobs estimated along the value chain. It is governed by its Board of Directors, which comprises 50 manufacturer and retailer CEOs.

For more information, please visit: http://www.theconsumergoodsforum.com