



3 Strong Canadian Franchises to Consider

Description

“It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you’ll do things differently”(Warren Buffett)

“You can’t build a reputation on what you are going to do”(Henry Ford)

Reputation is important in every aspect of life, especially in business. No matter whether you’re the customer looking to buy the best brand or the employee looking to work harder for a spot with the best firm, reputation plays a role. So, when looking for investment ideas, I often look for businesses with big reputations.

The Canadian market is full of such businesses – and 3 of the best known are profiled below.

Who Doesn’t Like Pizza?

According to statisticbrain.com, 5 billion pizzas are sold worldwide each year, generating \$32 billion in revenue. Pizza is obviously something that is craved on a global scale, and pizza companies are raking in the profits.

Pizza Pizza Royalty Corp ([TSX:PZA](#)) is a top Canadian pizza franchiser, owning the Pizza Pizza brand concentrated in Ontario and the Pizza 73 brand that is focused on Alberta. The company has 3 revenue sources: food sales, royalty payments, and 50% ownership in the Pizza 73 restaurants. For the last two years Pizza Pizza has had consistently positive same store sales growth and revenue growth.

Pizza Pizza’s balance sheet however is something to be mindful of. The company currently has negative equity. It’s not all bad as its liabilities are mostly non-threatening. Almost 70% of liabilities are derived from a deferred gain and not real debt. Although it may be worthwhile for investors to watch the \$30M loan payable as Pizza Pizza only has 7.6M in annual operating cash flow to use towards that loan.

Pizza Pizza is on a tear, up 22% over the past 6 months. It also carries a 6% yield. However, there are

risks involved. Competition is fierce in this industry, however, we can at least be sure that the pizza fad isn't likely to die out any time soon.

Can You Depend On Retail

In retail, it's all about customer traction. A great way to gain traction is to have a reputation for good service. **Canadian Tire** ([TSX:CTC.A](#)), a business that calls itself "Canada's Store", is a retail business with a clearly recognized reputation across Canada.

The company operates with four major business segments.

The largest is the Canadian Tire Retail segment with its 490 locations. There is also a sports segment, FGL Sports, which is the number one sports retailer in Canada (think Sport Chek). In January, the company announced that their sports segment is set to become a premier sponsor of the Canadian Olympic team.

There is also a men's apparel and footwear store Mark's (formerly Mark's Work Warehouse). It too is the largest of its kind in Canada, spreading the company's domestic market leadership to 3 of four segments.

And the company's Financial Services segment has a network of four million card members.

Financially, the company makes for an interesting potential investment. Revenue growth of 10% was achieved last year and the dividend has been hiked in each of the last 3 years.

At 15x earnings, Canadian Tire may be trading at a relatively fair price, but still provides some room to profit if the company can achieve its growth ambitions. The company has grown retail locations by 46% and grown revenue every year since 2009 and may wind up being a great franchise investment.

Don't Buy Everything

Not all franchises serve as good investments. **Lululemon Athletica** ([NASDAQ:LULU](#)) is, in my opinion, one of those companies. Up 231% in the last three years, Lululemon has achieved a monster valuation of 34x earnings as a clothing retailer. Selling athletics and yoga apparel, Lululemon products have set a standard in recent years, but many believe that may be about to change. The company's recent management exodus is a huge flag here. Lululemon's Chief Product Officer left the company in April and just a month ago the CEO announced that she would be stepping down. This is after the company had to recall 17% of its pants for being overly transparent.

I just don't see Lululemon keeping up the results without two major members of management and after a major "brand-busting" event. The company's reputation has been damaged and leadership will be required to patch it back up.

If you're looking for a valuable Canadian franchise there are other valuable and investable options available.

While the Canadian market has its share of great businesses, the U.S. is loaded with them. Our special **FREE** report “**3 U.S. Stocks That Every Canadian Should Own**” profiles 3 of the best. [Click here now](#) to download this report at no charge.

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This post was created by Fool contributor Nikhil Shamapant.

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CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:LULU (Lululemon Athletica Inc.)
2. TSX:CTC.A (Canadian Tire Corporation, Limited)
3. TSX:PZA (Pizza Pizza Royalty Corp.)

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