



Has the Rebound Begun for Empire Company Limited?

Description

Empire Company Limited ([TSX:EMP.A](#)) soared nearly 10% in a single trading session following an impressive earnings report. Earnings per shares were \$0.18, which beat analyst expectations of \$0.12.

In [previous pieces](#), I mentioned that Michael Medline was the right man to turn Empire around and that the stock was a terrific long-term contrarian play. I thought the rebound would be at least a few years away, but after a few months at the helm, it appears that Empire is back on the right track a lot sooner than expected.

Turnaround plan: Keep things simple

Although Mr. Medline didn't have prior grocery experience, he knows the Canadian retail environment very well, and he knows how to make operations run in an efficient manner. Before Mr. Medline jumped on board, Empire was a tangled web of organizational inefficiencies. The grocery business is really difficult to thrive in with low margins and food deflation, so an efficient and simple organizational structure is simply a must if profits are going to be made.

Mr. Medline created a three-year turnaround transformation plan called Project Sunrise earlier in the year. It aimed to reduce costs and organizational complexity. So far, it looks like the plan is starting to take shape, but it's important to note that the company is "not out of the woods yet," as Mr. Medline said following the release of the Q4 results.

The management team expects to spend \$200 million in the first half of 2018 to reduce long-term costs. Such initiatives that the money will go towards include minor system developments, consulting, and relocation. It's expected there will be about \$500 million worth of annualized cost savings by 2020 with the cost savings in place.

While the general public seems to love the latest earnings beat, the results were still quite weak, and it's possible that analysts will raise the bar for the results expected in the next quarter. Although Mr. Medline's changes seem to be affecting the stock price, it's important that investors take a long-term view because real meaningful changes are going to take time.

Should you buy today?

It's very encouraging that Mr. Medline's improvements are working, but it's important to remember that Project Sunrise is a long-term plan. If you're looking for a quick turnaround play, then you may be left disappointed as volatility is likely to pick up in the coming months as **Amazon.com, Inc.** sets its sights on the grocers.

I still think Mr. Medline will turn Empire around, but I'm not a fan of the price anymore because it appears Empire has run ahead of reality. If you're a patient investor with a long-term horizon, then you may be able to get a better entry point in the coming months as the hype from the latest earnings report fades.

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