MTY Food Group Inc. Signs Deal to Acquire Imvescor Restaurant Group Inc.

Description

MTY Food Group Inc. (TSX:MTY) announced on Tuesday that it has agreed to acquire **Imvescor Restaurant Group Inc.** (TSX:IRG) for $248 million. Combined, the two companies have as many as 75 different brands, including Mr.Sub, Taco Time, and Pizza Delight. The acquisition means that MTY will also operate nearly 6,000 stores.

This is nothing new for MTY, as the company has typically grown via acquisitions and earlier this year acquired Dagwood Sandwiches and Salads, which operates in Montreal. Imvescor's locations are also in eastern Canada, and that will help to diversify MTY's holdings, as nearly half of the company's locations are south of the border.

Deal involves no debt

MTY will pay for the deal with roughly $50 million in cash and the rest being paid for with stock. Although MTY shareholders may not be too happy that their ownership will be further diluted, it allows the company to avoid taking on more debt and keeps its debt-to-equity ratio at under one.

The danger with a company straddling itself with debt is that not only do interest costs rise, but there are covenants that need to be met and restrictions that could limit what a company can do.

Acquisition needs two-thirds approval

In order for the deal to go through, shareholders of Imvescor will need to approve the deal. Although Imvescor's share price was $4.18 at the close of Monday, the $4.10 that MTY will pay per share in the cash portion of the deal is a premium over where the share price was before October 26, when it was announced that there was a potential buyer.

Before that announcement, the share price was trading at $3.58 and would go on to rise more than 16%.

Is this a good deal for Imvescor?

Shareholders of Imvescor might be disappointed that there is not more of a premium paid for the company’s shares, which, at a market cap of $253 million on Monday, was slightly more than the offer price.

Imvescor has struggled to grow sales, and in three years its top line has increased just 17%, and it’s hard to see at this point how the company will be able to grow without its own acquisition or expansion outside eastern Canada, which will be difficult to do without the level of cash flow that a company like MTY has.

It’s hard to see a better deal coming for Imvescor, and if it falls through, the share price will tumble.

Is MTY a buy on this news?

MTY continues to find ways to grow, and in three years its sales have risen 89%, while profits have more than doubled. The company’s model is in stark contrast to **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR), which has seen its debt levels rise significantly as it funds its growth.

By avoiding taking on debt, MTY can continue to look for acquisition targets to grow its business, and that is great news for investors. Although shareholders may be unhappy that the deal will dilute their ownership, growth in the bottom line will ultimately send the stock price back up.

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