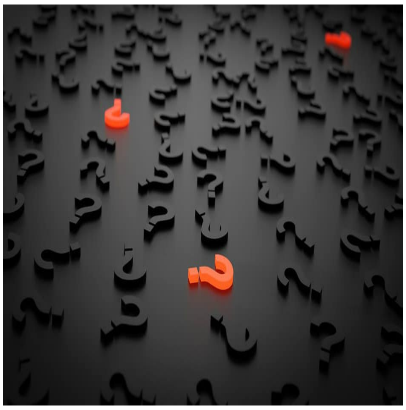

MTY Food Group Inc. Goes 1 Acquisition Too Far

Description

The first thing I thought when I read the news on February 15 about **MTY Food Group Inc.** (TSX:MTY) buying Timothy's World Coffee and Mmmuffins for $1.7 million was that it was one acquisition too far.

According to the company's press release, the two franchises generate annual sales of $15.6 million from 42 locations, most of them franchised Timothy's stores. That's an average of $370,000 per store.

By comparison, **The Second Cup Ltd.** (TSX:SCU) averages about $440,000 per store from 290 locations across Canada. Marketing expert eMarketer estimates that the average **Starbucks Corporation** (NASDAQ:SBUX) store generates US$1.4 million annually — approximately the same amount as the average Tim Hortons.

With **McDonald's Corporation** also making a big push into hot beverages, it seems strange that MTY would even bother making such a deal given how competitive the coffee business is these days. And you can't forget that independent coffee shops are also grabbing market share as millennials become dissatisfied with corporate coffee.

It's one deal too many

MTY released its Q4 2017 and annual earnings February 14, and they were a mixed bag, with revenues up 44% to $276 million, while net income was down 9% to $50 million. If you believe EBITDA profit is an important metric, they were up 42% on the year to $94 million.

As for same-store sales, the all-important number for gauging how older stores are doing, they were down 0.2%, or flat if you exclude the impact of 2016's leap year. The fourth quarter showed a little promise here in Canada, with same-store sales rising by 2.2%, while U.S. locations, which account for 47% of the company's 5,469 location, were down by 0.1%.

In addition to the latest acquisition announcement of Timothy's, which was made after the end of the quarter, the company highlighted five acquisitions it made during Q4 2017; they cost it close to $30 million to complete.

Here’s the kicker

In December, MTY announced it was paying $248 million for **Imvescor Restaurant Group Inc.** (TSX:IRG). Imvescor’s brands include Baton Rouge, Pizza Delight, and Mike’s. I liked the deal and said so at the time.

Fool contributor Joseph Solitro also liked the deal when it was announced, because he thought it gave the company a good entry point into casual dining — a cut above most of MTY’s fast-food options.

However, with the addition of Timothy’s and Mmmuffins, along with the six Imvescor brands coming on board, MTY now has 85 different brands on its roster. I get wanting to be able to offer potential franchisees as many options as possible, but why buy something like Timothy’s when you already have at least four coffee concepts, including Country Style and Van Houtte, in your cupboard?

I’m not ready to suggest you sell MTY shares, but with weakness in its same-store sales in 2017, I do wonder if it’s trying to be all things to all people and, in the process, is losing its focus.

Is it one acquisition too far?

Probably not, but if you own MTY stock, you ought to pay attention to how much energy it puts into the Imvescor deal, because that’s a far more critical acquisition to the future value of your stock.

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