



## What's Behind This Canadian Company's Failure to Launch?

### Description

**Freshii** ([TSX:FRIL](#)) shares are now down 61% from its all-time high reached just a few months after the company went public. On paper, the Freshii concept seemed like it could be the next big Canadian growth play, but due to poor execution and questionable decisions, the company has really struggled to live up to the high hopes of investors.

When it comes to fast-food joints, competition is cutthroat. It's an uphill battle from the get-go, and unfortunately for Freshii, I don't think new store openings are going to propel the stock out of its funk, at least, not without a substantial improvement to same-store sales growth numbers.

Management seems overly focused on driving sales from the opening of new stores when the root of Freshii's issues appear to be within the existing locations themselves. The strip mall-based Freshii locations I've been to have been pretty dead, with most of the lunchtime traffic moving in and out of adjacent fast-food restaurants.

Why can't Freshii draw crowds? And why are SSSG numbers so small?

I don't think it's the concept itself; it's pretty brilliant. The experience of constructing your salad or quinoa bowl from the ground up is intriguing, especially if you're a health-conscious millennial who's in a rush. Freshii is the fast-food model that millennials have been asking for, but there lies one serious problem that I believe has crippled the chain and has stopped it from really taking off – the ridiculously high prices.

If you've ever eaten at a Freshii, you know your wallet is going to take a colossal hit if you want a filling meal, especially if you're thinking about constructing your own Freshii bowl from the ground up using the "famous" order sheets that are attached to mini-clipboards. I filled out one of these sheets, didn't go all-in on the "premium toppings." Much to my surprise, the bowl ended up costing over \$20.

I thought the pricing was some kind of mistake, but it wasn't. It was the most expensive quinoa bowl I've ever had, which is probably why the Freshii stores I've seen are mostly deserted. The prices are so high that it's just not economical to eat at a Freshii on a consistent basis unless you're a TFSA millionaire of some sort.

Millennials are willing to pay up for comforts and conveniences, but that's to a certain extent! They may also be [health-conscious](#) and willing to pay up for the convenience of on-the-go food, but they've weighed the opportunity costs. A fully-loaded Freshii bowl is so expensive such that lunch for two could end up being the same price as a couple's night out at a fine diner like The Keg.

Many reviewers have noted that Freshii isn't an excellent value. And considering how competitive the fast-food market is, I believe Freshii is pricing themselves out of a market that it could have dominated if it were able to provide a better value to consumers.

Just have a look at Freshii's gross margins, which have surged to 89%, and they're on the uptrend on a year-over-year basis.

It's clear that management wants to grow profitably in the early stages of its growth cycle, but unless its prices fall to more reasonable levels, I don't see Freshii living up to its full potential. I think the chain is just too expensive for the average consumer and come the next recession, Freshii could face an amplified amount of cyclical.

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