Investors Should Be Hungry for This Turnaround Stock After its Latest Acquisition

Description

Empire Company (TSX:EMP.A) just gobbled up Farm Boy in an $800 million deal. The company's bold acquisition will strengthen its food retailer portfolio, which already includes brands such as Sobeys, Safeway, IGA, Foodland, FreshCo, and Thrifty Foods. Empire's strategic purchase provides broader market exposure in Ontario and an aggressive action plan to expand the Farm Boy brand into the GTA.

What investors need to know about Farm Boy

The Ottawa-based grocer has 26 locations across Ontario and specializes in farm-to-table products. For the past 36 years, the Farm Boy brand has developed into a regular household name known for its quality products and prepared foods. The company is focused on the food experience and seeks to bring fresh products to Canadian households while emphasizing its in-store brand name.

Empire's hefty investment in the Farm Boy brand underlines the company's vision for expected consumer demand growth of high-quality food products. At roughly 14.1 times EBITDA, Farm Boy's $800 million price tag factors in the future growth prospects of the brand. In addition, Empire's CEO Michael Medline described Farm Boy as one of the most well-protected companies with respect to the growing e-commerce food industry due to its "laser-like focus on fresh, private-label, and prepared foods."

As CEO Medline has already taken steps to increase shareholder value through Project Sunrise, which seeks to establish a leaner corporate structure at the Sobeys franchises. Through a significant shake-up at the Sobeys locations, Empire aims to reduce costs by $500 million by 2020. An important takeaway from the Farm Boy acquisition is that Medline has been clear that expanding Farm Boy's customer base will not see any material change to their shopping experience.

According to management, Empire will capitalize on Farm Boy's demonstrated business model, which has secured historical same-store sales growth of 5.3%. Same-store sales is an important metric in the retail environment, and Empire most recently reported this measure is on the rise for its other assets. By adding an industry leader in same-store sales growth to its already established portfolio of food retailer brands, Empire has discovered a game changer in a highly competitive market.

The company will finance the transaction through a combination of cash and debt. Empire has nearly tripled its cash and short-term investment position from 2017 through 2018, which should be complementary to this deal. On the flip side, the company has effectively decreased year-over-year long-term debt since 2014, which, again, is a positive trend.

If the management team is successful with Project Sunrise, there should be an improvement in the company's profitability. Empire's gross margin outperformed the industry average by roughly 2% through the last fiscal year. With operational efficiencies at the forefront of Empire's strategic approach and the acquisition of an accomplished asset such as Farm Boy the company should see improvements in its performance, which will benefit shareholders in the long run.

In brief, it's clear that Empire has set the table for growth — all while grabbing a larger piece of the food retailer pie.

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