



Should You Bite Into Goodfood Market Corp. (TSX:FOOD)?

Description

A small blurb in the *Globe and Mail* about **Goodfood Market** ([TSX:FOOD](#)), the Montreal-based meal-kit company, caught my attention in early September.

The two-paragraph piece highlighted the small-cap stock's active subscriber count — 89,000 as of August 31, 2018, 17% higher than the number at the end of May and 187% greater than a year earlier. It was enough to pique my interest.

Meal-kit companies have two big problems

I first heard about meal-kit companies when **Blue Apron** went public in June 2017 at \$10 a share in the U.S.; it's currently trading for less than \$2.

The problem with meal-kit companies like Blue Apron is two-fold: First, they have a hard time hanging on to [customers](#). Second, they can't make money.

The first problem I've experienced up close.

When my wife and I moved to Halifax in February, we kept getting Hello Fresh coupons in the mail urging us to try its meal kit at 40% off for the first week. Both of us work long hours and hate having to come up with meal ideas at the last minute, so we decided to give it a whirl.

After two or three months of three meals, a week delivered to our front door — we did skip some of the weeks due to travel — we concluded that none of the recipes were out-of-this-world good. At least, not good enough to justify the \$77 a week expense.

Previously, when we lived in Toronto, we tried a vegan dinner service that delivered three prepared meals a week. I liked it a lot, but my wife found many of the meals too similar; everything seemed to blend after a while, so we cancelled it also.

While the subscription business model is the wave of the future, until meal-kit companies figure out how to retain customers, profits will remain elusive.

“It’s actually really easy to market and acquire new customers,” said Chefs Plate CEO Jamie Shea earlier this year. “What’s really hard is to get them coming back and that’s not just something you can do overnight.”

Huge potential

At the end of 2017, the Fool’s Joey Frenette wrote a good piece about meal-kit delivery services like Goodfood and Chef’s Plate, two of the leaders here in Canada.

Frenette was quick to point out the market potential — US\$10 billion annually by 2020 — but he also reminded investors that the competition in this burgeoning field was intense.

“While Chef’s Plate appears to be one of the front-runners, it’s worth noting that its moat is very narrow, as subscribers could jump ship very easily since there are no contracts involved with meal-kit subscriptions,” Frenette [wrote](#) at the time. “The red-hot meal-kit industry is going to be really competitive, and the real winners will be the ones that can give subscribers a reason to stick around.”

In some ways, meal-kit companies are just like social media platforms. It’s easy to get someone to try them, but it’s much more difficult to get them to become a daily active user. **Facebook** figured that out very early in its short history.

Where does this put Goodfood?

Goodfood went public in June 2017 through a reverse merger with Mira VII Acquisition Corp., a TSX Venture Exchange capital pool company, whose sole purpose was to find a company to merge with within 24 months of its formation.

At the same time of its qualifying transaction, it raised \$21 million in private-placement funding, which it has used to grow its business.

Goodfood entered its life as a public company with 23,000 active subscribers as of May 31, 2017. Since then it’s increased active subscribers in all four quarters as a public company, up 287% over the past 12 months through the end of August.

That’s the good news.

The bad news is that it lost \$1.6 million in the third quarter ended May 31, 2018, on \$22.2 million in revenue.

Overall, Goodfood is a stock for aggressive investors only at this point. While I see signs of a growing business, it’s less clear if that will translate into profits down the road.

However, if you can afford to lose a few thousand dollars of mad money, it’s not the worst speculative bet I can think of.

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