



Gen-Xers: Ignore Millennials at Your Peril and Invest in the Next Generation

Description

Gen-Xers: brace yourselves. This article will be heavy on [millennial](#) topics — in particular, “veganism.” While it is largely a developed world phenomenon, veganism is now mainstream, and you can either choose to ignore it or invest in it. Personally, I am opting for the latter. In terms of a strictly capitalistic viewpoint, there are few companies trading on the TSX that more explicitly target the changing demographics than **A&W Revenue Royalties Income Fund** ([TSX:AW.UN](#)).

The A&W of today is significantly different than the A&W of 2017. Facing languishing sales, A&W became the first North American chain to address the shifting trends in consumer preferences by completely overhauling its supply chain and sourcing strictly steroid and antibiotic free beef. Although the “Better Beef” program angered ranchers across Canada, the campaign was a hit with consumers and revitalized A&W’s brand as a socially conscious and sustainable company, thus directly translating to higher burger sales. But the company wasn’t done yet. Going all in, A&W also did away with plastic straws and now only offers paper variants in its locations.

Then earlier this year, A&W was the first chain to introduce the totally vegan Beyond Meat burger, which was such a hit that the company faced supply shortages in the early months of introduction. Politics aside, these campaigns are a textbook example of a proactive management team who are not just willing to talk about how “connected” they are with the younger generation but also to capitalize on these trends.

Just how well did they do? As per A&W’s 2018 Annual Report: “The Fund achieved outstanding results for the fourth quarter and year. Same store sales growth was +12.3% for the quarter, as compared to the same quarter of 2017 and total royalty income for the quarter increased by 18.1%. Annual same store sales growth was +9.8% and royalty income increased by 14.7%.”

Furthermore, the sharp increases in same-store sales also translated to higher royalty income in 2018 of \$40.89 million compared to \$35.7 million in 2017 and net income, excluding non-cash items, of \$32.5 million compared to \$26.8 million across the same period.

More importantly, the higher earnings translated to higher distributable cash, and A&W has increased

its monthly dividend to \$.154 per unit, from \$.138 in 2018. Not bad for a company that has never cut its dividend — not even during the 2008 recession.

But is all this just a flash in the pan? I'm going to give management credit and say no. After all, this management team has demonstrated their ability to capitalize on trends long before their competitors. Next up, I can anticipate A&W to vehemently protect its market share gain by introducing further vegan alternatives across the menu and to explore options in the digital space, such as online delivery and apps.

So, whether you like it or not, millennials and all their nuances are here to stay. And in this changing landscape, we should look towards companies that are actively addressing and capitalizing on changing consumer preferences rather than ignore them. One such company is A&W, which has successfully positioned itself for the next generation.

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