



Instead of going there like two or three times a week, now I only go maybe once every ten days to buy milk and eggs and bread. So for my family and I, it saves us a lot of time and in terms of the industry in general, there's players like Linas Matkasse who's one of the first meal kits in the world. They started ten years ago and they're still in operation in Europe and they're profitable.

What we're seeing in Canada is that the penetration rate is around 1.5% and in the US the penetration rate in terms of the population using meal kits is 4%. In Europe it is close to, in some Scandinavian countries is closer to the 10% mark. Therefore, the more mature the industry gets, the bigger the percentage of the population using meal kits should become.

What I can add to that is, we've announced that we have 89,000 subscribers as of August 31st and among those subscribers we have a very strong loyal base of clients, and these clients spend much more than, probably 5 thousand dollars a year with us, so, it's going in the right direction.

David: Yeah, absolutely. And, speaking about the industry as a whole, I think, you know, coming from an analyst perspective at least, I'm based in the US and the industry is just known for being notoriously competitive. It seems that anytime you log on to social media you're seeing an advertisement for some new meal kit delivery service that's popped up here in the US, but what do you see as the main items that give Goodfood a sustainable advantage in the category? Is being based in Canada an advantage? Are there other logistical or operational things that you see as building an advantage in this competitive category for Goodfood?

Philippe: Yeah, a good question. I mean, I think that the industry in Canada has been much more stable than the US industry. I mean, we haven't had many new players in recent months or players that went away like it happens in the US. Canada is a less mature industry. We are the number one meal kit with approximately 40% of the market, and I think, I don't see much difference between the US and Canadian markets, but it being the number one in the country gives us a substantial advantage. I mean, we collect a big amount of data on subscribers and it's helping us in terms of marketing, launching new products and even meals for a subscriber to give them what they want when they want it.

Also, in Canada we are the only public meal kit company, so that gives us access to a lot of capital, which was very useful for us to invest, launching a new facility in Calgary and invest in automation, also launching products.

David: Maybe we can speak about capital allocation for a second. As you mentioned, the company's balance sheet is strong, you have over 20 million dollars in net cash, your cash burn isn't dramatic like you see with some of the other players in the industry and it seems to be moving in the right direction, to the point where you could conceivably be sustainably cash flow positive. So, going forward, how do you approach capital allocation? What process do you have for deploying that capital?

Philippe: To give more detail on our cash flow, in the last quarter we were cash flow from operations positive by almost 2 million and the quarter before we were slightly positive. So, like you said, it's going in the right direction. Our goal is to maintain cash flow from ops, um, slightly positive to neutral, while still maintaining maybe [inaudible 00:05:32] and reinvest the profits into gaining new subscribers. Our payback for new subscribers is less than six months. So, we feel it's the right strategy.

In terms of capital allocation, I mean, yeah, we invest in growth and subscribers, but we also invest a

lot in automation like I mentioned. We always invest in an equipment that has a payback period of less than six months. So far our payback is closer to the three months mark. I mean, we have bought a 200 thousand dollar machine in Montreal, payback period was two months. It was 25 times faster than portioning ingredients manually. So, we just bought another one.

Last quarter our growth margin improved by five points, between 22 and 23, and it was a factor of automation.

David: And as much as you're able to, for someone like me, who hasn't even been in one of these facilities, I don't know if I've even seen a video or something of what these meal kits facilities look like. As much as you can, can you give us an idea of what that looks like? Because, like you mentioned, you have all of these ingredients that need to be perfectly portioned for these different meals. Obviously, you have 89,000 subscribers, each person or subscriber has different meals that they're subscribing to for that week. So, what goes on in those facilities? What does that look like?

Philippe: Yeah, we don't disclose much for competitive reasons and also because it's a very new industry in Canada, maybe four years old. So, we don't disclose much, but, I mean, what I can say about it is, like we have two facilities, one, a big one in Montreal. We have a 200 million revenue capacity and a smaller one which is almost the same facility that we have in Montreal, but it's in Calgary, and the revenue capacity is of 100 million.

So, what I can say about it, you want it to be flexible as much as possible because in one day you might portion ingredients the whole day, but the day after we actually only do ship boxes, and then the other half day you will receive a lot of new ingredients. So, because, most of our clients would like to... Like, we ship seven days a week, but the, I mean, most of our clients like to receive their meal kits at the beginning of the week to plan the week ahead. So, there's a lot of box shipping that happens on Sunday and Monday, and then maybe on Wednesday and Thursday there's a lot of receiving the ingredients that's happening at the facility. And also, for us at the facility and its space, makes a big difference as well.

Like I said, a lot of automation. I mean, we've done about a 10 million [inaudible 00:08:32] deal last May, and we said they're investing 2 million of that 10 million in automation and this 2 million will increase in the future, for sure.

David: And you mentioned the IPO, which was June 2017, when you went public and that happened to be the same, almost at the same time that Blue Apron went public here in the US. And, obviously for anyone who follows this category, Blue Apron has just faced a barrage of different challenges pretty much as soon as they went public. It's almost a case study on what not to do when you go public.

But, to what extent do you follow other players in the industry and like, what types of lessons, good or bad, do you take from other meal kit providers as far as what to tweak with your own business and maybe what to avoid?

Philippe: Yeah, for sure we're looking at other public players like HelloFresh, Blue Apron and now Morris Food went public. I think, I think on our end, I mean, like I said, we look at what they're doing, but we are really focusing on our own industry and our own metrics and we, so far we've already delivered beyond our expectations in the [inaudible 00:09:53] and everything is happening faster than

expected in terms of market expectations. I mean, we launched a new facility last May, like I said, and we're moving to a new one in Montreal in the Fall. So, everything went seamlessly and like I said, after that, when we were installed we started investing in automation.

I think we are doing things step by step and always focusing on making sure it kind of makes our [inaudible 00:10:25] possible. We always look at our cash LPD ratio, for instance and we are trying to innovate and give as much value for our clients.

David: And, at what point would those two facilities that you mentioned, a what point does Goodfood reach full capacity with those facilities and, do you have like a timeline in mind when it might hit that point and what happens when you do hit full capacity?

Philippe: Yeah, in our last revenue run rates, I think it was 110 million and since we've, at that time in May, at that time we had just launched our Western Canada operations where most of the 110 million came from Eastern Canada at that time. So, obviously we've triple our revenues last year. So, the growth is very aggressive.

Like I said before, we do have a 200 million dollar capacity in Montreal and 100 million capacity in Calgary, but at some point we'll probably need to expand in Montreal, just like with our 110 run rate and 200 million capacity we think there's still 90 million available space for growth. But, as we grow quickly it's an adequate time to build, uh, work to expand the facility because we have room for work on two additional spaces of our own facility in Montreal. We might need to think ahead and at some point expand, but it's all good news for us. It's just, meaning the we are growing quickly.

David: Maybe we can take a step back and you can just walk us through, what is the target demographic at this point? I think, stereotypically I would think it's a younger audience that you are catering to, but are you also catering to folks in the senior market who might not be, you know, wanting to prepare their whole meals themselves?

Give us an idea. What the average customer looks like for Goodfood?

Philippe: You are right, yeah, the audience are definitively the millennials, mostly young professional couples who want to save time while maintaining a healthy lifestyle. But, I would say approximately two years ago, two years and a half ago, Goodfood launched a family meal plan that was developed to the young children and it became a more successful plan and it still is. So, there's a lot of families using Goodfood right now.

But, recently, like you mentioned, we now have a lot of empty nesters who are our clients. People like to have the, maybe the same food quality as if they were eating out, but at the lower price point and now they have the time to cook for their loved ones and the children are done. So, I think we like three big categories in terms of those customers.

David: And looking out over the next three to five years, whenever we recommend to buy stock or time pricing there's a minimum of three years and ideally we're trying to find companies that we want to invest in and hold for five years and beyond. But, looking out over the next five years or so, what are the main expansion priorities that you see for the company?

Philippe: I mean, like I said, we are growing very quickly. We are one of the top growing

companies in terms of revenue on the TSX. So, what we're, what we're aiming at doing is, obviously revenue growth and subscriber growth is our two main metrics, it's important for us, and also like I said, we're growing as fast as possible, but we're trying to maintain, while maintaining I should say a cash flow from ops slightly positive and we're trying to also invest in automation to remain the lowest cost producer in the space.

So, I mean, and at some point, I mean, maybe slightly in a longer term, it'll be that the metrics will be something more important for us, even if we are profitable in the product markets, we are still developing the Western Canada provinces and we are launching new products. So far we are addressing the dinner segment, but now we are going to launch new products in the breakfast category and then we could also address prepared meals, lunch, snacks. I mean, the goal is we need to build a billion dollar home meals solution platform.

David: And to what extent are you exploring different partnerships or alliances? I know some other competitors within North America and probably around the world, you would know better than me, um, have either been acquired or partnered with, you know, grocery stores chains, so you have like the brick and mortar solution to go along with the online solutions, so kind of an omni channel offering to consumers. To what extent does Goodfood think about that or at this point are just drilling down on that online strategy?

Philippe: Yeah, online strategy is our main focus for now, but I would say, like you said, the partnership between meal kits and [inaudible 00:15:46] grocery is something that has been done a lot in the US and this is something that we could explore as well. I mean, we would only do it in a way where it differentiates ourselves from the competition and would try not to cannibalize [sic] our own sales. I think, I mean, maybe it's too early to tell, but I think the way we already did it with Costco is interesting. I mean, they are offering family size portions at the lower price point with the same recipe of edible for the whole month. And, they started with 20 stores and now there are 80. So, that spiral [sic] seems to go well.

But also, I think the waste factor is something you need to be attentive if you go into stores. Right now we are close to one percent of waste and it's something that it's very difficult to appreciate if you go in a grocery.

David: And, as we talked about at the start of this conversation, you've been with the company about six months now. What surprised you most about Goodfood since joining the company?

Philippe: Um, I knew there was a lot of talent at Goodfood, but I knew people that worked there. I met with John and Neil and met with the board, so, when I arrived, you know, on the ground, I started, I was very impressed by the strong dedication and commitment of all the employees and it still impresses me a lot. Everyone is proud to work here at Goodfood. Everyone believes in the mission and works as a team to make the company successful.

Something that we're doing, something that we're doing great at Goodfood is the dedication. For example, there's a Friday afternoon meeting, ha, with most of the office employees and everyone's aware of the wins, everyone's aware of the progress of their colleagues. So, I mean, the vision of the top management is something very reassuring. Everyone knows where we are going and what we're going to accomplish and everybody works toward those goals. So, it's something that I didn't see much elsewhere before.

David: Maybe you can talk a little bit more about that. At the Motley Fool one of the things that we love with companies we're following and investing in, we look at leadership and culture. So maybe you can, as much as you know, just, walk through, why does Goodfood have that approach to the culture? It sounds like it's still very much like a start up mentality, but anything you can mention as far as what contributes to that sort of culture.

Philippe: Yeah, like you said, it still has the startup mentality, even though we are one of the fastest growing companies in the TSX and we have more than 100 million in revenue and we are a public company. So, I mean, to be the best of both worlds, where you have structure, discipline, people work hard, but there's also, I mean, people are humble like even at the top. I mean everybody's humble, everybody's transparent. So everybody feels that they are part of a team. I think that's something that differentiates ourselves from the others and not only in the meal kit industry, I mean, it's really nice seeing that people are aware of every detail of what we're trying to accomplish. Everybody is trying to contribute, even if you are in the Finance Department you're welcome to give your thoughts. If you are at the receiving point [sic], or a new way to market new products. I mean, everybody feels very involved and that translates into dedication and commitment.

David: And, as I mentioned, our time horizon at the Motley Fool is typically at least three to five years and ideally much longer. But, looking out over the next five years, what metrics do you think business focused investors like us at the Fool should be watching closest, the best gauge underlying health and progress of Goodfood?

Philippe: Yeah, I mean, subscribers and revenue, like I mentioned, are the two main metrics for us and I think for the investors as well. It shows that we are having momentum and that we're still gaining market share, in addition to seeing the industry grow in Canada. Um, after that, I mean, growth margin is very important. Like I said, in the last quarter we had an increase of five points in the growth margin and that's the result of investment in automation and accumulation of skills. So for us in the future we'll continue to invest in automation and we'll seek further improvement in terms of the growth margin.

And, I mean, we're growing fast. We are trying to maintain cash flow from ops positive. I mean, this will translate eventually, I think, in the longer term that the metric is something we will focus on and the investor should look at among other stuff.

David: Awesome. Well, I know we're just about out of time, so I'll wrap up with a final question. We talked about a lot of different things going on at Goodfood, a really fast paced company and culture, which has been wonderful to learn about from you. So, thanks again for taking some time to talk to the Fool.

David: But, what personally gets you most excited thinking about Goodfood over the next five

years?

Philippe: Yeah, I mean, so far it's been slightly more than a year that we've been public, that's why it's up approximately 35 to 40% and I think we're just getting started. I mean, really what's exciting for me is to build a billion dollar home meal solution platform. So, like I said, we are a meal kits company for now, but we are launching new products, addressing other [inaudible 00:22:10] and we think maybe half of the billion could come from the meal kit category and the other 500 million could come from breakfast, prepared meals, lunch snacks, and those four categories are expanding by several billions. So, the meal kit industry is growing, but those four categories are growing as well.

So, to me it's very exciting to be part of this adventure and we feel that we are, the company is in a better position to really address this market of the home meal solution with our customer base that we have right now, but also with the customers that we are acquiring every week.

David: Well, we certainly look forward to following along in the quarters and years ahead and look forward to continuing this conversation moving forward, as we follow Goodfood's progress. For now, we'll leave it there. Philippe Adam, the CFO of Goodfood market. Thanks so much taking some time to talk to the Motley Fool and Hidden Gems Canada today.

Philippe: Yeah, thanks David. It was my pleasure.

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