Sell: MTY Food Group

TSX: MTY

Nithin Mantena, Christina Monev, Sherry Hu, Christian Rosario, Aryann Gupta

MTY FOOD GROUP

Meet the Team

Here Come the Personal Trainers and Nutritionists

Nithin Mantena
Portfolio Manager

Christina Monev
Vice President

Sherry Hu
Junior Analyst

Christian Rosario
Junior Analyst

Aryann Gupta
Junior Analyst

Business Overview

"Is this not a straight rip-off from Taco Bell?"

- Christian Rosario on TacoTime

Business Overview

What is a franchise business model?

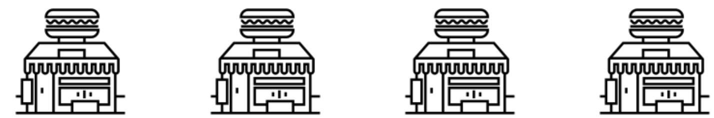
Why is the Franchise Model Better?

- As a franchisor is not responsible for physically operating each location, the company benefits from a well-performing location with limited downside and capital expenditures
- A more diversified mix of franchises also helps make a large franchisor more recession resistant
- With a corporate-owned location, the franchisor is fully responsible for the day-to-day operations of a business and all of the associated costs
- Franchisors can kick back, relax, and let the royalty fees flow in – yielding high FCF and higher margins than directly operating stores

2023 Store Characteristics

Decentralized Operations

MTY FOOD GROUP



Revenue Model

Wetzel's Pretzels → MTY FOOD GROUP

$1,000 Revenue | 5% Royalty | $50 Revenue

Advertising Model

COLD STONE CREAMERY → MTY FOOD GROUP

$1,000 Revenue | 2% Fee | $20 Promotional Fund

Business Overview

MTY Core Business Model as a Franchisor

MTY's Business Overall

- MTY has 6500+ franchised and corporate-owned locations across 80 different quick-service, fast casual, and casual dining restaurants, primarily in the U.S. and Canada
- Royalties from franchises represent 45% of total revenue, while corporate stores represent 17% of total revenue
- With 97% of locations being franchised as opposed to corporate-owned, MTY's core business model clearly lies within franchising
- MTY's umbrella of franchises includes many big name restaurants, like Wetzel's Pretzels, Cold Stone Creamery, and Papa Murphy's Pizza

MTY as a Restaurant Franchisor (L3Y)

~CAD 554,000 avg. revenue per franchise location

5.0% avg. franchise royalty fee

50.3% avg. franchise segment EBITDA margin

Restaurant Categories

MTY FOOD GROUP

Historical Backdrop

MTY's Origins as a Consolidator of Quick Service Restaurants ("QSR") in Canada

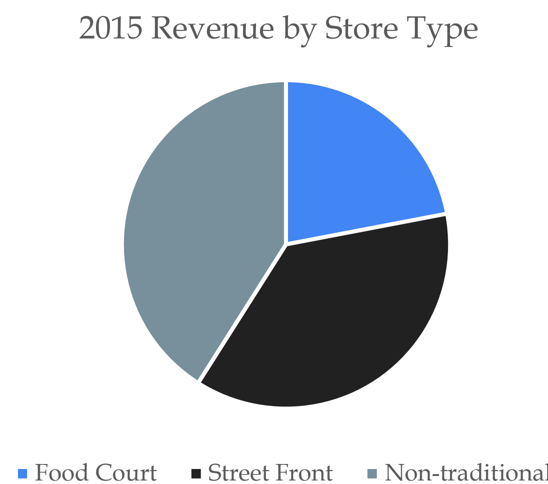
Canadian Origins and Early Acquisitions

Founded in 1979, MTY entered the franchise space by building store brands in Canadian malls, capitalizing on the growth of the Canadian fast food market.

This strategy continued through acquisitions of small, hole-in-wall restaurants and later through other restaurant holding companies (i.e., Kahala Brands).

Most of these restaurants were food-court mall restaurants. Think of Auntie Anne's when you go shopping.

MTY's Historical Portfolio



$338,000 buildout
Hole-in-wall

1984

$375,000 buildout
Hole-in-wall

2001

$310,000 buildout
900 sq. foot

2012

$300,000 buildout
Small mall cafe

2014

MTY's Current Situation

So where did MTY go wrong? The company got bored of small flagships and is targeting more "expensive" markets.

Larger Acquisitions and Larger Stores

2016 marked a shift in MTY strategy. They acquired Kahala Brands for $300mm, the largest in company history.

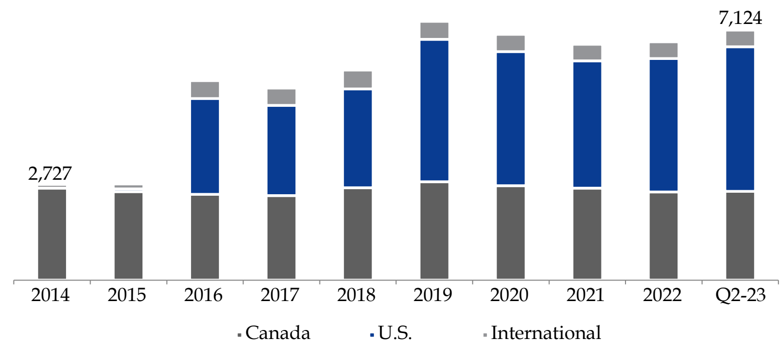
Why does this matter? MTY is paying near-average multiples of 10-13x EBITDA as opposed to 8-10x in the past. Meanwhile, these businesses do not benefit as much from synergies or are of substantially lower quality.

The shift to the US also coincides with a different type of store MTY is acquiring. They can't compete with traditional American fast-food, so are targeting hyper-specific niches or full-service upscale restaurants. These restaurants do not generate the same returns as QSR does.

Switch to US Markets

The fast food market is more mature in the US than it is in Canada. US locations grew 1.3% annually vs. 2.2% in Canada since 2010. MTY no longer benefits from geographic growth.

In addition, new entrants have a much harder time in the more-established US space against larger players.



$547,000 buildout
Roadside

$610,000
Roadside

$451,000
Roadside

$1,000,000
Roadside

2016 **2022** **2022**

Thesis 1

"S&!$, a$$, debt laden"

- Aryann Gupta on BBQ Holdings

Thesis 1

What are synergies?

What are synergies?

The concept that the combined value and performance of two companies will be greater than the sum of the individual businesses

Revenue and Cost Synergies

Factors that drive top-line and are accretive to EBIT margins

Revenue Synergies	Cost Synergies
Greater % Market Share & Brand Recognition	Eliminate Overlapping Workforce Function & Reduced Headcount
Cross-selling/Upselling/Product Bunding Opportunities	Cost-Savings from Reduced Professional Services Fees/Marketing
Geographic Expansion & New Distribution Channels	Closure or Consolidation of Redundant Facilities
Pricing Power from Reduced Competition	Negotiating Leverage Over Suppliers (bulk purchasing economies of scale)
Access to New End Markets & Customer Types	Streamlined Internal Processes and Integration of Operational Best Practices

In the context of MTY acquiring other banners, what synergies could MTY leverage?

Thesis 1

MTY's Synergy Plan

Payroll Synergies

- The synergies of acquiring a company, for example, you purchase a chain that has their own accounting department, their own legal department, their own CEO
- When MTY purchases they already have these ancillary functions which can be used commonly among acquired businesses
- So they slash the payroll by 30% right away so that right after the purchase EBITDA should grow
- MTY has attempted this in past acquisitions such as that of Madisons and BBQ, they can get rid of all redundant teams

Supplier Rebates

- As MTY purchases new companies their volume of e.g., Coke purchasing goes up, so when they hit the next tier of rebate they are getting a discount of $0.05 per liter vs. $0.02
- The advantage when you purchase a company that is smaller than you is the rebates that you have with your suppliers
- E.g., MTY has a very good rebate in place with Pepsi according to an ex C-suite executive
- So when purchasing a company like Madisons or BBQ, the purchasing volume goes through MTY and at a better rate because of the larger size of the transaction

Our Thought Process

- Model out all the expected synergies from the acquisition of BBQ Holdings and see whether even in the best of cases MTY paid a 'fair price' for BBQ Holdings
- The acquisition was consummated in September of last year at $17.25/share

Operating Build With & Without Synergies											
For the Fiscal Period Ending	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Currency	*USD*	*USD*	*USD*	*USD*	*USD*	*USD*	*USD*	*USD*	*USD*	*USD*	*USD*
Revenue	76.62	64.60	54.89	83.56	121.24	206.44	229.53	261.44	295.97	333.30	373.61
Cost Of Goods Sold	58.04	47.09	39.50	70.28	109.20	172.20	190.51	217.00	245.66	276.64	310.10
Cost of Goods Sold wihtout Synergies							192.81	219.61	248.62	279.97	313.83
Gross Profit	**18.59**	**17.50**	**15.39**	**13.28**	**12.03**	**34.24**	**39.02**	**44.45**	**50.32**	**56.66**	**63.51**
Gross Profit without Synergies							**36.72**	**41.83**	**47.36**	**53.33**	**59.78**
Selling General & Admin Exp.	16.57	14.63	7.99	10.42	14.20	18.57	25.25	28.76	32.56	36.66	41.10
SG&A without Synergies							34.43	39.22	44.40	49.99	56.04
Pre-Opening Costs	-	-	-	0.46	0.01	0.20	0.3	0.2	0.2	0.2	0.2
Pre-Opening Costs without Synergies							0.22	0.22	0.22	0.22	0.22
Depreciation & Amort.	2.87	2.79	1.26	2.23	5.12	7.40	5	5	5	5	5
Depreciation & Amort. without Synergies							3.91	5.83	2.47	2.33	2.17
Other Operating Exp., Total	**19.44**	**17.42**	**9.25**	**13.11**	**19.33**	**26.17**	**30.55**	**33.96**	**37.76**	**41.86**	**46.30**
Other Operating Exp., Total without Synergies							**38.57**	**45.27**	**47.09**	**52.55**	**58.44**
Operating Income/EBIT	**(0.85)**	**0.08**	**6.14**	**0.17**	**(7.29)**	**8.07**	**8.47**	**10.49**	**12.56**	**14.80**	**17.22**
Operating Income/EBIT without Synergies							**(1.84)**	**(3.44)**	**0.27**	**0.78**	**1.34**

Thesis 1

Do the Synergies show in the BBQ Valuation?

10.5x EBITDA

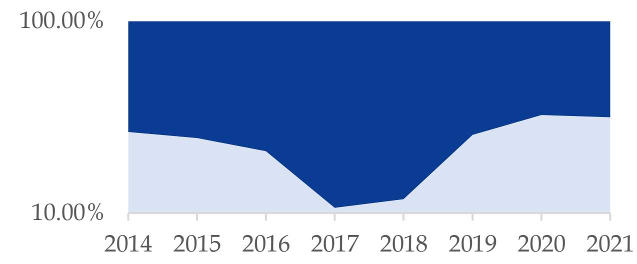
Multiple of acquisition price paid based on LTM financials

3.8x EBITDA

What we think is a fair multiple to have paid

Our Conclusion on BBQ Holdings Acquistion

- Even in the most optimistic of assumptions we feel that MTY significantly overpaid for a melting ice cube business with a poor and worsening mix between corporate and franchise stores leaving limited room for synergies to play out and be value accretive for MTY
- Further MTY has repositioned its strategy on BBQ Holdings and halted the conversion of corporate-owned stores to franchise stores
- Regardless of the reasons for the price paid (poor acquisition climate to incompetent management) it would be fair to say that this was not a thought-out acquisition with significant execution risk



BBQ DCF w/ Synergies					
As of 9/22/2023					
Year	2022e	2023e	2024e	2025e	2026e
Period	1	2	3	4	5
EBIT	8.47	10.49	12.56	14.80	17.22
Corporate Tax Rate	21.00%	21.00%	21.00%	21.00%	21.00%
EBIAT	6.69	8.28	9.92	11.69	13.60
D&A	7.00	7.00	7.00	7.00	7.00
Change in Net Working Capital	(2.36)	(2.36)	(2.36)	(2.36)	(2.36)
Capex	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)
Unlevered Free Cash Flows	8.33	9.92	11.56	13.33	15.24
WACC (Discount Rate)	8.88%	8.88%	8.88%	8.88%	8.88%
PV of FCF	7.65	8.37	8.96	9.49	9.96
Sum of l (stage 1) **44**					

BBQ Value w/Synergies		
Perp. Rate		1.50%
Implied EV/FCF		18.49x
Discount Rate Used		8.88%
Free Cash Flow in 1+t		15.47
Terminal Value		212.83
PV of Terminal Value		**139.10**
Enterprise Value		183.53
less Debt		132.51
plus Cash and Cash Equivaler		20.62
Equity Value		71.65
Diluted Shares Outstanding		9,922
Equity Value per Share	**$**	**7.22**
Upside		**-58%**

Thesis 2

“Even if this was a cigar butt, Ben Graham wouldn't pick it up"

- Nithin Mantena on MTY

Thesis 2

What are Unit Economics?

What is a unit economic breakdown?

A unit economic analysis looks to breakdown the revenue, costs, and profitability at a certain unit level of a business.

For every business, we could do a unit breakdown at many levels. At what 3 different levels could we do a unit breakdown for MTY business?

1. Acquisition level.
2. Banner/brand level
3. Restaurant level

At the per store level, what are some of the costs involved that we would want to include in this breakdown?

Food, labor, depreciation on PPE, utilities, insurance, etc.

Thesis 2

Unit Economic Breakdown at the Restaurant Level

Year	1	2	3	4	5
Revenue					
Burgers Sold	100	200	300	300	300
x					
$ per Burger	1	1	1	1	1
Revenue	**100**	**200**	**300**	**300**	**300**
Variable Costs					
Burgers Sold	100	200	300	300	300
x					
Food Cost per Burger	-0.25	-0.25	-0.25	-0.25	-0.25
Direct Materials	-25	-50	-75	-75	-75
Burgers Sold	100	200	300	300	300
x					
Labor Cost per Burger	-0.25	-0.25	-0.25	-0.25	-0.25
Direct Labor	-25	-50	-75	-75	-75
Total Variable Costs	**-50**	**-100**	**-150**	**-150**	**-150**
Fixed Costs					
Rent	-10	-10	-10	-10	-10
Depreciation	-12	-12	-12	-12	-12
Insurance	-5	-5	-5	-5	-5
Total Fixed Costs	**-27**	**-27**	**-27**	**-27**	**-27**
Operating Profit	**23**	**73**	**123**	**123**	**123**
% margin	*23%*	*37%*	*41%*	*41%*	*41%*

MTY FOOD GROUP

Thesis 2

Franchise Startup Costs Higher than Decade Ago

2011 Store Characteristics

In 2011, MTY put an emphasis on QSR stores as they typically had lower start-up costs but higher foot traffic.

Franchise Startup Costs	
Initial Franchise Fee	30,000
Equipment	80,000
Buildout	200,000
Total Investment	310,000

2023 Store Characteristics

As explained in the historical backdrop, MTY is now shifting towards a higher level of FSR restaurants.

Franchise Startup Costs	
Initial Franchise Fee	40,347
Equipment	116,407
Buildout	700,000
Total Investment	856,754

MTY has recently attacked the full-service restaurant industry in hopes to generate increased sales.

Wetzel's Pretzels

Total Investment of $585,350

Square Footage of 500-1000

Cost/Sq Ft = $731

Cost per square foot for a QSR such as Wetzel's has gone from $250-300 in 2011 to $350 to $700 in 2023.

Thesis 2

Franchise Unit Economics Breakdown and Trend Analysis

Store Unit Economics (2011)	
Revenues	600,000
COGS	198,000
Labor	168,000
Royalties	30,000
Advertising	12,000
Rent	84,000
Insurance	5,000
Utilities	12,000
Yearly Refurbishments	4,000
Depreciation	31,000
Net Income	43,679
margin%	*7.3%*

Positive Unit Economic Trends

COGS – Decreased from 33% of revenue to 30% due to MTY's improved food purchase agreements.

Rent – Decreased from 27% of startup costs to 5%. This is due to the combination of higher startup costs not being a result of larger stores. In addition, MTY has increased number of non-mall stores, which often have better terms.

Store Unit Economics (2023)	
Revenues	630,000
COGS	189,000
Labor	182,700
Royalties	32,445
Advertising	14,175
Rent	44,100
Insurance	3,266
Utilities	12,600
Yearly Refurbishments	10,000
Depreciation	81,641
Net Income	46,857
margin%	*7.4%*

Negative Unit Economic Trends

Revenue – Same store sales has been flat for the last decade despite an increase in FSR stores. $600,000 to $630,000.

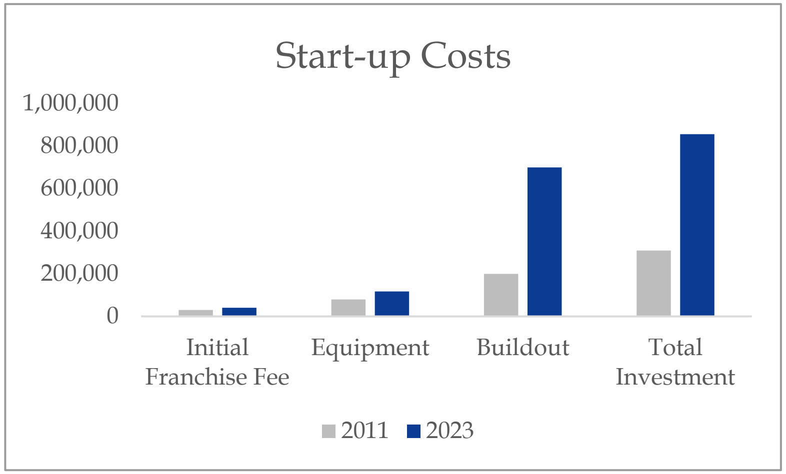
Yearly Refurbishments – As a result of more expensive stores, refresh/refurbishment costs have greatly increased from $4,000 per year in 2011 to $10,000 in 2023.

Depreciation – Larger and more expensive stores equal higher levels of depreciation.

Thesis 2

The Impact of Higher Startup Costs and Poor Unit Returns on Valuation

Summarized Data



2011 Store Valuation

$$\frac{\text{FCF to Owner}}{\text{Discount Rate}} = \frac{74{,}679}{19.3\%} \rightarrow$$ **25% Upside**

Equivalent to a 4.15 year payback period

2023 Store Valuation

$$\frac{\text{FCF to Owner}}{\text{Discount Rate}} = \frac{128{,}498}{16.2\%} \rightarrow$$ **-7.4% Downside**

Equivalent to a 6.66 year payback period

Thesis 2

Higher Interest Rate's Negative Impact on MTY Franchise Demand

Two Scenarios for US Economy

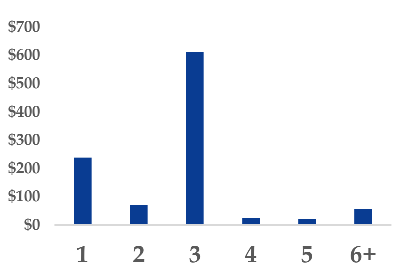
Hard Landing → MTY gets hit hard and the stock will collapse due to dramatic drop in same stores sales and store openings.

The more interesting scenarios is the soft landing

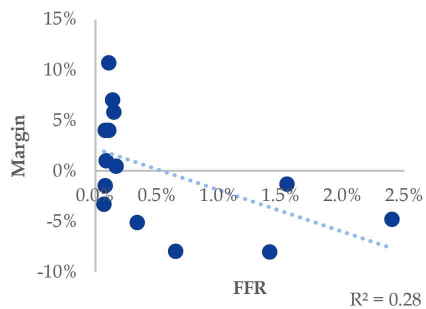
Soft Landing → Economy doesn't fall into recession, but interest rates stay higher for longer.

Impact of High Interest Rates

MTY's Debt Maturity (in millions)



MTY Margins vs Federal Funds Rate (FFR)



MTY and, with a high correlation, their franchisees will hit debt walls in 2 to 3 years.

The federal funds rate and MTY's margins over the last 20 years have a weak but negative correlation.

Projecting Franchise Royalty Revenue

Higher Rates ↑ → **Lower Margins** ↓ → **Payback Periods** ↑

The refinancing of debt at higher rates will cause even lower margins on the franchise unit level. While it hard to estimate how much lower margins go below the current 7.4% net income margin level, we do know that it will increase payback periods on the franchise level.

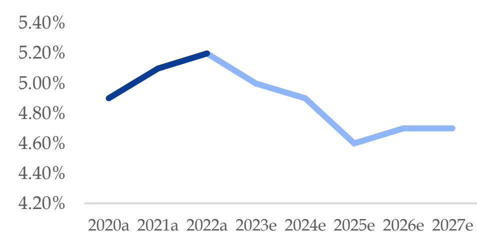
↓

Payback Period ↑ → **Franchisee Demand** ↓ → **MTY Franchise Royalty %** ↓

Franchise Royalty %

QSR	**7.21%**
YUM	**5.41%**
MTY	**5.15%**
DIN	**4.91%**

MTY Franchise Royalty % Forecast



MTY currently has one of the worst franchise royalty fees in the industry. Further pressures could cause significant churn on franchisees.

Thesis 3

"It just doesn't make sense to me"

- Sherry Hu on Store Conversion Strategy

Thesis 3

Increased Acquisition of Lower-Margin Corporate Stores

Franchise vs Corporate Stores

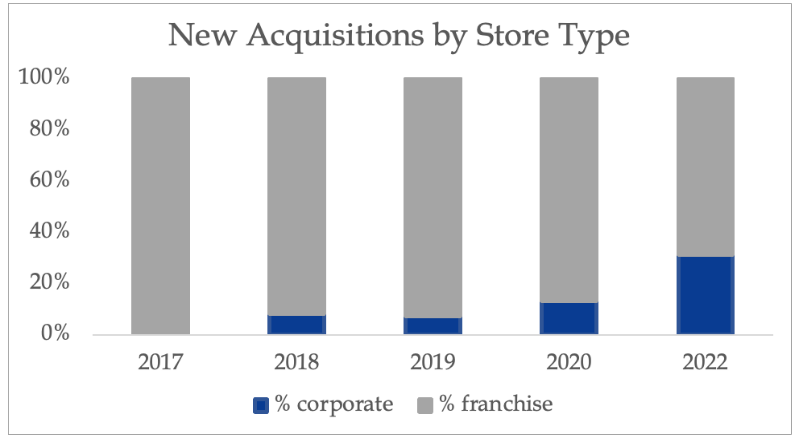
The new CEO has been acquiring large banners that own a higher proportion of corporate stores than MTY's existing portfolio. As mentioned, the purpose of these acquisitions is to boost topline growth and penetrate the U.S. market.

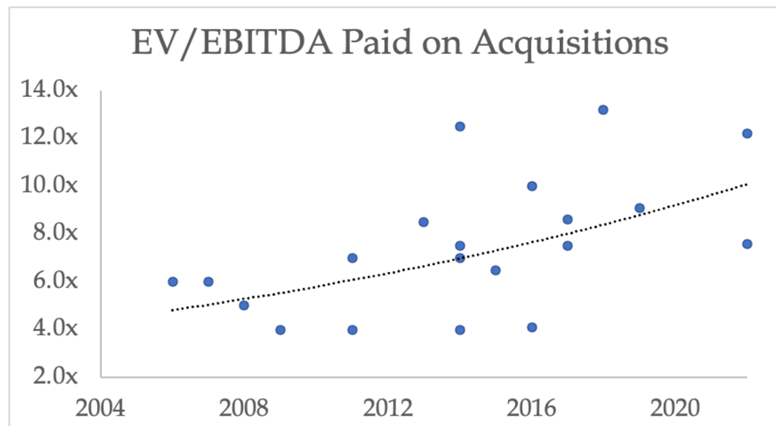
31% of MTY's acquisitions in 2022 were corporate stores, but corporate stores only make up 3% of MTY's portfolio.

Franchise Unit Economics		
Franchise same-store sales	$	627,106
Franchise royalty %		5.2%
Franchise royalty per store	$	32,311
Franchise operating margin		95.9%
Franchise operating profit per store		30,989

Corporate Unit Economics		
Corporate same-store sales	$	598,995
Discount to Franchise		-4.5%
Corporate operating margin		3.9%
Corporate operating profit per store	$	23,618
Discount to Franchise		-23.8%

New Acquisition Strategy





Thesis 3

Decline In ROIC Due To New Acquisition Strategy

ROIC 101

Companies are constantly making investments into their business such as capital expenditures, acquisitions, research and development, advertising.

Assessing a company's return on invested capital (ROIC) helps us understand how good the company is at capital allocation.

So how do we measure return?

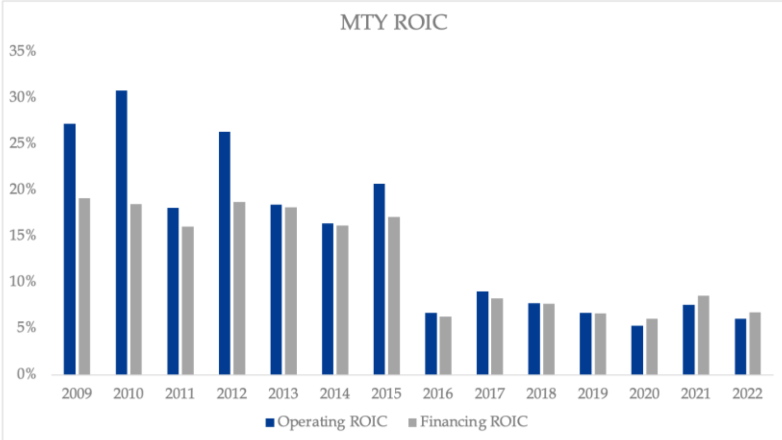
$$\text{Return} = \frac{\text{What you earn}}{\text{What you invested}}$$

$$\text{ROIC} = \frac{\text{NOPAT}}{\text{Invested Capital}}$$

NOPAT: net operating profits after tax
Invested Capital: assets used to earn NOPAT

A company creates value if it can earn a return on its investments that exceeds the cost of financing its investments.

MTY's Deteriorating ROIC



The main drivers for MTY's ROIC are the returns on newly acquired locations and the returns on existing locations.

MTY's ROIC has declined significantly from 20% in the late-2000's to 6% in 2022. This is due to the low returns of corporate stores compared to franchise stores, the low synergies on its acquisitions (thesis #1), and the deterioration of unit economics on its stores (thesis #2).

MTY's cost of capital is 10.81%, so MTY is earning a ROIC less than its cost of capital!

Thesis 3

Limited Levers For A Rebound In ROIC

Management's Strategy on ROIC

Despite the decline in MTY's ROIC, management does not intend to change its focus on corporate stores:

> **Investor:** "Is it fair to assume there's no plan for potential refranchising [or divestiture] of your corporate stores?"
>
> **CEO:** "We're happy with our corporate stores. Selling our corporate stores for 4x or 5x EBITDA doesn't bring value to the company or shareholders. So I'd rather keep them and work on them."
>
> - *Q2 2023 earnings call*

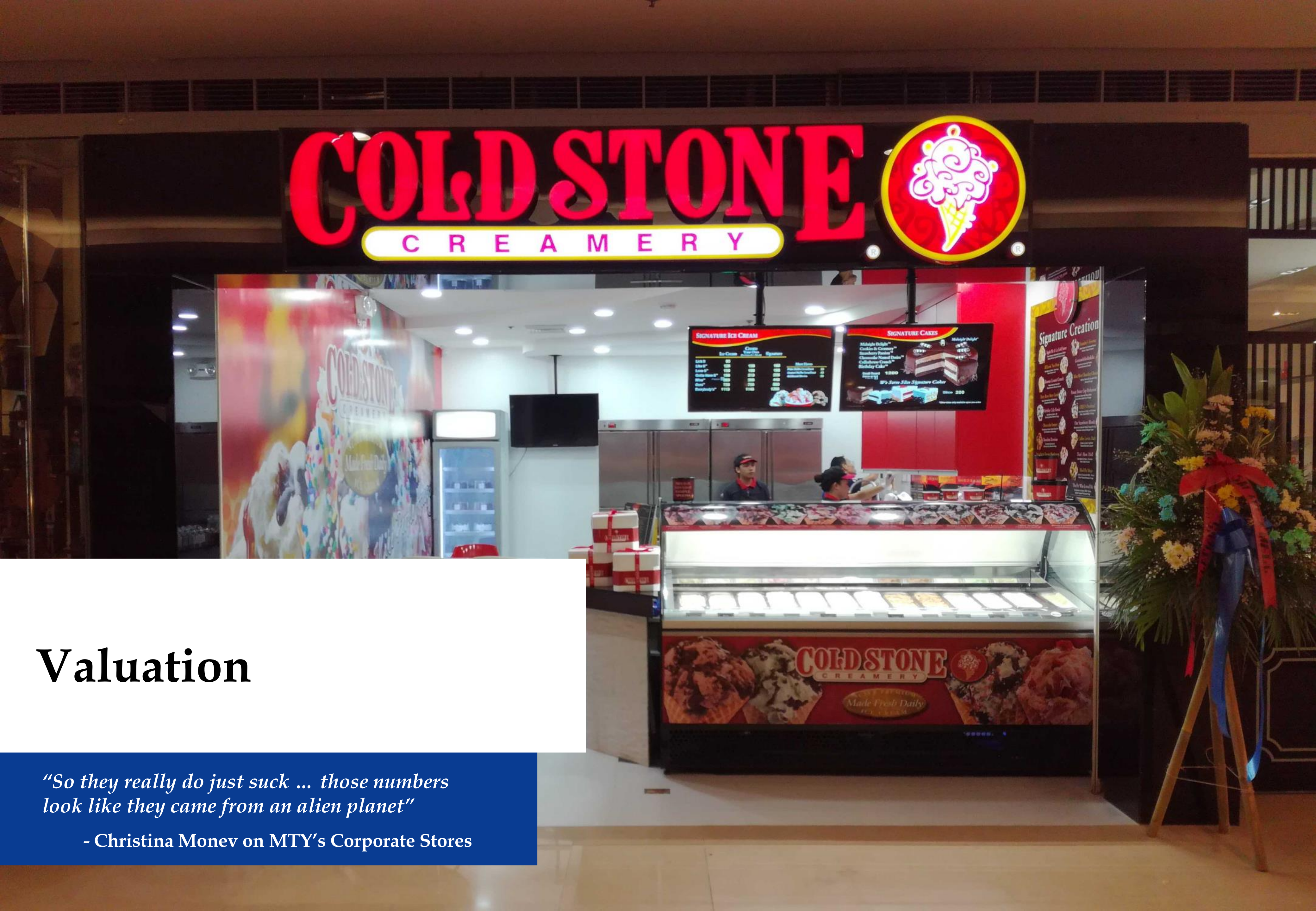
MTY's insistence on keeping its corporate stores instead of refranchising them despite the superior unit economics of franchise stores suggests:

1. Management is poor at capital allocation.
2. MTY is facing difficulties in selling franchises to potential owners due to the unattractive unit economics of current franchises (thesis #3).

Even if MTY converted all its current corporate stores to franchises, its new ROIC of 7.2% would still be below its cost of capital.

Limited ROIC Uplift from Conversion

Franchise Conversion ROIC Build (CAD mm)	
# corporate stores	199.00
% conversion	100.0%
# stores converted	199.00
Franchise system sales per store	0.63
Total incremental system sales	124.79
Franchise royalty %	5.2%
Total incremental franchise royalty	6.43
Corporate system sales per store	0.60
(-) Total corporate system sales lost	119.20
Franchise royalty EBIT margin	95.9%
Total incremental franchise royalty EBIT	6.17
Corporate EBIT margin	3.9%
(-) Corporate EBIT lost	4.70
Total incremental EBIT from conversion	1.47
Effective tax rate	-14.7%
Total incremental NOPAT from conversion	1.25
NOPAT pre-conversion	102.45
NOPAT post-conversion	**103.71**
Invested capital pre-conversion	1,689.06
(-) PPE of stores converted	248.75
PPE per store	1.25
Invested capital post-conversion	**1,440.31**
Operating ROIC post-conversion	**7.2%**
Operating ROIC pre-conversion	6.1%
ROIC increase	**1.1%**



Valuation

"So they really do just suck … those numbers look like they came from an alien planet"

- Christina Monev on MTY's Corporate Stores

Leading and Lagging Indicators

Key Performance Drivers for MTY

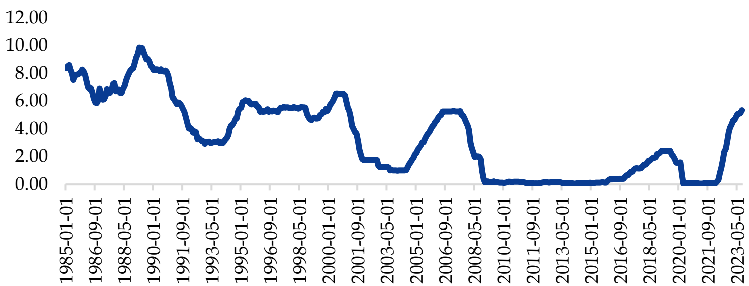
Leading Indicators

A leading indicator is a data point that offers insights into future performance and predictability of EBIT which is what our valuation is sensitive to.

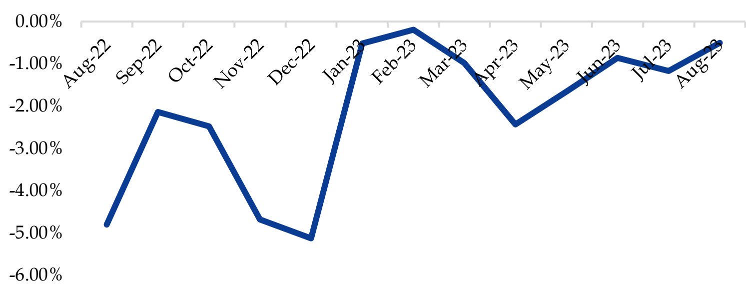
Leading Indicators to Follow:

- Interest Rates
- Traffic Trends for QSRs

Historical Fed Funds Rate (%)



Monthly Traffic for Quick-Service Restaurants



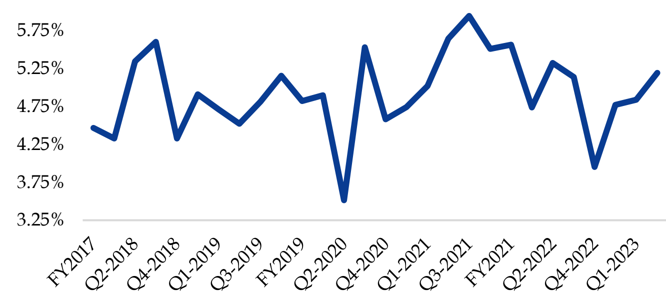
Lagging Indicators

A lagging indicator is a data point that provides insight into past performance and outcomes. We can use these indicators to assess the results and impacts of past actions, strategies or decisions of MTY leadership.

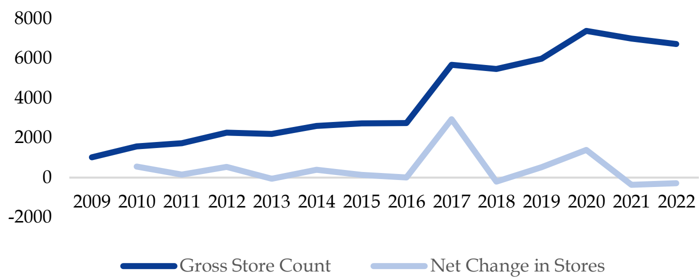
Lagging Indicators to Follow:

- Royalty Rate %
- Store Closures

Royalty Rate (%)



Gross Store Count and Net Change in Stores



Valuation

Revenue Build

Revenue Build									
(CAD in millions)		2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
Total franchise stores (beginning of period)		7,229	6,867	6,603	6,589	6,895	6,295	5,895	5,595
Total franchise stores (end of period)		6,867	6,603	6,589	6,895	6,295	5,895	5,595	5,395
# of Stores Added		(362)	(264)	(14)	306	(600)	(400)	(300)	(200)
Average total franchise stores		7,048	6,735	6,596	6,742	6,595	6,095	5,745	5,495
Average sales per franchise store	0.60	0.49	0.54	0.63	0.61	0.54	0.56	0.59	0.63
% Growth in sales per store			*9.4%*	*15.9%*	*-2.0%*	*-12.0%*	*3.0%*	*6.0%*	*6.0%*
Total franchised system sales		3,394	3,572	4,132	4,237	3,404	3,284	3,304	3,377
Total franchising royalties		165	181	213	212	167	151	155	159
% Royalty		*4.9%*	*5.1%*	*5.2%*	*5.0%*	*4.9%*	*4.6%*	*4.7%*	*4.7%*
Other franchising revenue		93	94	110	112	113	114	115	116
% YoY Growth			*1.2%*	*17.7%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
Total franchising revenue		258	275	323	323	280	265	270	275
Total corporate stores (beginning of period)		144	113	93	199	234	194	174	154
Total corporate stores (end of period)		113	93	199	234	194	174	154	134
# of Stores Added		(31)	(20)	106	35	(40)	(20)	(20)	(20)
Average total corporate stores		129	103	146	217	214	184	164	144
Average sales per corporate store		0.57	0.64	0.60	0.61	0.55	0.56	0.60	0.63
% Growth in sales per store			*11.9%*	*-6.5%*	*1.4%*	*-10.0%*	*3.0%*	*6.0%*	*6.0%*
Total corporate system sales		65	60	119	142	106	98	92	85
Processing, distribution, and retail revenue		109	130	169	179	190	201	214	226
% YoY Growth			*19.4%*	*30.1%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*
Promotional funds revenue		87	93	111	120	129	138	149	160
% YoY Growth			*7.5%*	*19.2%*	*7.5%*	*7.5%*	*7.5%*	*7.5%*	*7.5%*
Inter-company revenue		(7)	(6)	(6)	(7)	(7)	(7)	(7)	(7)
% YoY Growth			*-20.8%*	*16.1%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Total revenue		511	552	717	758	698	696	717	739

Valuation

Operating Build

Operating Build								
(CAD in millions)	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
Franchising Revenue	258	275	323	323	280	265	270	275
Franchising Costs	136	122	169	170	148	142	146	149
Franchising Segment EBITDA	122	153	154	154	131	123	125	125
% Franchising Margin	*47.4%*	*55.6%*	*47.7%*	*47.5%*	*47.0%*	*46.6%*	*46.1%*	*45.6%*
Corporate Owned Store Revenue	65	60	119	142	106	98	92	85
Corporate Store Costs	66	59	115	137	104	96	89	81
Corporate Store Segment EBITDA	-1	1	5	5	2	2	3	3
% Corporate Store Margin	*-2.0%*	*1.2%*	*3.9%*	*3.8%*	*2.0%*	*2.4%*	*3.4%*	*3.9%*
Processing, Distribution & Retail Revenue	109	130	169	179	190	201	214	226
Processing, Distribution & Retail Costs	93	114	146	154	163	173	184	195
Processing, Distribution & Retail EBITDA	16	16	23	25	27	28	30	32
% Processing, Distribution & Retail Margin	*15.0%*	*12.3%*	*13.7%*	*14.0%*	*14.0%*	*14.0%*	*14.0%*	*14.0%*
Inter-company Revenue	-7	-6	-6	-7	-7	-7	-7	-7
Inter-company Costs	-7	-6	-7	-7	-7	-7	-7	-7
Inter-company EBITDA	0	0	0	0	0	0	0	0
% Inter-company Margin	*0.0%*	*-1.0%*	*-1.1%*	*-1.0%*	*-1.0%*	*-1.0%*	*-1.0%*	*-1.0%*
Total EBITDA	**137**	**169**	**182**	**184**	**160**	**154**	**158**	**160**
% Margin	***32.4%***	***37.0%***	***30.1%***	***28.9%***	***28.2%***	***27.6%***	***27.7%***	***27.7%***
Depreciation	17	16	22	82	57	40	28	20
Amortization	31	28	29	36	35	35	35	35
EBIT	**89**	**125**	**131**	**67**	**68**	**79**	**95**	**106**

Valuation

Discounted Cash Flow Model

	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E
Free Cash Flow								
EBIT	89	125	131	67	68	79	95	106
Taxes	-15	26	21	14	14	17	20	22
D&A	48	45	51	117	93	75	63	54
Capex	4	6	9	18	13	9	6	4
Free Cash Flow	**148**	**137**	**152**	**152**	**133**	**129**	**132**	**134**
Y/Y Growth		*-7.69%*	*11.46%*	*-0.31%*	*-12.29%*	*-3.60%*	*2.36%*	*1.74%*

DCF	2023E	2024E	2025E	2026E	2027E
FCF	152	133	129	132	134
Discount Factor	0.98	0.89	0.80	0.72	0.65
FCF PV	149	118	103	95	87

WACC	
Cost of Equity:	
Risk Free Rate	4.37%
Beta	1.86
Damodoran's ERP	5.94%
CoE	15.42%
Cost of Debt:	
Tax Rate	21%
Effective Interest Rate	6.15%
CoD	4.86%
% Equity	56.32%
% Debt	43.68%
WACC - Calculated	10.81%
WACC - Used	10.81%

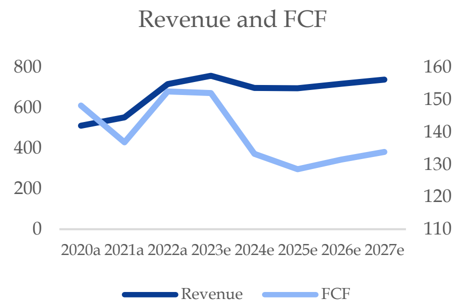
Gordon Growth Method	
Terminal Growth Rate	0.00%
Terminal Value	1,238
NPV of Terminal Value	807
NPV of Stage 1 FCF	553
Cash	63
Debt	816
Equity Value	606
Shares Outstanding	**24.48**
Target Price	24.75
Current Price	61.01
Implied Upside (Downside)	-59.43%

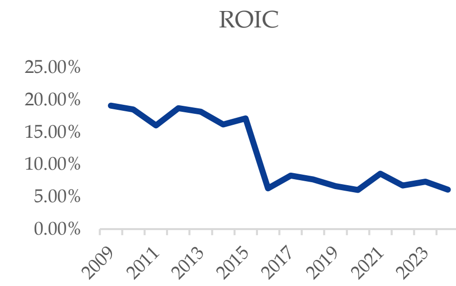
Exit Multiple Method	
EV/EBIT Multiple '27	10.0x
Terminal Value	1,154
NPV of TV	752
NPV of Stage 1 FCF	553
Cash	63
Debt	816
Equity Value	551
Shares Outstanding	**24.48**
Target Price	22.52
Current Price	61.01
Implied Upside (Downside)	-63.09%

Valuation

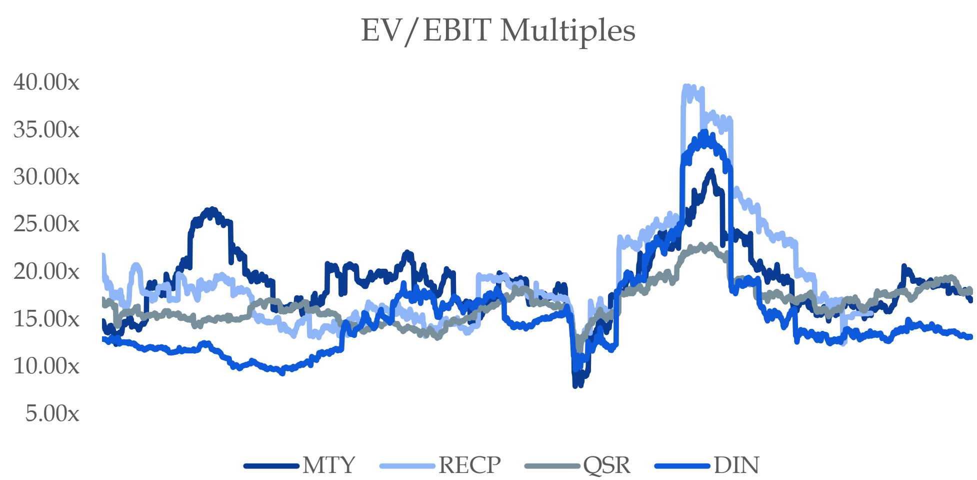
Multiples Analysis

Important Forecasts and Trends





Multiples



- MTY is currently trading at a 14x EV/EBIT multiple meaning that investors are willing to wait 14 years to get their money back assuming no growth of EBIT.
- However, given our DCF assumptions as shown above along with the trend in ROIC, we would pay no more than 8 to 10x EBIT for this business.
- This multiple would put MTY at the bottom of the comp set's historical multiples which we believe to be fair.

Q&A

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