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MTY FOOD GROUP INC. (MTY-TSX)

Consumer & Retail
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OCTOBER 21, 2019 | 6:31 AM EDT
INITIATING COVERAGE

Outperform 2
Target Price C$65.00

Suitability	Medium Risk/Growth

MARKET DATA

Current Price (Oct-16-19)	C$54.33
Market Cap (mln)	C$1,370
Current Net Debt (mln)	C$528
Enterprise Value (mln)	C$1,898
Shares Outstanding (mln)	25.2
30-Day Avg. Daily Value (mln)	C$2.9
Dividend	C$0.66
Dividend Yield	1.2%
52-Week Range	C$52.54 - C$73.19

KEY FINANCIAL METRICS

	1Q	2Q	3Q	4Q
EBITDA (mln) (C$, Dec FY)				
2018A	19	34	39	33
2019E	28 A	34 A	42 A	46
2020E	40	42	44	46

	2018A	2019E	2020E
EBITDA (mln) (C$, Dec FY)	128	150	171
EV/EBITDA (Dec FY)	14.9x	12.7x	11.1x
EPS (C$, Dec FY)	2.49	3.23	3.52
P/E (Dec FY)	21.8x	16.8x	15.4x
FCF/Share (C$, Dec FY)	3.57	4.00	4.52

Source: Thomson One, Raymond James Ltd. Quarterly figures may not add to full year due to rounding.

A Free Cash Growth Machine

RECOMMENDATION

We are initiating coverage of MTY Food Group with an Outperform rating and C$65.00 target. Our constructive view is driven by a combination of factors, including: (1) A strong and tangible history of deploying capital towards cash flow accretive M&A; (2) A management team that has a tremendous amount of experience acquiring and integrating restaurant franchise businesses that require some attention; (3) A very active pipeline of increasingly larger transactions which offer upside to our current forecast; and (4) A heavily discounted valuation which is driven predominantly by investor focus on a singular metric: same-store-sales-growth.

Additionally, MTY stock has corrected quite significantly since reporting Q3 results on Oct 10. Of note, this was the first result with a **full quarter** of results from the recent Papa Murphy's deal. It also happens to be Papa Murphy's seasonally weakest quarter. It appears this was not adequately reflected in some estimates. As management indicated on the Q3 conference call, Papa Murphy's should generate 3x the EBITDA in Q4 versus Q3 (which we believe represents a lift to $10-12 mln from $3-4 mln sequentially).

ANALYSIS

MTY has a strong history of deploying capital towards making cash flow accretive transactions, and M&A is the core growth strategy that the company will keep pursuing. Interestingly, despite this track record, which is very tangible to see when focusing on real free cash growth, MTY stock can be quite controversial at times, with debate surrounding the sustainability and ultimate benefits of the M&A strategy. That said, while we understand that many brands MTY acquires are in need of some clean-up and heavy lifting from an integration perspective, management has a long history of successfully transacting and ultimately harvesting the recurring royalty stream cash flows.

Additionally, we often hear pushback from investors that MTY stock, which is currently trading at a multiple of ~11x F2020E and F2021E EBITDA, is "expensive". **We disagree with this sentiment.** As a starting point, franchising restaurant stocks in general trade at fairly elevated multiples, with the U.S. quick-service peers trading at an average multiple of 15.2x 2020E EBITDA and 15.0x 2021E EBITDA. **This implies a relative trading discount of ~4x for MTY stock, which is one of the wider valuation discrepancies in the space.** This discount is despite a free-cash-flow yield of 7% and a 5-year free-cash per share CAGR of ~19%.

VALUATION

We use EV/EBITDA multiples and look to segment between the U.S. and Canadian business. We also back our valuation up using a DCF model, while also examining historical P/E multiples. **For the Canadian segment, we use a multiple of 12x forward EBITDA with the U.S. segment at 10x EBITDA,** which results in a blended forward EBITDA multiple of ~11x F2021E EBITDA (versus QSR peers at ~15x and below a 5-year average of ~12.3x). In terms of P/E, our valuation implies a forward EPS multiple of 17.5x (versus QSR peers at ~24x and a 5-year average multiple of 20.3x). For our DCF valuation, we note that the current share price would appear to reflect a fairly attractive discount rate of just over 11%, with our target reflecting a discount rate of ~9.7%.

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INVESTMENT THESIS

A Free Cash Growth Machine

MTY has a strong history of deploying capital to in order to make cash flow accretive transactions, and we believe M&A is the core growth strategy that the company will keep pursuing. As such, for investors looking for a stock that will trade aggressively off of same-store-sales prints, this is not going to be a name. **However, for investors looking for a demonstrated track record of growth in free cash per share, we would view this as a core holding.**

Interestingly, despite the track record of the company (which is very tangible to see when focusing on real free cash growth), MTY stock can be quite controversial at times among investors who debate the sustainability and ultimate benefits of this growth strategy. That said, while we understand that many brands MTY ultimately acquires are in need of some clean-up and heavy lifting from an integration perspective, management has a long history of successfully transacting (i.e., north of 40 announced/completed deals since 2001) and ultimately harvesting the recurring royalty stream cash flows of the acquired businesses. As such, with an active pipeline of deals available and a management team with a proven track-record of acquiring and integrating such businesses, we are very constructive on the outlook.

Additionally, we often hear pushback from investors that MTY stock, which is currently trading at a multiple of ~11x F2020E and F2021E EBITDA, is “expensive”. **We disagree with this sentiment.** As a starting point, franchising restaurant stocks in general trade at fairly elevated multiples, with the U.S. quick-service restaurant (QSR) peers trading at an average multiple of 15.2x 2020E EBITDA and 15.0x 2021E EBITDA. **If we look at MTY’s current relative trading discount to this peer group, it is as wide as it has ever been at ~4x** (Figure 8). This discount is despite a free-cash-flow yield of 7% (which represents one of the best free cash conversions in the space), and a 5-year free-cash per share CAGR (F2014-F2019E) of ~19%. Over and above the historical growth in free cash, if we include the more recent M&A (Papa Murphy’s, Yuzu Suchi, Allo Mon Coco), we see incremental growth of +13% in free cash per share in F2020E. As such, we would be hard pressed to see MTY’s valuation discount widen any further from current levels, particularly as we work through 4QF19 and 1QF20 results which represent seasonally strong periods for the recent Papa Murphy’s deal.

In terms of valuing MTY, we primarily use EV/EBITDA multiples and look to segment between the U.S. and Canadian business. Additionally, we back our valuation up using a discounted-cash-flow model, while also examining historical P/E multiples. **For the Canadian segment, we use a multiple of 12x forward EBITDA with the U.S. segment at 10x EBITDA.** We value the Canadian business at a higher multiple given a better margin profile which is predominantly driven by the relative scale of the operation. That said, we fully anticipate the majority of capital will be deployed stateside for M&A moving forward. All-in, our $65.00 valuation for MTY is based on a blended forward EBITDA multiple of ~11x F2021E EBITDA (which is versus QSR peers at ~15x and below a 5-year average of ~12.3x). In terms of Price/Earnings, our **$65.00 valuation** implies a forward EPS multiple of 17.5x (versus peers at ~24x and a 5-year average multiple of 20.3x). Regarding discounted cash flow valuation, we would note that the current share price would appear to reflect a fairly attractive discount rate of just over 11%, with our target reflecting a discount rate of ~9.7% (both of which are based on a terminal free-cash per share growth of 2.5%).

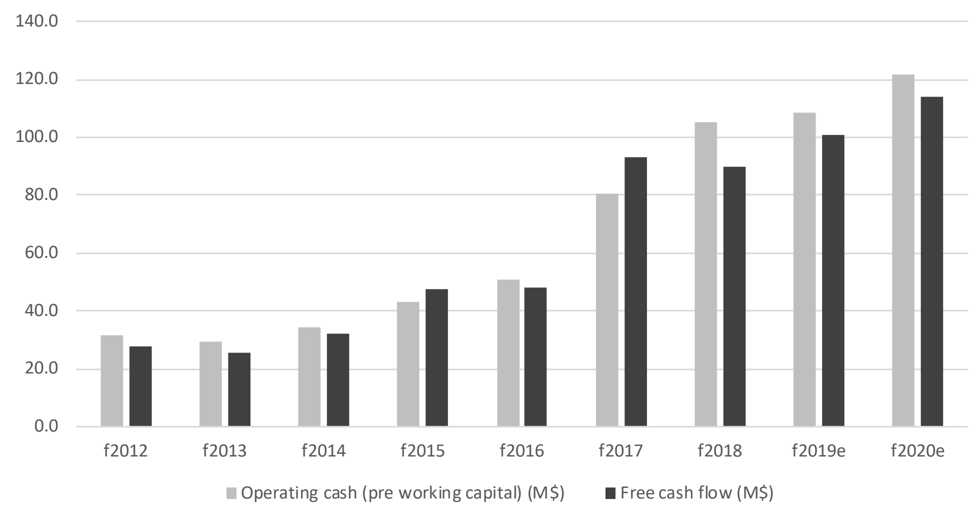
COMPANY DESCRIPTION

MTY is one of the largest restaurant franchisors in Canada, and becoming a meaningful player in North America via a growing U.S. platform. As of the end of Q3F19 the company had over 7,400 restaurants operating under 80+ brands, with 2,800 outlets in Canada, 4,100 in the U.S., and just over 500 internationally. Approximately 98% of the store-base is franchised.

MTY is a consolidator of brands and historical growth has been predominantly driven by M&A. This is an important point to stress, as the stock can be controversial at times with investors as they assess the underlying strategy. That said, management is very transparent regarding where they see opportunities for growth, and while we have seen management allocate additional resources to supporting banner-level organic initiatives such as menu innovation, franchisee recruitment, and net new store openings, for instance), **we fully anticipate that the vast majority of future EBITDA and free-cash growth will continue to be driven by M&A.**

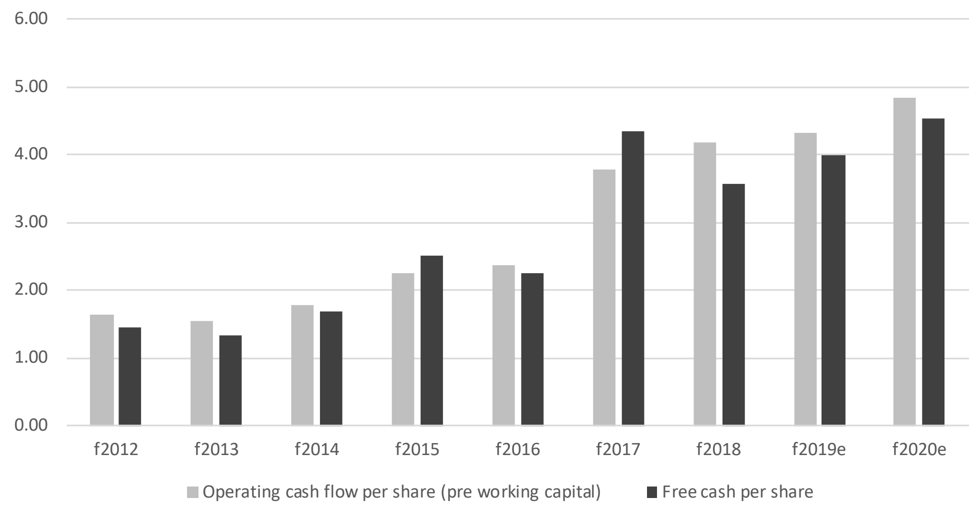
From that perspective**, our constructive view on MTY stock is driven substantially by the company's ability to grow free-cash flow and free-cash-flow per share.** And while we will spend some time discussing and working through some of the more pertinent investor talking points on the name in this report, as we illustrate in Figures 1 and 2, the company's track record in terms of deploying capital to M&A and growing free-cash and free-cash per share has been quite exceptional.

Figure 1: MTY Historical and Forecast Operating Cash and Free Cash Flow (Gross dollars)



Source: Company reports; Raymond James Ltd.

Figure 2: MTY Operating Cash Flow and Free Cash Flow per Share



Source: Company reports; Raymond James Ltd.

PRIMARY INVESTOR FOCUS POINTS

Digging deeper in terms of the primary discussion points for investors of the stock, we would point to the following:

1. Recently implemented succession planning initiatives;
2. Incremental M&A and assessing the track-record for integrating deals;
3. Managing the substantial number of brands within the portfolio (80+);
4. Historical SSSG track-record; and,
5. Ongoing pace of net store closings.

We take a closer look at each of these items below.

Recent Succession Planning Initiatives

Up until early 2018, one of the primary talking points for the company was information on succession planning and the longer-term goals under the leadership of (co-)founder, Stanley Ma. This question was essentially answered in May 2018, when MTY announced that Eric Lefebvre would transition from the CFO role into the CEO position effective November 2018.

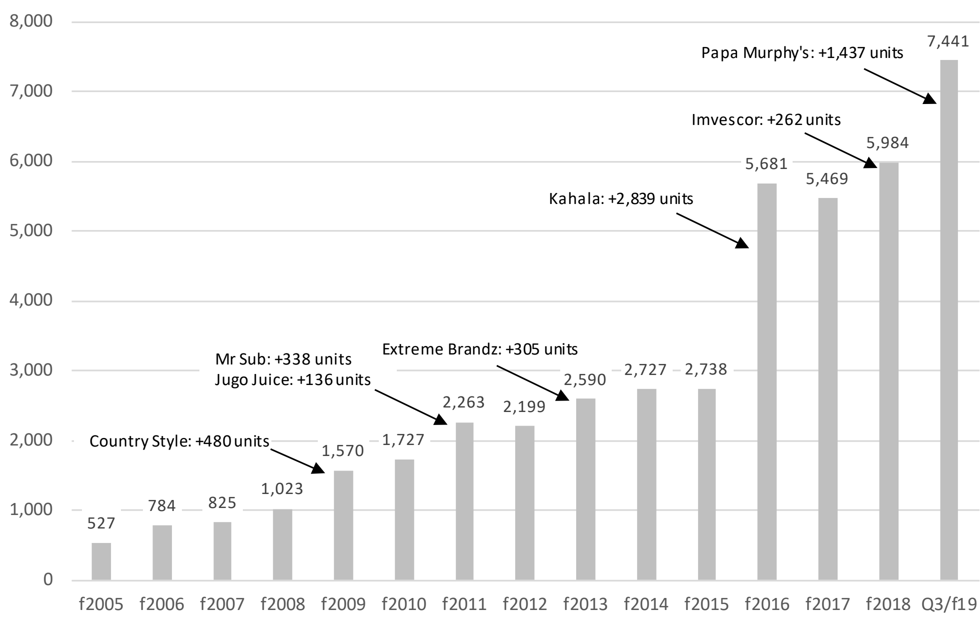
In terms of Mr. Lefebvre's background, he joined MTY in 2009 as VP Finance, and assumed the CFO role in 2012. During his tenure as CFO, Mr. Lefebvre was increasingly active in all aspects of management, and often took a leadership role in terms of sourcing, negotiating, and integrating M&A. As such, given his history and experience with the company, particularly through a period of significant growth in the organization, this made him a very logical candidate and eventual successor to the CEO position. And as it has become clear since officially assuming the CEO role in late 2018, M&A activity has been quite active, with the company completing several meaningful deals.

We would note that while Stanley Ma relinquished the CEO title in November 2018, he remains Chairman of the Board, while also remaining active in terms of the M&A strategy. Additionally, at November 2018 Claude St-Pierre stepped down from the COO role while continuing to hold a Director role with some continued focus on MTY's overall operational strategy. Stanley Ma is the largest shareholder in MTY, with 4.89 mln shares (19.4% of shares), and Claude St-Pierre owns 0.5 mln shares (2.0% of shares).

Incremental M&A Remains a Core Focus

As mentioned above and as we stress for investors in the stock, our view remains that MTY will continue to grow the store footprint with increasingly larger M&A deals. Additionally, while we expect to see small and mid-size tuck-ins in the Canadian market (which plug in extremely effectively to the platform), we anticipate the majority of capital will be used for transactions focused on building out the U.S. store footprint. This will be accomplished through a combination of infill deals coupled with larger platform transactions. In Figure 3, we illustrate MTY's store-count history, highlighting several of the larger deals along the way, with Figure 4 illustrating a more detailed summary of the M&A history starting from 2001.

Figure 3: MTY Store-Count History with Larger Transactions Highlighted



Source: Company reports, Raymond James Ltd.

Figure 4: MTY Acquisition History

Date	Target	Purchase Price	Total Outlets Acquired	Pct Franchise	System Sales	Multiple Estimate Royalty and EBITDA
Dec 2001	La Cremerie	$0.8M	74	96%	n/a	
Sept 2002	Croissant Plus / Pizzalino	$0.6M	21	86%	$5.0M	
May 2003	Cultures	$1.3M	24	100%	$9.3M	
May 2004	Thai Express	$0.3M	6	100%	n/a	
Jun 2004	Mrs. Vanelli's	$5.8M	105	100%	$34.0M	
Sept 2005	TCBY (Franchise Rights)	$1.3M	91	100%	$10.0M	
Apr 2006	Yogen Fruz Canada (Master-Franchise)	$3.1M	177	100%	n/a	
Sept 2006	Sushi Shop and Sushi Shop Express	$7.6M	47	89%	$27.0M	
Sept 2007	Sushi Shop (Balance of Corporate Stores)	$4.7M	15	0%	$8.0M	
Oct 2006	Koya Japan	$3.3M	25	96%	$10.0M	
Sept 2008	Tutti Frutti	$7.2M	29	100%	$28.5M	
Oct 2008	Taco Time (Master Franchise Rights)	$7.4M	117	100%	$54.0M	
May 2009	**Country Style**	**$15.3M**	**480**	**99%**	**$94.0M**	**4.0x**
Sept 2010	Groupe Valentine	$9.3M	95	91%	$29.0M	
Aug 2011	**Jugo Juice**	**$15.5M**	**136**	**99%**	**$36.4M**	**7.0x**
Nov 2011	**Mr. Sub**	**$23.0M**	**338**	**100%**	**$100.0M**	**4.0x**
Nov 2011	Koryo Korean BBQ	$1.8M	20	95%	$8.0M	
Sep 25 2012	Mr. Souvlaki	$1.0M	14	100%	$4.5M	
Jun 1 2013	SushiGo	$1.3M	5	60%	$2.3M	
Sep 24 2013	**Extreme Brandz**	**$45.0M**	**305**	**98%**	**$115.0M**	**>7.0x / 8-9x EBITDA**
Sep 30 2013	Thai Zone	$22.3M	25	100%	$30.8M	>10x / 12-13x EBITDA
Jul 21 2014	Madisons New York Grill & Bar	$14.4M	14	100%	$40.0M	7x / 7-8x EBITDA
Oct 31 2014	Café Depot, Sushi Man, Muffin Plus, Fabrika	$13.9M	101	87%	$42.0M	7x Royalty / EBITDA
Nov 7 2014	Van Houtte	$1.0M	51	98%	$50.0M	<3x EBITDA
Dec 18 2014	Manchu Wok, Wasabi, SensAsian	$7.9M	133	86%	$95.0M	<4x Royalty / EBITDA
Sept 18 2015	Big Smoke Burger	$5.0M	17	76%	$14.0M	6-7x EBITDA
Jul 26 2016	**Kahala Brands**	**US$300.0M**	**2839**	**99%**	**US$731.5M**	**8.2x / 9.7x EBITDA**
Oct 5 2016	Baja Fresh and La Salsa	US$27.0M	185	91%	US$145.0M	4.1x
Dec 9 2016	La Diperie	$1.5M	5	100%	n/a	
May 8 2017	Steak Frites St-Paul and Giorgio	$0.3M	15	n/a	n/a	
Jun 9 2017	The Works Gourmet Burger Bistro	$8.0M	27	85%	$35.0M	4.6x
Jun 16 2017	Houston and Industria Pizzeria	$16.3M	12	100%	$38.0M	8.6x
Sep 29 2017	Dagwoods	$3.0M	23	100%	$8.0M	7.5x
Dec 1 2017	Counter Custom / Built Custom Burgers	US$24.6M	44	93%	US$81.0M	6.1x
Mar 1 2018	**Imvescor**	**$247.0M**	**262**	**97%**	**$407.0M**	**13x / 10x pf EBITDA**
Mar 15 2018	Grabbagreen	$2.8M	27	96%	n/a	
Apr 4 2018	Timothy's & Mmmuffins	$1.7M	42	76%	$15.6M	< 3x EBITDA
Sep 25 2018	Sweetfrog Frozen Yogurt	US$35.0M	331	100%	US$92.0M	7x EBITDA
Dec 11 2018	Casa Greque	$22.4M	31	100%	n/a	
Mar 21 2019	South St. Burger	$5.1M	37	65%	$28.0M	
May 23 2019	**Papa Murphy's**	**US$190.0M**	**1437**	**93%**	**US$809.0M**	**8.5x EBITDA**
Jul 16 2019	Yuzu Sushi	$27.3M	129	100%	$40.0M	6-8x EBITDA
Jul 22 2019	Allo Mon Coco	$31.2M	40	100%	$57.0M	6-8x EBITDA

Source: Company reports, Raymond James Ltd.

When assessing each individual M&A opportunity, in terms of larger transactions (particularly in the U.S.), our preference remains for the acquisition of single-branded chains (i.e., Papa Murphy's) which offer some degree of regional scale. We view regional scale as important, given it offers the potential to leverage supplier relationships to extract more meaningful synergies. In terms of the U.S., given a much more competitive and active M&A market, we would acknowledge that such transactions do come with a higher multiple than investors have historically seen in Canada. That said, we do not view the management team as one which will aggressively bid and chase-up transaction prices, and MTY has demonstrated in the past that they remain a patient/opportunistic buyer of assets.

Historical Transaction Financing

In terms of financing M&A, MTY typically/prefers to use a combination of cash on hand and existing capacity on the revolver. At the end of Q319, MTY stood has cash of $43.7 mln and total debt of $571.6 mln, which we estimate implies a pro-forma net debt/EBITDA of 3.1x (versus a stated covenant of 4.0x post a large acquisition). Additionally, we would note that MTY increased the size of its revolver to $700 mln (from $650 mln) post Q319 and also has access to a $200 mln revolver. At the end of Q319, MTY had drawn $545.9 mln on the $650 mln facility.

That said, we have seen the company use equity capital in conjunction with two notable/larger transactions. With the Kahala brands transaction (July 2016), 2.25 mln shares were issued to the sellers (at $42 per MTY share), representing a gross amount of $94.5 mln (or 20% of the total transaction price). Additionally, with the Imvescor transaction (March 2018), 3.8 mln shares were used to the public shareholders of Imvescor (at a valuation of $52 per share), representing a gross amount of ~$200 mln (or 80% of the total transaction value).

Banner Level Management and SSSG History

While we understand investor questions regarding the management of 80+ brands at MTY, we believe it is important to offer some context. In particular, of the 80+ operated brands, we estimate the top 10 represent ~70% of system sales. As such, when we think about management performing brand level deep-dive analysis, we would fully expect such efforts are correlated in proportion to their system sales contribution, with an emphasis of effort put on the larger brands that offer more meaningful budgets to work with.

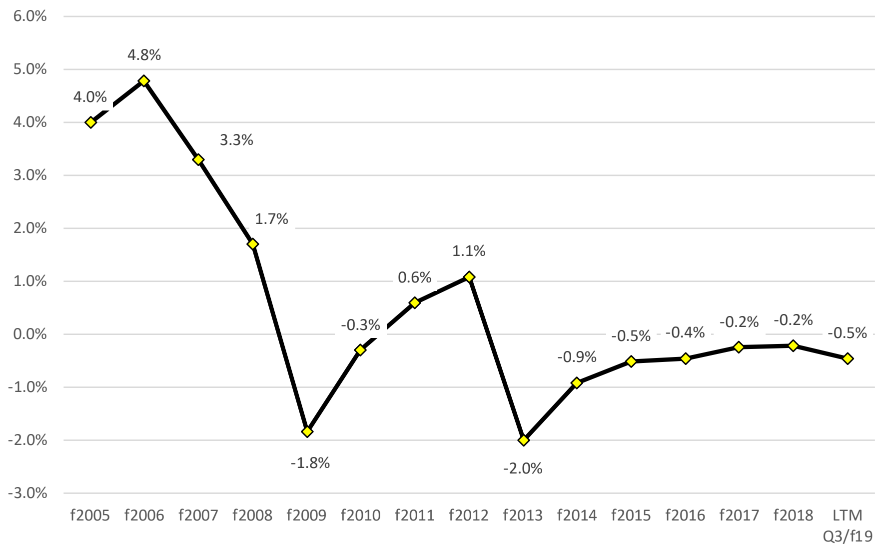
Figure 5: MTY's Largest Brands and Percentage of Pro-forma System Sales

Rank	Brand	Est. Percent
1	Papa Murphy's	26%
2	Coldstone Creamery	14%
3	Thai Express	6%
4	Taco Time	5%
5	Baja Fresh Mexican Grill	5%
6	Baton Rouge	3%
7	Manchu Wok	3%
8	The Counter Custom Burger	3%
9	Mikes	3%
10	Scores	3%

Source: Company reports, Raymond James Ltd.

In Figure 6 we illustrate MTY's history of SSSG, which has more recently hovered at just below zero on a consolidated basis. While we understand that SSSG receives a significant amount of attention from an investor standpoint, particularly given the amount of attention received among analysts with respect to the U.S. restaurant stocks, it has not represented a meaningful point of growth for MTY. That said, while we understand that management has been pursuing various banner-level initiatives to help increase SSSG, we suspect this will manifest over the medium term. As such, within our forecast, we largely keep SSSG flat, with an expectation that any given period will see fluctuations between -1.5% to +1.0%.

Figure 6: MTY Historical SSSG



Source: Company reports, Raymond James Ltd.

Assessing the History of M&A via Free Cash Flow

With a significant amount of M&A activity, there has been quite a bit of focus on MTY's ability to integrate businesses successfully and generate adequate returns. From that perspective, we believe it is important to discuss the company's primary goal in any deal: harvesting the free cash and preparing the balance sheet for the next transaction. In assessing success with free cash, we circle back to Figures 1 and 2 (previous), and note the steadily increasing amount of free-cash flow. In particular, over a 5-year basis, from F2015-F2019E, we calculate a FCF/EBITDA conversion rate of ~78%). When assessing the meaningful cash and revenue streams for the company, these predominantly consist of franchise royalty payments (i.e., typically around 5% of restaurant sales) supplier volume rebates (which we estimate at 2-2.5% of system sales). These two streams of revenue have historically offered steady and reliable cash flows, and given the franchising nature of the business, there is a minimal CAPEX requirement.

We would note that after a large transaction is completed, MTY will usually work through a period of store closures as they optimize the portfolio. The recent Papa Murphy's deal represents an example of such a dynamic, where management has already earmarked ~100 stores that will likely be closed over the next 12-18 months. In general, our view on closed stores is that the units are frequently underperforming financially, and may or may not be on some degree of financial support or assistance from the franchisor. Interestingly, while MTY has worked through periods of fairly elevated store closures at times, we have yet to see such closures result in a material impairment to free cash. We believe the reason for this is three-fold in nature:

(1) The stores which are closed are typically underperforming and not contributing materially to overall cash flow;

(2) While YTD F2019 ~58% of closures are related to lease/franchise agreement expiry (51%) and landlord termination (7%), if MTY is left with the obligation to buy-out an existing lease, this amount is often negotiable with the landlord and we believe a typical penalty may rest somewhere in the 6-18 month range; and

(3) While MTY has closed 511 gross stores over the past 12 months (i.e., LTM basis), there is a significant offset coming from the 287 gross openings over the same timeframe, stores which are typically much stronger from a sales and profitability perspective.

As such, while we continue to monitor MTY's gross and net store closings for evidence of a turn, our view is that we will continue to see a continued elevated pace over the next 12-18 months.

Financial Forecast and Guidance

In Figure 7, we illustrate our financial forecast for MTY from F2019E-F2022E. In terms of the key input variables, and as discussed previously, we essentially use a flat SSSG over the F2020E-F2022E timeframe. We use our SSSG forecast to determine system sales in each particular market (i.e., Canada, United States, and International) and then use an EBITDA margin for each segment that is calculated (very importantly) as a percentage of system sales. **We believe this is a much more accurate way to predict MTY profitability in a given period (i.e., margin off of system sales).** We want to stress that while MTY does report a revenue figure, in any given quarter it can be extremely difficult to predict given the timing aspect associated with a number of items that are not core profit centres; for example: construction revenue on turnkey restaurant sales, food and processing sales, corporate store sales, advertising fund payments, and gift card revenue recognition.

Regarding our current EBITDA margin forecast, within Canada we hold the forecast steady at 5% from Q419E through F2020E with a moderate lift in F2021E and F2022E (i.e., +10bps per year). In the U.S. and International, we see 4Q19E margins showing a meaningful uptick versus 3Q19 given seasonal strength in the Papa Murphy's business, with effectively flat margins in F2020E followed by moderate increases thereafter (similar to Canada at +10bps per year). Regarding M&A, we only include system sales for previously announced acquisitions (note that MTY generally discloses an acquisition target system sales). We do not include system sales from any hypothetical future acquisitions.

Figure 7: MTY Financial Forecast Summary

	f2017	f2018	f2019e	f2020e	f2021e	f2022e
Same Store Sales Growth						
Canada	*0.2%*	*1.0%*	*0.5%*	*0.5%*	*0.0%*	*0.0%*
United States	*-1.1%*	*-0.9%*	*-0.3%*	*0.0%*	*0.0%*	*0.0%*
International	*-3.2%*	*-4.9%*	*-7.2%*	*-2.5%*	*0.0%*	*0.0%*
Consolidated	***-0.2%***	***-0.2%***	***-0.2%***	***0.1%***	***0.0%***	***0.0%***
System Sales (C$ Millions)						
Canada	1,013	1,419	1,659	1,707	1,707	1,707
United States	1,105	1,196	1,804	2,338	2,338	2,338
International	184	167	170	166	166	166
Consolidated	**2,302**	**2,782**	**3,633**	**4,210**	**4,210**	**4,210**
Total System Sales Growth (includes M&A)						
Canada	*3.7%*	*40.1%*	*16.9%*	*2.9%*	*0.0%*	*0.0%*
United States	*176.4%*	*8.2%*	*50.8%*	*29.6%*	*0.0%*	*0.0%*
International	*77.7%*	*-9.3%*	*2.0%*	*-2.5%*	*0.0%*	*0.0%*
Consolidated	***55.5%***	***20.8%***	***30.6%***	***15.9%***	***0.0%***	***0.0%***
Total revenue	**276.1**	**353.3**	**561.6**	**652.6**	**652.6**	**652.6**
As a percentage of system sales	*12.0%*	*12.7%*	*15.5%*	*15.5%*	*15.5%*	*15.5%*
Adjusted EBITDA						
Canada	55.3	80.6	81.9	85.3	87.0	88.7
United States and International	38.4	47.1	67.9	86.1	88.6	91.1
Total Adjusted EBITDA	**93.7**	**127.7**	**149.9**	**171.4**	**175.6**	**179.8**
Adjusted EBITDA as a percentage of system sales						
Canada	*5.5%*	*5.7%*	*4.9%*	*5.0%*	*5.1%*	*5.2%*
United States and International	*3.0%*	*3.5%*	*3.4%*	*3.4%*	*3.5%*	*3.6%*
Consolidated	***4.1%***	***4.6%***	***4.1%***	***4.1%***	***4.2%***	***4.3%***
Net income	49.9	99.0	81.4	88.7	93.3	96.5
Earnings per share						
Basic	2.33	2.49	3.23	3.52	3.71	3.83
Diluted	2.33	2.49	3.23	3.52	3.71	3.83
Total shares outstanding end of period	21.4	25.2	25.2	25.2	25.2	25.2
Cash from operations	80.5	105.3	108.7	121.9	124.5	127.7
Changes in working capital	13.0	-7.6	-1.2	0.0	0.0	0.0
Operating cash flow	**93.5**	**97.6**	**107.6**	**121.9**	**124.5**	**127.7**
Total CAPEX	-0.5	-7.8	-6.7	-8.0	-8.0	-8.0
Free Cash Flow	**93.1**	**89.8**	**100.8**	**113.9**	**116.5**	**119.7**
Free cash per share	4.35	3.57	4.00	4.52	4.63	4.75
Total Debt	227.8	275.6	571.6	571.6	571.6	571.6
Net debt	171.4	243.3	501.5	404.3	304.3	201.3
Net debt / EBITDA	*1.8x*	*1.9x*	*3.3x*	*2.4x*	*1.7x*	*1.1x*

Source: Company reports, Raymond James Ltd.

Regarding the balance sheet and total debt, we calculate net debt/LTM EBITDA at 3.9x. More importantly/accurately, on a pro-forma basis, taking into consideration the full contributions from recently completed M&A (Papa Murphy's, Yuzi Sushi, Allo Mon Coco), we believe pro-forma leverage is closer to 3.1x. In terms of the available credit, MTY's revolver has an authorized amount of $700 mln (increased from $650 mln post 3Q19) of which $545.9 mln was drawn at the end of 3Q19. The facility has the following financial covenants: (1) Debt/EBITDA must be less than 4x after the consummation of an acquisition in excess of $100 mln for a period of nine months, 3.5x for the subsequent nine months, and 3x thereafter; (2) Interest and rent coverage must be 2x at all times. Absent incremental M&A, we see leverage declining to just below 1x at the end of F2022E.

VALUATION

For our valuation of MTY, we primarily use EV/EBITDA multiples and look to segment between the U.S. and Canadian business. We also back our valuation up using a discounted cash flow model, while also examining historical P/E multiples.

In terms of relative valuation, our comp table is illustrated in Figure 8. Our focus for peer valuation is on the QSR companies, which represents the most comparable group for MTY from a unit perspective (i.e., ~85% of total locations are classified as QSR at the end of Q3F19). Additionally, QSR concepts tend to have a higher skew towards franchising versus the corporate store model used more readily in the casual-dining and fast-casual restaurants. This aspect tends to give QSR franchisors a higher multiple given the operating model is generally asset light with low capital spending, providing a higher free cash conversion. We illustrate the valuation difference between U.S. quick-service and casual dining peers that has persisted over time in Figure 9.

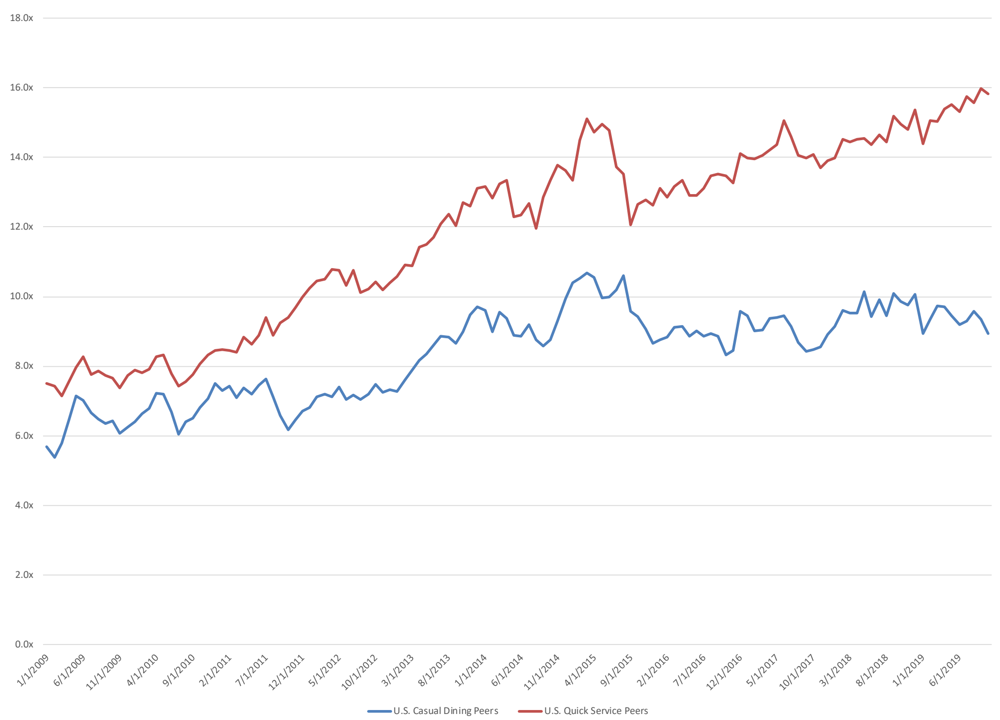
Figure 8: North American Restaurant Peers

Ticker	Company Name	Price	Dividend	Shares Out	Market Cap	Net Debt	EV	P/E FY2019	P/E FY2020	P/E FY2021	EV/EBITDA FY2019	EV/EBITDA FY2020	EV/EBITDA FY2021	LTM FCF Yield	Recent LTM SSSG	Pct Fran	Appx. Global Units	Appx. Brand Count	Appx. System Sale(B$)	Sales CAGR 19-21e	EBITDA CAGR 19-21e	EPS CAGR 19-21e	Net Debt 2019e EBITDA
Fast Casual																							
CMG	Chipotle Mexican Grill, Inc.	823.25	0.0%	27.7	22,824	-718	22,106	61.3x	47.1x	37.5x	31.8x	24.9x	20.8x	*1.4%*	*7.6%*	*0%*	2,520	1	4.9	*12.1%*	*23.7%*	*27.8%*	-1.0x
SHAK	Shake Shack Inc.	90.44	0.0%	30.6	2,764	-66	2,743	nm	nm	91.6x	34.4x	27.2x	22.1x	*-1.0%*	*2.2%*	*41%*	240	1	0.7	*23.0%*	*24.8%*	*23.3%*	-0.8x
PBPB	Potbelly Corporation	3.80	0.0%	23.8	90	-18	73	nm	57.0x	47.5x	3.4x	2.9x	nm	*5.6%*	*-2.7%*	*9%*	470	1	0.5	*0.8%*	*8.3%*	*nm*	-0.8x
NDLS	Noodles & Company	5.05	0.0%	44.1	223	41	264	33.2x	21.2x	26.7x	7.5x	6.6x	nm	*-1.8%*	*4.2%*	*14%*	460	1	0.5	*5.0%*	*6.2%*	*11.5%*	1.2x
HABT	The Habit Restaurants, Inc.	8.24	0.0%	20.8	171	-30	167	60.7x	62.7x	48.5x	4.6x	4.2x	3.5x	*5.3%*	*3.3%*	*11%*	260	1	0.4	*9.2%*	*13.3%*	*11.9%*	-0.8x
WING	Wingstop Inc.	89.02	0.4%	29.4	2,621	295	2,916	nm	98.9x	77.6x	nm	nm	37.8x	*1.1%*	*8.1%*	*98%*	1,300	1	1.3	*12.6%*	*18.6%*	*25.1%*	5.4x
Average								**51.7x**	**57.4x**	**54.9x**	**16.3x**	**13.2x**	**21.1x**										
Casual Dining																							
DRI	Darden Restaurants, Inc.	110.00	2.8%	122.6	13,486	577	14,063	17.2x	16.1x	14.8x	10.9x	10.4x	9.9x	*6.2%*	*1.9%*	*4%*	1,860	8	8.5	*3.8%*	*5.3%*	*7.7%*	0.4x
CBRL	Cracker Barrel Old Country Store	156.07	3.2%	24.0	3,753	374	4,127	17.2x	16.5x	15.9x	10.6x	10.4x	10.1x	*6.0%*	*2.3%*	*0%*	670	1	2.5	*4.0%*	*2.4%*	*4.0%*	1.0x
TXRH	Texas Roadhouse, Inc.	48.75	2.3%	69.8	3,402	-145	3,272	21.4x	19.5x	17.4x	10.5x	9.8x	9.0x	*5.8%*	*5.3%*	*16%*	590	1	2.4	*8.4%*	*7.9%*	*10.7%*	-0.5x
EAT	Brinker International, Inc.	39.76	3.8%	37.5	1,491	1,155	2,646	9.5x	8.9x	8.6x	6.7x	6.6x	6.6x	*3.0%*	*1.5%*	*40%*	1,680	2	7.8	*2.7%*	*0.6%*	*5.3%*	2.9x
DIN	Dine Brands Global, Inc.	72.04	3.7%	17.3	1,243	1,160	2,403	10.5x	9.4x	8.9x	9.0x	8.8x	8.7x	*12.4%*	*3.1%*	*98%*	3,640	2	7.6	*0.4%*	*2.1%*	*8.6%*	4.4x
BLMN	Bloomin' Brands, Inc.	18.23	2.1%	85.7	1,561	1,107	2,677	11.7x	10.8x	9.8x	6.5x	6.4x	6.1x	*7.9%*	*1.9%*	*20%*	1,470	4	4.0	*3.5%*	*3.3%*	*9.3%*	2.7x
CAKE	The Cheesecake Factory Incorpo	38.40	3.4%	44.8	1,722	12	1,734	14.7x	13.7x	12.4x	7.7x	6.7x	6.2x	*9.0%*	*1.4%*	*0%*	200	1	2.3	*12.4%*	*11.7%*	*8.9%*	0.1x
PLAY	Dave & Buster's Entertainment, I	38.63	1.6%	33.0	1,274	552	1,826	13.4x	12.4x	10.3x	6.6x	6.3x	5.8x	*7.2%*	*-0.1%*	*0%*	130	1	1.3	*7.6%*	*7.0%*	*14.4%*	2.0x
DENN	Denny's Corporation	21.73	0.0%	59.8	1,299	301	1,601	31.2x	26.8x	23.1x	16.9x	15.9x	15.1x	*4.1%*	*1.7%*	*92%*	1,700	1	2.9	*-10.4%*	*5.6%*	*16.2%*	3.2x
RRGB	Red Robin Gourmet Burgers, Inc	31.51	0.0%	13.0	409	155	564	28.4x	32.7x	22.3x	5.3x	5.3x	5.3x	*11.5%*	*-3.2%*	*16%*	560	1	1.3	*-0.3%*	*0.3%*	*12.7%*	1.5x
								17.5x	**16.7x**	**14.3x**	**9.1x**	**8.7x**	**8.3x**										
Quick Service																							
MCD	McDonald's Corporation	208.30	2.2%	759.4	158,192	31,520	189,712	26.0x	23.9x	22.1x	17.5x	16.6x	15.8x	*3.3%*	*5.1%*	*93%*	38,110	1	96.1	*3.3%*	*5.4%*	*8.4%*	2.9x
SBUX	Starbucks Corporation	86.71	1.7%	1206.5	104,616	6,324	110,941	30.7x	28.1x	24.7x	19.5x	17.5x	15.6x	*3.3%*	*4.0%*	*49%*	30,630	1	31.7	*7.9%*	*11.5%*	*11.4%*	1.1x
YUM	YUM! Brands, Inc.	111.48	1.5%	304.0	33,890	9,942	43,832	28.8x	26.2x	23.7x	21.0x	19.7x	18.5x	*3.0%*	*3.5%*	*98%*	48,770	3	48.0	*5.5%*	*6.5%*	*10.4%*	4.8x
QSR	Restaurant Brands International I	69.70	2.7%	470.0	32,759	10,967	45,829	25.5x	23.2x	21.7x	19.9x	18.5x	17.5x	*3.9%*	*0.6%*	*100%*	26,040	3	32.2	*4.7%*	*6.7%*	*8.6%*	4.8x
DPZ	Domino's Pizza, Inc.	255.96	1.0%	40.9	10,469	3,360	13,828	27.1x	24.0x	21.1x	20.3x	18.4x	17.1x	*3.4%*	*4.7%*	*98%*	16,310	1	13.5	*7.2%*	*9.0%*	*13.3%*	4.9x
DNKN	Dunkin' Brands Group, Inc.	76.77	1.9%	82.8	6,353	2,574	8,927	25.1x	23.5x	21.9x	18.3x	17.6x	16.9x	*3.4%*	*1.5%*	*100%*	21,030	2	11.6	*3.6%*	*4.1%*	*7.2%*	5.3x
WEN	The Wendy's Company	21.25	1.7%	231.1	4,911	1,872	6,782	36.7x	32.6x	27.1x	16.3x	15.7x	14.5x	*3.2%*	*0.7%*	*95%*	6,720	1	10.5	*4.6%*	*6.1%*	*16.3%*	4.5x
JACK	Jack in the Box Inc.	86.60	1.8%	25.8	2,236	1,002	3,238	19.8x	18.0x	15.7x	12.3x	11.8x	11.3x	*5.8%*	*0.8%*	*94%*	2,240	1	3.5	*2.8%*	*4.6%*	*12.3%*	3.8x
PZZA	Papa John's International, Inc.	54.98	1.6%	31.4	1,728	350	2,351	49.0x	36.0x	31.1x	19.3x	16.3x	15.4x	*-0.4%*	*-6.9%*	*88%*	5,350	1	2.8	*4.0%*	*11.7%*	*25.5%*	2.9x
LOCO	El Pollo Loco Holdings, Inc.	11.82	0.0%	37.7	446	74	520	16.8x	15.9x	nm	8.6x	8.4x	nm	*2.9%*	*2.5%*	*59%*	480	1	0.9	*2.4%*	*1.4%*	*5.7%*	1.2x
TACO	Del Taco Restaurants, Inc.	9.44	0.0%	36.8	347	141	488	18.8x	16.9x	15.1x	7.4x	7.2x	7.0x	*2.7%*	*1.4%*	*47%*	580	1	0.8	*0.7%*	*3.0%*	*11.6%*	2.1x
								27.7x	**24.4x**	**22.4x**	**16.4x**	**15.2x**	**15.0x**										
Canadian Restaurant Stocks																							
TSX:MTY	**MTY Food Group Inc.**	**54.33**	**1.2%**	**25.2**	**1,370**	**528**	**1,899**	**16.8x**	**15.4x**	**14.7x**	**12.7x**	**11.1x**	**10.8x**	***7.1%***	***-0.5%***	***98%***	**7,400**	**80+**	**4.0**	***7.8%***	***8.3%***	***7.2%***	**3.5x**
TSX:RECP	Recipe Unlimited Corporation	24.22	1.8%	61.3	1,484	409	1,893	15.0x	13.3x	nm	7.4x	7.3x	nm	*7.9%*	*-0.4%*	*80%*	1,400	19	3.4	*2.8%*	*1.3%*	*12.7%*	1.6x
TSX:FRII	Freshii Inc.	3.05	0.0%	30.9	94	-29	65	38.1x	39.1x	nm	12.3x	12.1x	nm	*1.8%*	*-3.0%*	*100%*	450	1	0.2	*5.1%*	*1.4%*	*-2.5%*	nm
Average								**23.3x**	**22.6x**	**14.7x**	**10.8x**	**10.2x**	**10.8x**										

Notes:
(1) Numbers in italics are excluded from the averages
(2) LTM SSSG is company-wide were possible, except DIN (Applebees), QSR (Tim Horton), DNKN (Dunkin Donuts), WEN & PZZA (North America)
(3) MTY System sales is pro-forma the acquisition of Papa Murphy's and other recently announced M&A
(4) All estimates are per Capital IQ except for MTY Food Group which are Raymond James Ltd.

Source: Company reports, Capital IQ, Raymond James Ltd.

Figure 9: Historical Forward EV/EBITDA Multiples for U.S. Quick-Service and Casual Dining Peers

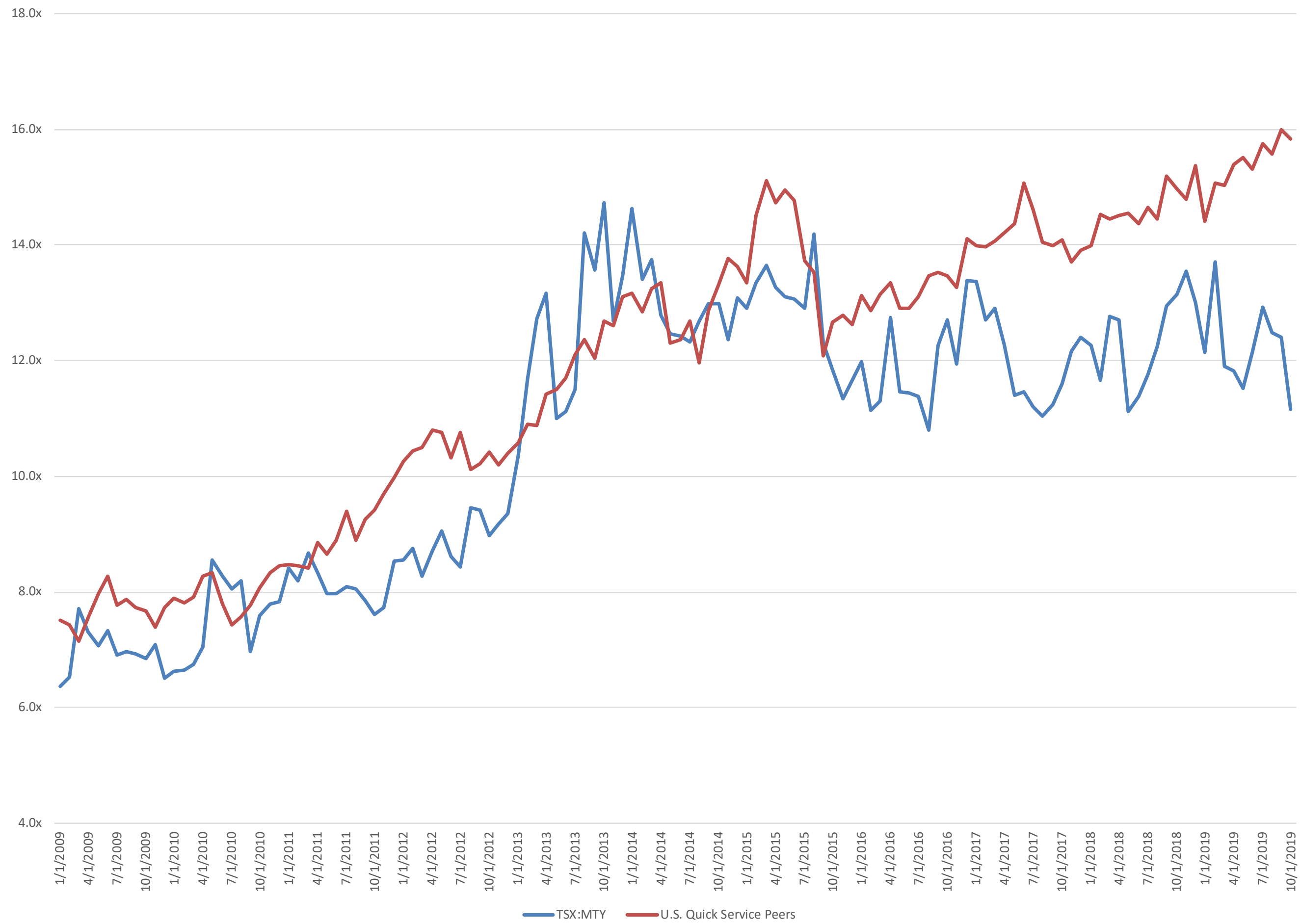


Source: Company reports, Capital IQ

As illustrated, the U.S. QSR peer group trades at an average multiple of 15.2x 2020E EBITDA and 15.0x 2021E EBITDA. From a historical valuation perspective, based on the data in Figure 9, the group is trading at the high end of its historical range. As such, we would be hesitant to believe there is a significant opportunity for incremental multiple expansion above current levels. **Focusing on MTY, we see that the stock is currently trading at 11.1x F2020E and 10.8x F2021E EBITDA, which represents a sizeable discount to the U.S. peers.**

In Figure 10 we compare MTY's forward EBITDA multiple to the U.S. quick-service peers over time. As illustrated, the valuation discrepancy has widened substantially since the end of 2015, which is loosely correlated with the timing surrounding the announcement of the acquisition of Kahala Brands (i.e., deal was officially announced in May 2016). The current discount of ~4.0x remains is the largest discount we have seen historically (and well above the average level of 2.2x since the end of 2015) and we would be hard pressed to see it widen any further from these levels. In assessing the reasons underlying the valuation discrepancy, we would circle back to our discussions surrounding both SSSG and the current pace of net closures within the business. While these two factors do not provide us with a significant amount of concern as it pertains to the free-cash profile of the business, we understand that investors focus a tremendous amount of time on these metrics (in particular SSSG). Additionally, we would note that the comparable QSR group also has a much more concentrated brand focus.

Figure 10: MTY Forward EV/EBITDA Multiple versus U.S. Quick Service Peers



Source: Company reports, Capital IQ

For assessing the appropriate valuation multiple for MTY, we use a 12x forward EBITDA multiple for the Canadian business and a 10x multiple applied to the U.S. business. In terms of using a higher multiple applied to the Canadian business, we would note that the higher margin profile is supported by a scale platform, more meaningful market penetration, and ability to quickly achieve operating cost savings with M&A. In that regard, the U.S. business remains a growing platform and operates at a much lower EBITDA margin, which we would attribute to a much more intense competitive environment coupled with MTY's smaller relative scale and inability to achieve the same level of M&A cost savings/synergies versus Canada. Overall, our implied blended forward EBITDA multiple is ~11x, which is versus its 5-year forward average of 12.3x and in-line with its 10-year average of 11x.

As discussed previously, in terms of our forecast for MTY we do not include incremental M&A over and above what has been previously announced. That said, management is quite open in communicating that the pipeline of M&A opportunities remains strong, and we have a full expectation that they will remain active in terms of acquiring and integrating businesses. Our valuation using EV/EBITDA is presented in Figure 11.

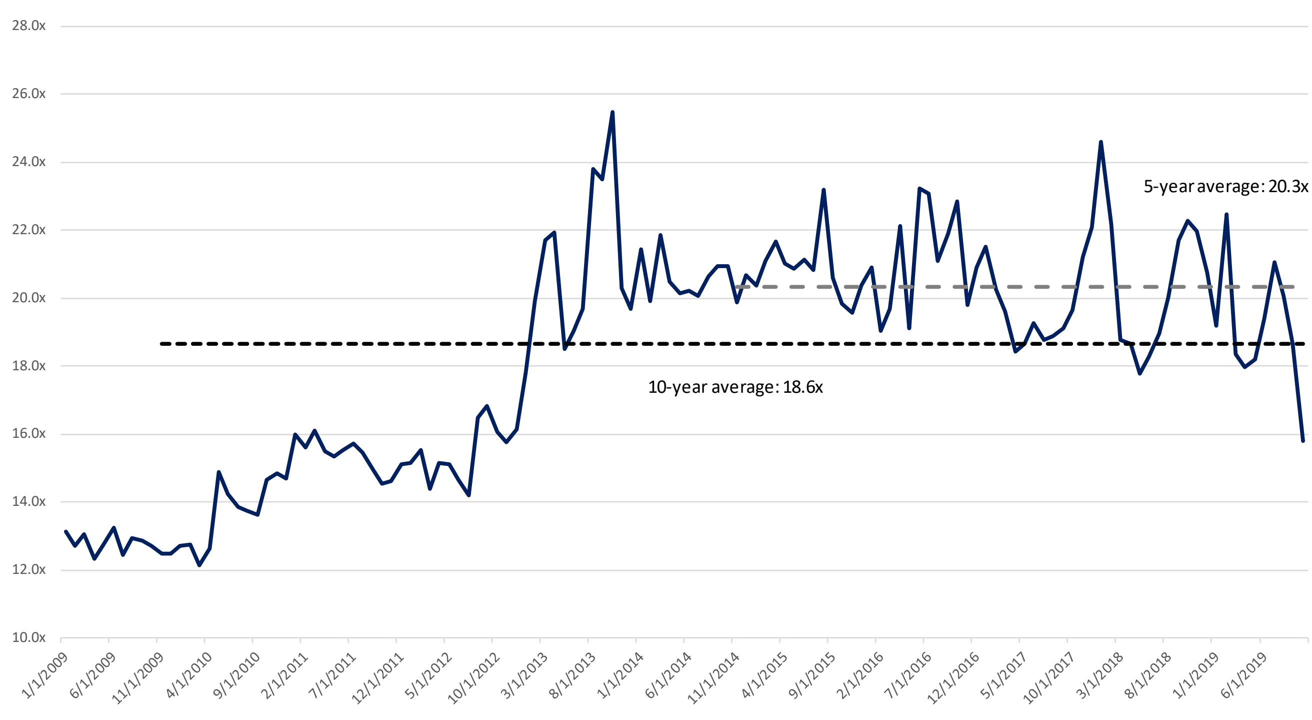
Figure 11: MTY Multiples Valuation

	f2019e	f2020e	f2021e	f2022e
EBITDA				
Canada	81.9	85.3	87.0	88.7
United States and International	67.9	86.1	88.6	91.1
Total EBITDA	**149.9**	**171.4**	**175.6**	**179.8**
Multiple				
Canada	*12.0x*	*12.0x*	*12.0x*	*12.0x*
United States and International	*10.0x*	*10.0x*	*10.0x*	*10.0x*
Implied Consolidated	***11.1x***	***11.0x***	***11.0x***	***11.0x***
EV				
Canada	983.3	1,023.9	1,044.4	1,064.9
United States and International	679.5	861.0	886.0	911.1
Consolidated	**1,662.7**	**1,884.9**	**1,930.4**	**1,975.9**
Net Debt	501.5	404.3	304.3	201.3
Implied Equity Value	**1,161**	**1,481**	**1,626**	**1,775**
Implied valuation per share	**46.05**	**58.83**	**64.60**	**70.51**
Shares outstanding	25.2	25.2	25.2	25.2

Source: Raymond James Ltd.

In terms of Price/Earnings, we would note that our $65.00 valuation implies a forward EPS multiple of 17.5x. This is versus the 5-year average multiple of 20.3x and 10-year average of 18.6x. In Figure 12, we illustrate MTY's forward P/E multiple.

Figure 12: MTY Historical Forward P/E Multiple and Averages



Source: Capital IQ

Additionally, given our focus on free-cash and the visibility on free-cash, we use a DCF model to assess what cost of capital level that investors are currently reflecting in the current share price and what level our target price reflects. Assuming a terminal growth rate of 2.5% (which we believe is reasonable and excessively conservative given the FCF CAGR over the past 5-10 years is between 15-20%), MTY's current share price reflects a discount rate of approximately 11%. On the same basis, our $66.00 target price implies a discount rate of approximately 9.5%. Our DCF model and sensitivity is presented in Figure 13.

Figure 13: MTY Discounted Cash Flow

		f2020e	f2021e	f2022e	f2023e	f2024e	f2025e	f2026e	f2027e	f2028e	f2029e	f2030e
Cash from operations		121.9	124.5	127.7	129.3	130.8	132.4	134.0	135.6	137.2	138.7	140.3
Changes in working capital		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total CAPEX		-8.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0
Free cash flow		113.9	116.5	119.7	121.3	122.8	124.4	126.0	127.6	129.2	130.7	132.3
Free cash flow per share		4.52	4.63	4.75	4.82	4.88	4.94	5.01	5.07	5.13	5.19	5.26
PV free cash per share		4.52	4.22	3.95	3.65	3.37	3.11	2.87	2.65	2.45	2.26	2.08
Input variables												
Discount rate	*9.7%*											
Terminal growth rate	*2.5%*											
Terminal FCF multiple	*13.9x*											
PV of all forecast FCF per share	35.14											
PV Terminal year	29.65											
Implied valuation	**64.79**											
Share count (end of 2020e)	25.2											

Source: Raymond James Ltd.

In conclusion for MTY, we see an attractively valued stock on both a relative and absolute basis which continues to offer investors a strong free-cash growth story. We have a $65.00 valuation, which implies an all-in return of approximately 20% including dividends. As such, we rate the stock Outperform.

MANAGEMENT AND BOARD OF DIRECTORS

Below we provide profiles for some of the key executives at MTY Food Group. We would note that with MTY's rapid growth, there have been significant additions to the team to focus on the underlying operational performance of the individual segments and brands. These include two key recent Papa Murphy's additions highlighted below.

Stanley Ma, Chairman and Co-founder. Mr. Ma was a co-founder of MTY and has officially been with the company from 1980. He held the role of CEO from 2004 up until November 2018, when he was succeeded by Eric Lefebvre, and has been the Chairman since 1997. Mr. Ma remains MTY's largest shareholder with approximately 4.9 million shares, representing ~19.4% of the total shares outstanding of the company.

Claude St-Pierre, Director. Ms. St-Pierre is a long-tenured employee of the company and served as the Chief Financial Officer of MTY from 2004 through 2012, and as Chief Operating Officer from 2012 through to November 2018. Ms. St-Pierre owns just over 500,000 shares of MTY, representing ~2% of total shares outstanding.

Eric Lefebvre, CEO and Director. As discussed earlier in the report, Mr. Lefebvre was appointed to the CEO position, succeeding Stanley Ma, in November 2018. He originally joined MTY in 2009 as Vice-President Finance, and was appointed to the Chief Financial Officer role in June 2012, which he held up until his CEO appointment. Mr. Lefebvre has been a key member of the management team through a phase of significant growth in the organization. Prior to MTY, Mr. Lefebvre acted in leadership roles with Bell Aliant and Gaz Metro. He holds a CPA designation and also holds a Master of Business Administration degree from McGill University.

Jeff Smit, Chief Operating Officer, US Operations (Kahala). Mr. Smit joined MTY in conjunction with the Kahala Brands acquisition in mid-2016. He has worked in commercial foodservice for the vast majority of his career, with 35+ years of experience. Mr. Smit officially joined Kahala in 2007 with the Cold Stone Creamery acquisition, and was officially named the Chief Operating Officer at Kahala in 2009. Prior to Kahala, Mr. Smit had served as Senior VP Operations at Cold Stone from 2005-2007, while also holding leadership positions with several other restaurant brands.

Marie-Line Beauchamp, Chief Operating Officer, Casual Dining. Ms. Beauchamp officially joined MTY in conjunction with the Imvescor transaction (March 2018). Prior to joining MTY, Ms. Beauchamp served as the Chief Operating Officer of the Mikes and Pizza Delight brands at Imvescor which she joined in early 2016. Prior to Imvescor, she held the position of President at Les Rotisseries St-Hubert from 2013-2014, and held a senior management role with commercial foodservice distributor Sodexo from 2002-2011.

In Kim, Senior VP Franchise Performance (Papa Murphy's). Mr. Kim recently joined MTY to work within the Papa Murphy's brand and is tasked with improving customer experience and optimizing franchisee performance. Mr. Kim has extensive restaurant experience, most recently with Popeyes Louisiana Kitchen where he served in roles of increasing responsibility (most recently VP U.S. Franchise Operations) over a 14-year period (2005-2019), and prior to that with Burger King (1995-2005) where he served as a Franchise Business Leader.

Kim McBee, Chief Marketing Officer (Papa Murphy's). In addition to Mr. Kim, we would also highlight the recent hiring of Ms. McBee to focus on both marketing and customer experience at the Papa Murphy's brand. She brings a significant amount of both restaurant and diversified franchising experience, most recently holding the role of VP Marketing and Advertising with Big O Tires from 2008-2019 (11 years) and prior to that VP Marketing for Red Robin Restaurants from 2002-2008.

Investment Risks

Growth Heavily Dependent on M&A

MTY's historical store count and free-cash growth has been highly depended on the ability to continually complete acquisitions. There can be no guarantee that management will be able to continue sourcing acquisitions and this could cap future growth rates. Additionally, MTY's acquisitions strategy opens them up to various integration risks. These can include complications with quickly and efficiently integrating acquired operations and realizing anticipated synergies.

Dependence on Franchisees

MTY's store network includes over 7,400 units operating under over 80 different banners. The overall success of the network depends heavily on the success and financial health of the franchisees in the network. Additionally, franchising is an exceptionally competitive business and MTY needs to continually source and find qualified franchisees to operate its stores, which has been further complicated by low unemployment rates in both the U.S. and Canada (which implies competition on jobs for both potential franchisees and their employees). We would note that management's extensive experience in recruiting franchisees, combined with industry knowledge, helps to mitigate such risks.

Quality Control and Health Concerns

MTY's business is subject to standard risks in the food industry such as the possibility of negative publicity resulting from safety, operating, or other health concerns.

Multi-store Format

With over 80 different brands and 7,400+ stores, MTY may not be able to put the same amount of resources and attention on every banner in the portfolio. While diversification can be a benefit through mitigating single-brand risk, this can also lead to an over-extension of resources and result in underperformance at particular brands.

Industry – Competitive Environment

In general, the restaurant industry is intensely competitive on price, service, location, and food quality. While MTY is diversified into a large number of concepts and geographies, they can still be affected by demographic trends, traffic patterns, and the location of competing restaurants. The availability of experienced management is also an issue when operating so many stores/brands globally, and can be a consequence of MTY's size.

Economic Conditions and Seasonality/Weather-Related Volatility

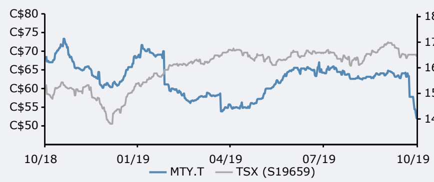
A weakening in discretionary spending could negatively impact sales, although the QSR segment of the industry is more insulated with lower price points on average. Another factor relating to general conditions is the availability of credit, as potential franchisee owners rely heavily on their ability to obtain financing. Additionally, certain of MTY's brands (namely Cold Stone Creamery and other classified as frozen treats) have seasonal fluctuations (i.e., more demand for ice cream in the summer), and fluctuations away from normal weather conditions (i.e., cooler-than-normal summer) can represent a headwind on sale. Similarly for Papa Murphy's (MTY's largest brand), typically the seasonally slowest period is the summer, with more robust sales in the fall and winter. Subsequently, warmer-than-expected weather in the fall/winter could lead to a headwind on system sales in the Papa Murphy's business.

Currency Exchange Rates

MTY uses the Canadian dollar as their functional currency. As a result of having a material proportion of their cash flows generated in US dollars (i.e., ~50% of system sales are generated in the U.S.), or other currencies (4% of system sales generated internationally), profitability is subject to exchange rate fluctuations.

COMPANY DESCRIPTION

MTY is one of the largest restaurant franchisors in Canada, and becoming a meaningful player in North America via a growing U.S. platform. As of the end of Q3F19 the company had over 7,400 restaurants operating under 80+ brands, with 2,800 outlets in Canada, 4,100 in the U.S., and just over 500 internationally. Approximately 98% of the store-base is franchised.



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Company Name	Disclosure
MTY Food Group Inc.	The analyst or associate at Raymond James Ltd. has viewed the material operations of MTY Food Group Inc..

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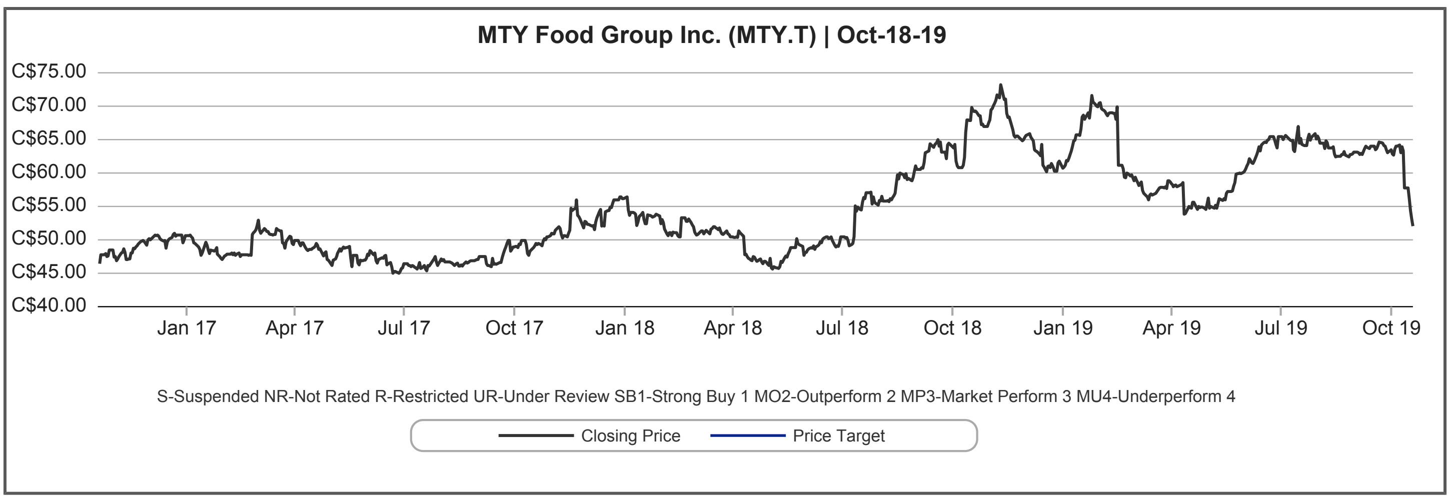

Valuation Methodology

MTY Food Group Inc.:
We value MTY on an EV/EBITDA basis in comparison to both relative and historical multiples.

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Company-Specific Risks

MTY Food Group Inc.:
Growth Heavily Dependent on M&A
MTY's historical store count and free-cash growth has been highly depended on the ability to continually complete acquisitions. There can be no guarantee that management will be able to continue sourcing acquisitions and this could cap future growth rates. Additionally, MTY's acquisitions strategy opens them up to various integration risks. These can include complications with quickly and efficiently integrating acquired operations and realizing anticipated synergies.
Dependence on Franchisees
MTY's store network includes over 7,400 units operating under over 80 different banners. The overall success of the network depends heavily on the success and financial health of the franchisees in the network. Additionally, franchising is an exceptionally competitive business and MTY needs to continually source and find qualified franchisees to operate its stores, which has been further complicated by low unemployment rates in both the U.S. and Canada (which implies competition on jobs for both potential franchisees and their employees). We would note that management's extensive experience in recruiting franchisees, combined with industry knowledge, helps to mitigate such risks.
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