

INVESTORS' DIARY

Foodex markets its own specialty fare

By Allan Robinson

STEAKS, STAKES (horseracing) and pizza are Foodex Systems Ltd.'s products. Record 1976 earnings of \$3.3 million (75¢ a share), up 19% over past year, continues a growth trend that has seen earnings triple in the past five years since the first Ponderosa Steak House was opened (currently 89 are in operation).

But in first-quarter 1977 Foodex had a sharp setback, with net income dropping 45% to \$363,000 (8¢) vs earnings of 15¢ a share in first-quarter 1976.

The quarter's payoff for 62.8%-owned Gibraltar Pari-Mutuel, Inc.'s two racetracks in Maryland (thoroughbred racing) and New Jersey (harness racing) was extremely low, yielding earnings of only \$16,000, or \$452,000, or 10¢ a share, in first-quarter 1976. Predictably the bitter winter contributed to the decline. So did a strike at both tracks by the clerks.

Last year the race-track operations accounted for 34% of Foodex's \$74 million in revenue and 27% of its earnings (20¢ a share).

Fortunately Foodex's bread and butter division, the Ponderosa Steak House, picked up some of the slack with an excellent first quarter. Net income jumped ahead 51% to \$342,000 on an 8% rise in sales to \$10.7 million.

For the low-priced steak/hamburger fare at Ponderosa, beef prices are critical. At times more than half of the beef is acquired from Australia and New Zealand though this varies markedly with Canadian market conditions, emphasizes William Hanchar, vice-president finance. The imported grass-fed cattle are less expensive than domestic grain-fed cattle, he says. Foreign markets provide the needed quantities (18 million steaks a year) at the required quality.

As the Ponderosa franchise approaches its plateau in Canada, emphasis is being placed on the

company's own concept, Frank Vetere's Pizzeria & Taverns, which in addition to pizza offers salad, spaghetti and Italian sandwiches.

Five such outlets have been opened so far. The Vetere business has several advantages, such as lower food costs, beer and wine licences, longer hours and a broader market potential than the family-oriented Ponderosa, President Harold Shneer says. That spells better margins. The business "will soon equal and most probably exceed Ponderosa in terms of growth and profitability," he told the annual meeting.

By the end of this decade, or soon thereafter, Foodex expects sales of the two divisions to exceed \$100 million.

Over the next four to five years, Foodex plans to open 10 Ponderosa Steak Houses and 15 Frank Vetere's Pizzerias and Taverns annually, Hanchar says. More than 50% of the property used by

Ponderosa, both land and buildings, is company owned, giving a strong underlying asset base. This also will be the policy for Vetere's.

Apparently Foodex's bankers are confident. Recently, a \$15.2 million, 10-year bank loan was renegotiated. No principal repayments are required for a minimum of five years, and the bank can extend this indefinitely by annual review, Hanchar says.

Working capital should be about \$500,000-\$1 million by the yearend, up from a \$2.2 million deficit at Dec. 31, 1976, he says.

As part of the renegotiation the company is now able to pay dividends of up to 50% of the current year's earnings without bank approval, although it has no current plans to start paying out.

Pitfield, Mackay, Ross & Co. forecasts 1977 earnings for Foodex of 85¢-90¢ a share and Wood Gundy estimates 90¢ a share. Recently the stock traded at \$6½.

Frank Vetere's Pizzeria & Taverns

Clipped By:



littlekasia

Mon, Jun 28, 2021