

**BETTERINVESTING**  
 Rocky Mountain Chapter

# MERITAGE HOSPITALITY GROUP

INNOVATIVE GROWTH COMPANY

16 STATES • 344+ RESTAURANTS • 11,000 TEAMMATES






## Ron Bruyn

### Director Emeritus / Golden West Chapter



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- **LEGAL STUFF**

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# Meritage Hospitality Group, Inc. (MHGU)

## Description

- Meritage Hospital Group Inc. is one of the nation’s premier restaurant operators, in 16 states, in the United States.
- The company’s restaurant operations, are in the Quick Service and Casual Dining restaurant sectors.
- The Company’s development activities are; acquisitions, financing, planning and obtaining permits of land, building and equipment.
- Meritage is headquartered in Grand Rapids, Michigan.
- Meritage Hospitality Group, employs approximately 11,000 employees.



## 2021 U.S. Development plans

- 16 states Location Chart





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## Description

- The Company operates 333 Wendy's restaurants, within the quick-service restaurant (QSR) industry.
- Meritage also owns and operates, casual dining restaurants in Michigan.
- They include Twisted Rooster locations, Crooked Goose, Freighters Eatery & Taproom, Morning Belle and The Wheelhouse.



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## Wendy's Restaurant

- Each Wendy's restaurant offers a diverse menu of food items, featuring hamburgers and chicken sandwiches.
- The Wendy's menu additionally, includes chili, baked and French fries potatoes, chicken nuggets, salads, soft drinks, and children meals.
- Breakfast menu, was launched in the first quarter of 2020.
- The restaurant typically range from 2,200 to 3,600 square feet, with seating capacity of 30 to 130 people.
- Restaurants are generally open, from 6:30 a.m. until midnight.

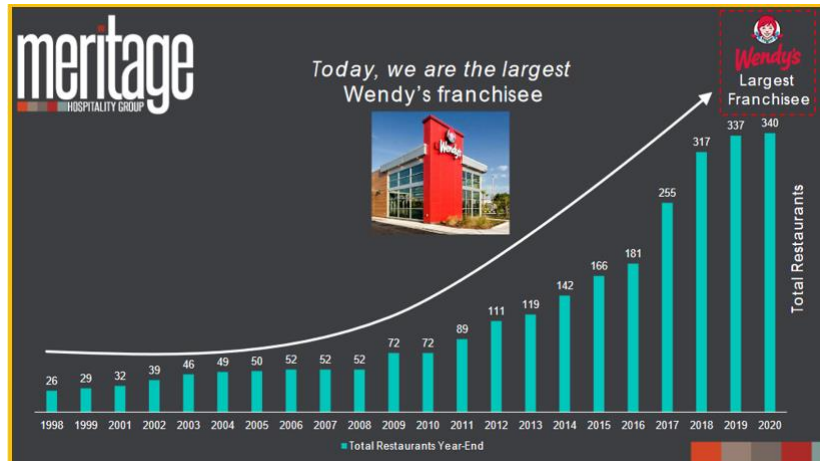
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## The Wendy's Group

- The largest Wendy's franchise



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## The Other Restaurants

- The Company has growth plans, to go to 400 Wendy restaurants.
- Besides the Wendy's growth, the company plans to bring their totality restaurant count to 600, by 2025.
- The other restaurants at present are:
  - Two Morning Belle restaurants.
  - Two Stan's tacos.
  - One Freighters eatery & Taproom.
  - Two Twisted Rooters.

The company has also just entered a contract for 50 Taco Johns Restaurants, to be completed by 2026.

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## Related to COVID-19

- The Company began to re-open some of its dining rooms in mid-June 2020.
- Throughout fiscal year 2020, and the peak of the pandemic, the company focused on swiftly reacting, and adjusting, so as to produce a healthy financial performance.
- It has appropriately positioned itself, to address potential risks and future impacts.
- This was done by reducing costs, preserving cash, suspension of dividends, suspension of new restaurant development, non essential cap-ex spending, and rent relief amendments, among things.

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## Capital Allocation Strategy

- Three step plan and Dividends since 2012 chart.



### Capital Allocation Strategy

1.

Continue to Invest in Company Long-Term Profitable Growth

2.

Build and Sustain an Attractive Dividend for Investors

3.

Maintain Flexibility to use Excess Cash to Repurchase Shares and/or Reduce Debt

Common Stock Dividends

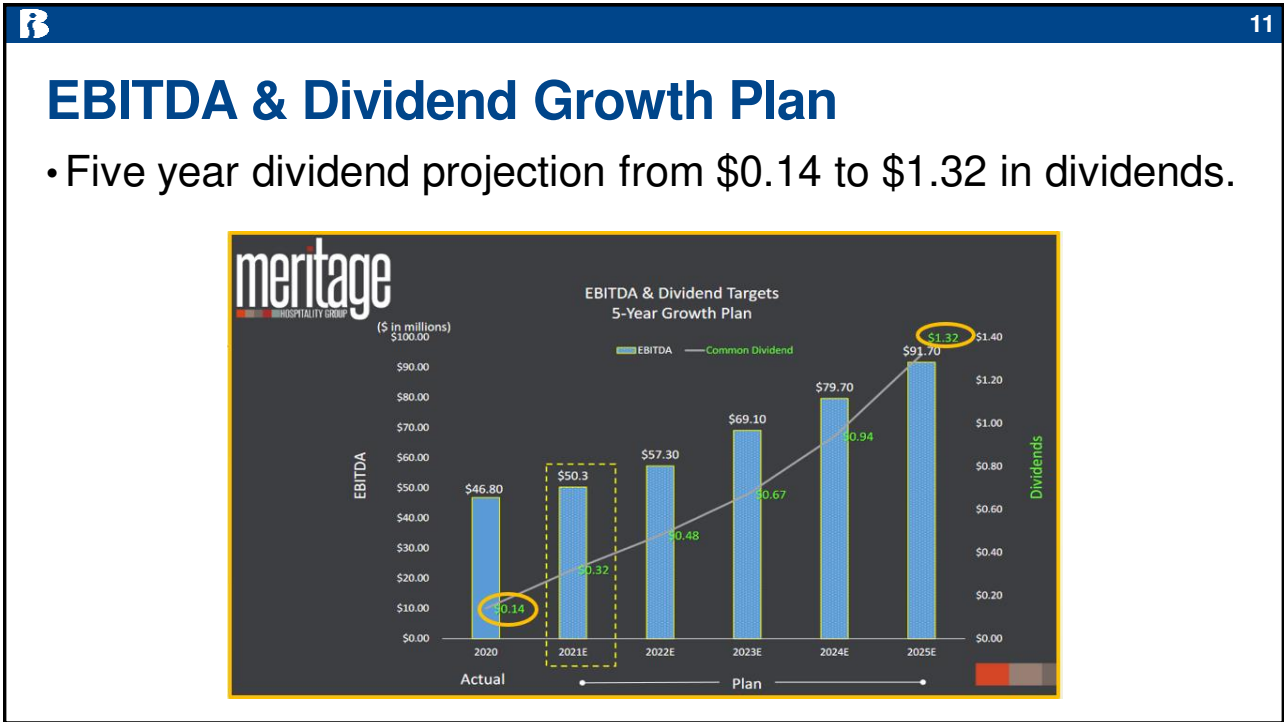


Year	Dividend
2012	\$0.01
2013	\$0.02
2014	\$0.03
2015	\$0.06
2016	\$0.07
2017	\$0.10
2018	\$0.15
2019	\$0.24
2020	\$0.14
2021E	\$0.32

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Model Stock Study Club, Rocky Mountain Chapter

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# Income Statement

Meritage Hospitality Group Inc., Subsidiaries and Affiliate		
Consolidated Statements of Operations		
(in thousands, except per share data)		
Three Months Ended		
(unaudited)		
	July 4, 2021	June 28, 2020
Food and Beverage Revenue	\$ 147,286	\$ 121,718
Expenses		
Food and beverage	37,716	30,453
Labor and related	44,806	33,422
Occupancy	18,491	15,697
Advertising	5,654	4,121
Franchise fees	5,577	4,631
Other operating	12,439	9,316
Total Operating Expenses	124,683	97,640
General and administrative	9,313	5,262
Preopening, acquisition and closing	768	3,331
Depreciation and amortization	3,995	4,789
Total Expenses	138,779	111,022
Income from Operations	8,507	10,696
Other (Income) Expense		
Interest	1,710	2,287
Other	(3,959)	(77)
Total Other (Income) Expense	(2,259)	2,210
Income Before Income Taxes	10,766	8,486
Income Tax Expense	2,829	2,396
Consolidated Net Income	\$ 7,937	\$ 6,090
Less Consolidated Net Income Attributable to Noncontrolling Interest in Variable Interest Entity	225	80
Consolidated Net Income Attributable to Controlling Interest	\$ 7,712	\$ 6,010
Earnings per share		
Basic	\$ 1.07	\$ 0.85
Diluted	\$ 0.80	\$ 0.64
Basic Weighted Average Shares Outstanding	6,734	6,454
Diluted Weighted Average Shares Outstanding	9,673	9,400





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## Second quarter financial results, July 2021

- Sales increased 21% to \$147.3 million for the same period last year.
- Earning from operations, were \$8.5 million, compared to \$10.7 million, for the same period last year. (Due to COVID-19 operating environment).
- Net earnings increased 31.9% to 8.0 million, compared to \$6.1 million, for the same period last year.
- Consolidated EBITDA, (a non-GAAP measure) increased 5.8% to \$16.9 million compared to \$15.9 million.



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## Balance Sheet

Meritage Hospitality Group Inc., Subsidiaries and Affiliate			
Consolidated Balance Sheets (in thousands)			
	(Condensed)		
	July 4, 2021	January 3, 2021	
<b>Assets</b>			
<b>Current Assets</b>			
Cash	\$ 41,687	\$ 32,319	
Receivables	1,909	1,733	
Inventories	3,953	3,616	
Prepaid expenses and other current assets	7,581	8,515	
Total Current Assets	55,130	46,183	
<b>Property and Equipment - Net</b>	132,036	118,323	
<b>Goodwill</b>	174,243	174,243	
<b>Intangible Assets</b>	5,033	5,039	
<b>Operating Lease Right-of-Use Assets - Net</b>	342,141	337,575	
<b>Other Assets</b>			
Long-term investments	1,786	1,786	
Deposits and other assets	8,911	6,777	
<b>Total Assets</b>	<b>\$ 719,280</b>	<b>\$ 689,926</b>	
<b>Liabilities and Equity</b>			
<b>Current Liabilities</b>			
Trade accounts payable	\$ 14,495	\$ 16,928	
Lines of credit	27,529	10,040	
Current portion of long-term debt	20,114	19,986	
Current portion of operating lease obligations payable	22,320	22,024	
Accrued liabilities	27,984	25,695	
Total Current Liabilities	112,442	94,683	
<b>Unearned Vendor Allowances</b>	6,039	2,872	
<b>Operating Lease Obligations Payable</b>	325,282	320,876	
<b>Other Long-term Liabilities</b>	16,932	14,553	
<b>Long-term Debt - Net of current portion</b>	139,076	148,862	
<b>Deferred Income Taxes</b>	11,503	9,661	
<b>Equity</b>	108,006	98,419	
<b>Total Liabilities and Equity</b>	<b>\$ 719,280</b>	<b>\$ 689,926</b>	

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## Consolidated Statement of Cash Flow

Meritage Hospitality Group Inc., Subsidiaries and Affiliate		
Consolidated Statements of Cash Flows		
	Six Months Ended	
	(unaudited)	
	July 4, 2021	June 28, 2020
<b>Cash Flows from Operating Activities</b>		
Net Income	\$ 12,018	\$ 2,390
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	7,892	9,476
Amortization of financing costs	271	307
Deferred income taxes	1,842	(400)
Loss on disposal of fixed assets	1,049	666
Gain on sale leaseback transactions	(5,700)	(719)
Change in fair market value of swap	(889)	1,360
Change in company-owned stock	(1,925)	(361)
Stock option expense	628	830
Changes in assets and liabilities which provided (used) cash:		
Receivables	(176)	239
Inventories	(337)	103
Prepaid expenses and other current assets	934	61
Deposits and other assets	(1,106)	(133)
Accounts payable	(2,433)	(5,403)
Accrued liabilities	2,425	2,104
Unearned vendor allowances	3,167	4,384
Other long-term liabilities	3,268	380
<b>Net cash provided by operating activities</b>	<b>21,720</b>	<b>15,704</b>
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(43,357)	(18,256)
Purchase of intangible assets	(111)	(678)
Proceeds from sale of asset	422	900
<b>Net cash used in investing activities</b>	<b>(43,046)</b>	<b>(18,034)</b>
<b>Cash Flows from Financing Activities</b>		
Principal payments on long-term debt	(9,939)	(6,320)
Proceeds from lines of credit	37,378	17,336
Payments on lines of credit	(17,947)	-
Proceeds from sale leaseback transactions	25,078	14,520
Payments on lines of credit related to sale and leaseback transactions	(18,249)	(14,179)
Principal payments on finance leases	-	(190)
Payments on financing costs	-	(93)
Payments on repurchase of stock	(124)	-
Proceeds from sale of common stock	103	71
Proceeds from issuance of preferred stock, net	-	2,106
Common stock dividends paid	(1,073)	(430)
Deferred stock dividends paid, net	(208)	(292)
Distributions to Variable Interest Entity members	(12)	(17)
<b>Net cash provided by financing activities</b>	<b>30,694</b>	<b>12,704</b>
<b>Net Increase in Cash</b>	<b>9,368</b>	<b>10,374</b>
<b>Cash - Beginning of period</b>	<b>32,319</b>	<b>16,942</b>
<b>Cash - End of period</b>	<b>\$ 41,687</b>	<b>\$ 27,316</b>

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## Second quarter financial results, July 2021

- Earnings growth were driven by:
  - Strong same restaurant sales
  - Restaurant renovations
  - New store openings, as well as real estate sales and development
- Management has done a commendable job of managing operations in a tight labor market.
- Looking ahead, operating and development outlook, remains very strong.
- The firm has set the stage for future growth, as they build toward their goal of 400 Wendy's, and 600 total restaurants by 2025.

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## Future Growth

- On August 18, 2021, MHGU announced, it has entered into an exclusive multi-unit development agreement, with Taco Johns.
- It calls for MHGU, to build 50 new Taco John’s restaurants, by 2026.
- This provides significant economic incentives, like its royalty and marketing fee benefits.
- The company has also been granted, exclusive rights to develop in several states.
- The company estimates, that it will invest approximately \$100 million, through a combination of cash on hand and credit facilities.




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## Independent Auditors Report



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Grand Rapids, MI 49503

**Independent Auditor’s Report**

Board of Directors  
Meritage Hospitality Group Inc. and Subsidiaries and Affiliate  
Grand Rapids, MI

**Opinion**

We have audited the consolidated financial statements of Meritage Hospitality Group Inc. and Subsidiaries and Affiliate, which comprise the consolidated balance sheets as of January 3, 2021 and December 29, 2019, and the related consolidated statements of income, changes in stockholders’ equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of January 3, 2021 and December 29, 2019, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*BDO USA, LLP*

Grand Rapids, Michigan  
March 10, 2021

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SSG - CHOICES

Estimated Sales growth

• SSG recent Quarterly Figure - 21.0%

• Manifest Investing - 22.5%

• BI member sentiment - 14.6%

• SSG Section 2 – 10 Year historical- 23.1%

Estimated Earnings Growth

• SSG recent Quarterly Figure - 25.0%

• Manifest Investing (\$ based \$7.77)- 33.0%

• BI member sentiment - 12.4%

• SSG Section 2 – 10 Year historical- 18.1%

Estimated High P/E ratio

• SSG recent Quarterly - 13.0

• BI member sentiment - 11.2

• Morningstar - 14.0

Estimated Low P/E ratio

• SSG recent Quarterly - 8.2

• BI member sentiment - 7.6

• Morningstar - 8.1

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Your Thoughts

•After this study, what are your thoughts?

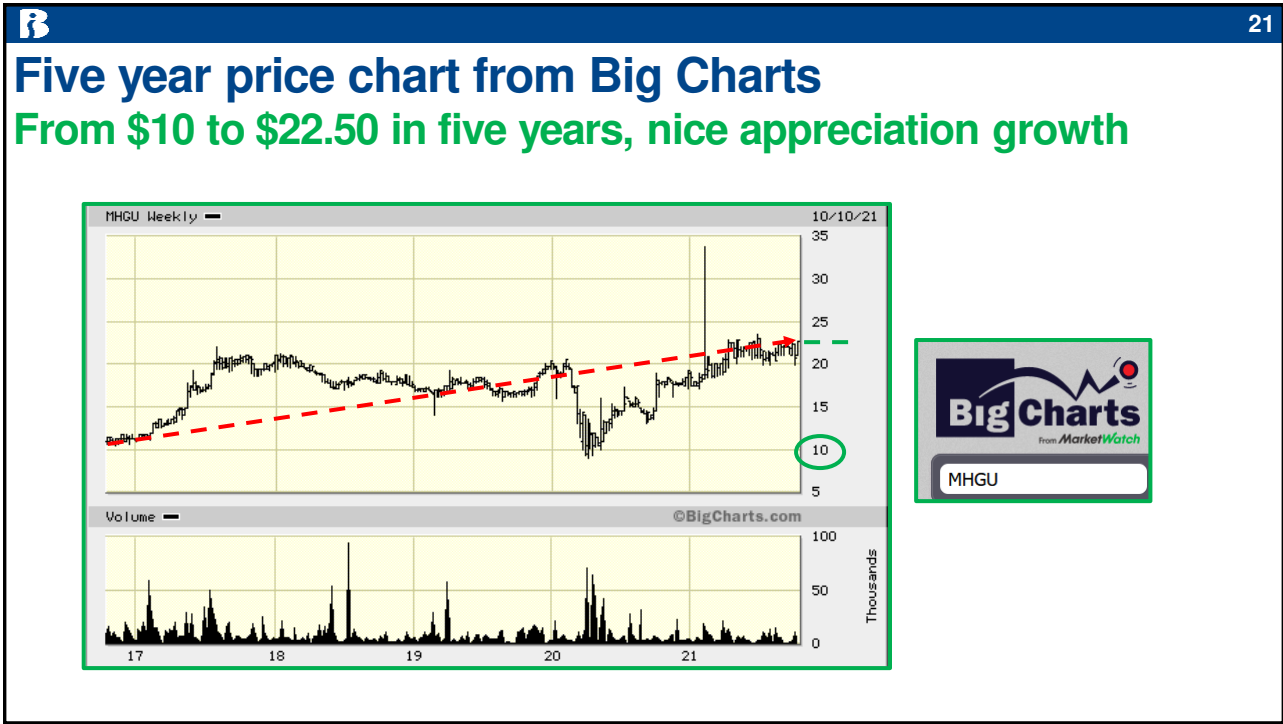
• I already own this company

• I’m considering adding MHUG to my portfolio?

• MHGU doesn’t fit my portfolio.

• I will put it on my watch list.

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## DCF - MARGIN OF SAFETY

1	Company Name	MERITAGE HOSPITALITY GROUP	10/12/2021								
2	Ticker	MHGU									
3	First stage FCF growth rate (Years 1 thru 5)	10.0%									
4	2nd stage FCF growth rate (Years 6 thru 10)	8.0%									
5	Residual (aka perpetuity) value growth rate (g)	3.0%									
6	Discount rate (k)	10.0%									
7	Ten-year Treasury bond yield	1.60%									
8	Price Per Share	\$ 21.00									
9	Free Cash Flow (TTM)	\$ 42									
10	Shares Outstanding	11									
11	Cash & Equivalents	\$ 32									
12	Long Term Debt	\$ 149									
13	Goodwill	\$ 174									
14											
15											
16											
17	Prior year FCF	\$42.0	\$46.2	\$50.8	\$55.9	\$61.5	\$67.6	\$73.1	\$78.9	\$85.2	\$92.0
18	Growth rate (add)	10.0%	10.0%	10.0%	10.0%	10.0%	8.0%	8.0%	8.0%	8.0%	8.0%
19	FCF	\$46.2	\$50.8	\$55.9	\$61.5	\$67.6	\$73.1	\$78.9	\$85.2	\$92.0	\$99.4
20	Discount Factor (multiply)	0.9091	0.8264	0.7513	0.6830	0.6209	0.5645	0.5132	0.4665	0.4241	0.3855
21	Discounted value per annum	\$42.0	\$42.0	\$42.0	\$42.0	\$42.0	\$41.2	\$40.5	\$39.8	\$39.0	\$38.3
22											
23	Sum of present value of FCFs		\$409	60%							
24	Residual Value										
25	FCF in year 10	\$99									
26	Growth rate (g) (add)	3.00%									
27	FCF in year 11	\$102									
28	Capitalization rate (k-g)	7.00%									
29	Value at end of year 10	\$1,462									
30	Discount factor at end of year 10 (multiply)	0.3855									
31	Present Value Residual (Perpetuity) Value		\$564	83%							
32	Present Value of FCFs (in millions)		\$973								
33	Add: Non-Operating Assets		\$32	5%							
34	Less: Long-Term Debt & Intangibles		\$323	47%							
35	Intrinsic Value of Company (in millions)		\$682	100%							
36	Intrinsic Value per Share	\$61.97									
37											
38	Total Market Value of Company (in millions)		\$231								
39											
40	Discount To Intrinsic Value	66.1%									

NOTE: ONLY fill out cells 1-13. All other cells will automatically populate.

Can be found on Yahoo.com/finance  
Can be found on Yahoo.com/finance  
Can be found on the Cash Flow Statement  
Can be found on the Income Statement  
Can be found on the Balance Sheet  
Can be found on the Balance Sheet  
Can be found on the Balance Sheet

I USED MORNINGSTAR NUMBERS

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## References

- Meritage Hospitality Group Annual report 2020
- Meritage Hospitality 2<sup>nd</sup> Quarter Report
- BetterInvesting SSG Plus
- Morningstar
- BigCharts



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## Questions or Comments?

**THANK YOU FOR ATTENDING**



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