

Stock Market Review



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Franchising a global brand in the Baltic States

In the first of a new series of business interviews with senior executives of companies whose shares or bonds are listed on the Malta Stock Exchange, I interviewed Melo Hili, managing director of Premier Capital plc.

Premier Capital plc made its first foray on the local financial market in March 2010 through a highly successful €25 million bond issue. The main purpose of the interview was to gauge the level of expansion that the company has managed to achieve over recent months.

Premier Capital is the development licensee of the McDonald's brand in Malta and the Baltic states (i.e. Latvia, Lithuania and Estonia). At the time of the bond issue, Premier Capital operated a total of 30 restaurants and the main purpose of the bond issue was to seek further expansion by acquiring land to develop eight new McDonald's restaurants in key locations, thereby increasing the portfolio of restaurants to 38.

Mr Hili was quick to indicate that "circa €8 million of the bond issue was utilised to repay bank borrowings, leaving €17 million for the company's expansion strategy".

The person primarily responsible for the McDonald's franchise within the family-owned Hili Group of companies was enthusiastic to highlight the progress achieved in the expansion strategy since the bond issue. "A total of three new restaurants were already opened in the Baltics with another two due to become operational in the coming weeks".

Mr Hili further revealed that another drive-through restaurant will be opened in Estonia on 28 December while during the first week of January Premier Capital will be unveiling its 10th restaurant in Lithuania.

This rapid expansion is set to continue during the first half of next year. Mr Hili explained that "after securing title to three property sites in Latvia, three further McDonald's restaurants are set to start receiving their first customers by mid-2011". Mr Hili summarises this as being "a major part of the expansion drive as envisaged during the bond issue".

Following this busy period with a total of eight new restaurants in just over 12 months, Premier Capital would have a total of 38 restaurants and a large part of the bond proceeds would have been utilised. Mr Hili indicated that following this strong expansion drive the aim is to consolidate the business and concentrate on achieving sales growth from the portfolio of 38 restaurants held.

The main attraction for expanding

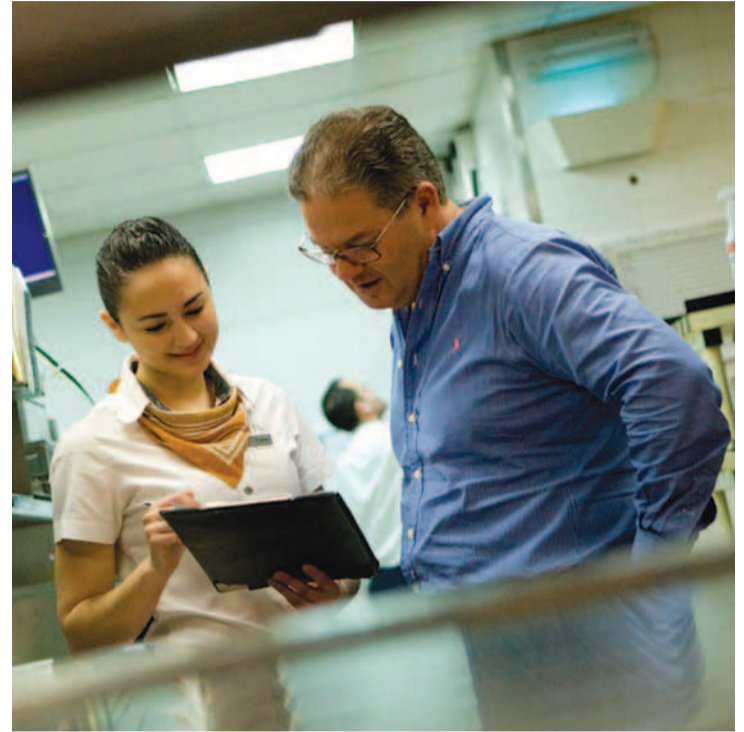
in the Baltic States is the under-penetration of McDonald's in these new EU member countries. While in major Western European cities, the average penetration is of one McDonald's outlet for every 50,000 inhabitants the penetration in Latvia, Lithuania and Estonia is significantly below this level.

Mr Hili's opinion is that although there are eight McDonald's outlets in Malta with penetration rates close to the average in the western world, there is scope for further growth in certain locations especially in the northern and southern parts of Malta. While no major progress for expansion has been made in the north, Mr Hili revealed that a preliminary agreement for the purchase of a property in the south of Malta has been signed. The intention is to open this new outlet as a drive-through restaurant. Premier Capital has submitted permits to Mepa and the final deed of sale will be signed only if these development permits are issued.

Mr Hili also mentioned the importance of the right mix between outlets of McDonald's within shopping malls, stand-alone restaurants and drive-throughs. He indicated that the number of drive-throughs in Malta is low by international standards and for this reason the one in the south of Malta will also be developed into such an outlet. At the time of the bond issue, the company had indicated that the drive-through outlet at Malta International Airport was their highest revenue generator on the island.

Many may wonder why the Hili family had chosen the Baltics to deepen its association with this global brand. Mr Hili gave a brief overview of how this opportunity came about. Originally the Hili's involvement with the McDonald's brand in the Baltics started with a family owned property in Latvia being rented out to McDonald's corporation as a fast food outlet. Some years later, McDonald's approached the Hili family and invited them to become development licensees also outside Malta. In 2007 all the McDonald's restaurants in the three Baltic states were corporation owned and operated and the corporation was looking to franchise these.

It was at this point that the McDonald's Corporation decided to sell its business in Latvia, Lithuania and Estonia and asked the Hili brothers to look into this opportunity. The Hili family had been involved in the region for several years through a shareholding in a sea terminal. Their successful business involvement in Latvia helped them to accept the offer to acquire the McDonald's fran-



Melo Hili, right, managing director of Premier Capital plc.

PREMIER CAPITAL PLC - SOME FACTS / AT A GLANCE	
Business description	Development franchisee of McDonald's in Malta, Lithuania, Latvia and Estonia. Currently operating a total of 33 restaurants in these countries.
Sector	Retail - Quick Service
No of employees	2,400+
Launch of Bond Issue	March 2010
Size of bond issue	€25 million
Number of bondholders	3,713
Maturity Date	15 March 2020

chise in the Baltics which at the time consisted of 19 restaurants.

With the Baltic States suffering a severe economic recession in 2009, at the time of the bond issue some observers had questioned the risks involved in seeking such an aggressive expansion in this region. When faced with such a question again a few months later, Mr Hili pointed out that "the timing was right. The downturn presented an opportunity since property prices were lower and the cost of construction was below the level of the boom years".

With unemployment increasing rapidly in the Baltics and less disposable income, the impact was also felt on fast food outlets including the McDonald's chain. In fact the overall revenue of Premier Capital in the Baltics decreased by 5.5 per cent in the first half of 2010. However Mr Hili argued that the fundamentals of the Baltic coun-

tries are different to those of the eurozone periphery nations which are at the centre of the sovereign debt crisis. The national debt levels in the Baltics are very different to those of Greece, Spain and Ireland while Mr Hili is of the view that despite the negative talk surrounding the euro, the adoption of the single currency by Estonia on January 1, 2011 will positively help inward investment into the country.

Mr Hili does not rule out exploring further opportunities which may be presented to them by McDonald's to operate further fast food outlets in the future. However with the opening of two new restaurants in the coming weeks and further development in Malta and the Baltic states, Mr Hili sets his immediate sights on successfully completing the short-term strategy for Premier Capital before seeking further avenues for growth.

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The main attraction for expanding in the Baltic States is the under-penetration of McDonald's in these new EU member countries.”

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