

Stock Market Review

The new man at the helm of Premier Capital plc



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My weekly articles generally provide readers with updates on various companies that have their shares listed on the Malta Stock Exchange. In the past, I have also written reports with the aim of keeping readers informed of various developments across the local and international financial markets with the ultimate scope of providing timely information and in-depth analysis to investors.

However, it is also necessary for investors to keep abreast of developments across bond issuers. As such, following the company announcement issued on April 4 confirming the appointment of Bertrand Attard as the new chief executive officer as well as an executive director of Premier Capital plc, I met up with the new man at the helm of the company responsible for the McDonald's operations in Malta, the Baltics and Greece. The intention was to obtain a deeper understanding of the 2012 financial performance across the various markets in which they operate and learn more about the plans of the company's new CEO.

At the start of the interview it was immediately evident that although Mr Attard has only been acting as CEO for just over one month, his knowledge of Premier Capital and the McDonald's ethos was very deep indeed. In fact, the short announcement issued on April 4, 2013 via the Malta Stock Exchange had indicated that Bertrand Attard had been responsible for the global marketing of Premier Capital for the previous four years.

The interview started with an update on the performance of the 19 restaurants in Greece. The CEO was quick to point out that the 2012 summer months were impacted by the significant austerity measures and the political crisis that engulfed the country. Mr Attard referred to the various protests across Athens last year and their impact on tourism towards the capital city.

The CEO confirmed that the performance of the Greek restaurants

remained somewhat weaker than originally expected when Premier Capital had taken the bold decision to venture into this market and become the development licensee for Greece in May 2011. However, Mr Attard explained that the persons responsible for the Greek market did a "fantastic job at bringing costs down to a bare minimum".

This involved a detailed look at a number of cost items and meant that various measures were taken including the renegotiation of rents across many restaurants. The significant cost cutting exercise is probably one of the main reasons for Mr Attard to have a cautiously optimistic outlook on Greece.

He indicated that the summer months are key for the McDonald's outlets in Greece due to the influx of around 10 million tourists during this time of the year. It so happens that shortly after the interview, the international credit rating agency Fitch announced that it upgraded Greece's credit rating as a result of progress achieved in reducing the budget deficit and the lower risk of a eurozone exit. The improving economic sentiment as indicated by the rating agency may already be filtering across this specific sector (referred to as the Quick Service Restaurant or the Informal Eating Out sector) as Mr Attard claimed that there are initial signs of a mild turnaround during the first quarter of 2013.

The CEO explained that in view of the specific characteristics in Greece where McDonald's has very few outlets compared to its largest competitor being a locally-branded franchise with over 180 stores, the aim is to achieve wider brand recognition for McDonald's and to grow market share ahead of the more pronounced economic turnaround hopefully in the years ahead.

The directors of Premier Capital plc sounded very upbeat on the medium to long-term prospects for the Greek operation as they claimed in the 2012 financial statements that "there will be significant opportunity to grow the business in Greece both within existing and new restaurants".

Premier Capital has been operating in three Baltic states (Latvia, Lithuania and Estonia) for a number of years. These three countries all suffered to a great extent from the global international crisis which commenced in 2008, however, the recovery has been erratic across the different economies even in the Quick Service Restaurant sector. The CEO explained that the performance in Estonia has improved especially following the introduction of the euro in 2011 while Lithuania

also seems to be sending out more positive signals.

Meanwhile, the Latvian economy was among the deepest hit across Eastern Europe following the crisis but the country will adopt the single currency as from January 2014 and Premier Capital's CEO hopes that the euro will have an equally positive impact also on the Informal Eating Out sector in Latvia as well. Mr Attard explained that the company has preparations well underway for the various restaurants in Latvia to changeover to the euro following the experience gained in Malta and Estonia. The CEO confirmed that dual pricing across the restaurants in Latvia will start shortly.

During 2012, Premier Capital had announced that it took over the operation of the distribution centre for the Baltic markets. Mr Attard commented that the aim was to attain operational efficiencies through reductions in food and transport costs and these were already being achieved by the new team tasked with managing the distribution centre.

"The company is very happy with the performance of the restaurants across the Maltese islands"

When shifting the discussion to the Maltese market, Premier's CEO immediately stated that the company is very happy with the performance of the restaurants across the Maltese islands although he claimed that while guest counts are rising, the company noticed a slight decline in consumption per visit. This can be due to more conservative spending patterns but also as a reflection of the company's strategy to embark on a widespread campaign promoting the "eurosaver platform" as a value proposition to sustain guest count growth.

Mr Attard indicated that the first quarter of 2013 was very positive for the McDonald's restaurants across Malta and he is confident that the new flagship store in Sliema which only opened its doors a few days ago would drive sales higher. Mr Attard stressed that the new restaurant design has many elements not found in other locations and this could contribute to higher sales figures. He also feels that the McCafe operation which opened in Sliema should be well-received in the area.

When questioned on the company's decision to open another



Bertrand Attard, the new chief executive officer and executive director of Premier Capital plc.

restaurant in Sliema (McDonald's have been operating from the Plaza shopping complex for a long number of years), the CEO confirmed that it is not their intention to move out of the Plaza shopping complex. Mr Attard acknowledges that Sliema has become an increasingly popular shopping and entertainment area and he confirmed that Premier Capital had been looking at other Sliema sites for many years before the decision was taken to open only a few doors away from the Burger King outlet.

In 2012, Premier Capital had also announced that it signed a lease agreement for a site outside Naxxar. The CEO confirmed that the company is aiming to open a drive-through outlet but stated that the project was still pending planning permission. Mr Attard is hopeful that this will be approved and the aim is for the restaurant to open for business before the end of the year.

The latest two openings in Malta would increase the McDonald's operation to 10 outlets and when asked whether the company has further plans for expansion in Malta, the CEO compared the per capita number of McDonald's stores in Malta to those in city centres across Western Europe. Although Mr Attard claims that the 10 stores provide sufficient presence, he did not rule out additional outlets in the future.

A substantial part of the funds raised in 2010 via the bond issue were earmarked for the expansion and development plans of Premier Capital across the Baltics and Malta. Since then, the company opened eight new restaurants in the Baltics and one in Malta with plans of a further outlet by end of this year. However, in line with its plans, Premier Capital also remodelled a large number of its existing McDonald's outlets and added numerous McCafes to the system. The CEO pointed out that their immediate

focus was mainly centred on improving the performance across the various markets with a strong emphasis on the big challenge (but also the significant opportunity) in Greece.

He did not, however, exclude further opportunities for growth. Mr Attard explained that the company has no specific openings planned for 2013 in the Baltics, but he claimed that the company is constantly looking at possible sites and confirmed that a number of locations are being considered in Lithuania. Mr Attard also indicated that the success or otherwise of the Greek venture will be a major factor impacting the future development plans for Premier Capital.

With many Maltese companies seeking to expand their franchise agreements to the North African markets, I asked whether Premier Capital had also set its sight on this territory to franchise the McDonald's brand. The CEO re-iterated that there are no immediate plans that are being looked at currently, but he claimed that Premier Capital would consider new markets depending on the opportunities available.

The new CEO undoubtedly has a full plate, considering the diverse markets in which Premier Capital operates and the challenges faced by any person responsible for employing over 2,600 individuals. Mr Attard claims that people are the key to the company's success and the CEO aims to consistently improve the experience offered to customers as well as employees. One of the objectives of the new CEO is to invest in and retain human resource expertise and ensure that customers choose to spend more time in the McDonald's stores. Meanwhile, a major challenge for Mr Attard is the continuous upward pressure on raw material and utility costs which need to be continuously monitored and kept under control in order to achieve positive results for all stakeholders.

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