

BUSINESS

Economy U.S. Federal Reserve chairman offers bleak economic outlook **B3**

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Invescor Inc. is a privately-owned corporation headquartered in Moncton, which manages Pizza Delight, Mikes, Scores and Bâton Rouge restaurant brands on behalf of PDM Royalties Income Fund. The word 'Invescor' is a combination of the surname of the company's founder, local businessman Bernard Imbeault - who now serves as executive chairman of the board - and the word 'vescor,' which in Latin means to eat or to be fed. PDM announced it had added 12 new restaurants to its royalty pool in 2008, which will generate an estimated \$32.8 million in new sales.

Restaurants defy recession with expansion

Sector Franchisee has a chance to expand outside of Quebec and into other markets

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MONCTON - Just as a recession deepens, PDM Royalties Income Fund (TSX:PDM.UN) plans to open as many as three times the number of restaurants added to its royalty pool last year.

Ron Magruder, the president, CEO and director of PDM and Invescor Inc. - the franchisor that manages Pizza Delight, Mikes, Scores and Bâton Rouge restaurant brands on behalf of PDM - said while access to credit might be tough for new franchisees, his company is moving full steam ahead.

"We would expect to open at least as many (locations) as we did last year and our hopes are to actually exceed that number by 20 or 30 per cent," Magruder said from Mississauga, Ont., during a break in a meeting with the company's board of directors.

Next week, the first new restaurant of 2009 - a Scores franchise - will open in Brampton, Ont.; a Mikes under construction in Quebec is set to open in March.

On Wednesday PDM announced it had added 12 new restaurants to its royalty pool in 2008, which will generate an estimated \$32.8 million in new sales.

Last year the company closed 12 other restaurants with annual sales of \$10.2 million.

Out of new restaurants opened, seven locations were Bâton Rouge, three were Scores and two were Mikes.

Invescor Inc. is a privately-owned corporation headquartered in Moncton. Invescor is a combination of the surname of local businessman Bernard Imbeault - who acquired the Pizza Delight business in 1969, one year after its inception - and the word "vescor," which in Latin means to eat or to be fed. PDM was formed in 2004;

Imbeault acts as executive chairman of the board.

Magruder said the company has a chance to expand outside of Quebec, which accounts for about 70 per cent of sales, and into other markets, especially with the Scores and Bâton Rouge brands.

"Our two smaller chains just in sheer numbers would have the opportunity to have more new stores; Scores and Bâton Rouge will probably have more stores than Pizza Delight," Magruder said, adding that he also hopes to move these brands - dominant in Ontario and Quebec - east.

"We don't have Bâton Rouge and Scores out in the Maritimes at this point but certainly we would hope that by this time next year we might have a Scores and a Bâton Rouge out in that part of the world," Magruder said.

Despite the slowdown across the board in the restaurant sector, RBC

Capital Markets equity research analyst Walter Spracklin has a buy on for PDM.

"The yields are so attractive right now," Spracklin said, pointing out that with a 12-cent January distribution, the company is paying out \$1.44 per share annually, which is a yield of more than 20 per cent at current share prices of more than \$6.75.

PDM shares closed at \$6.78 Wednesday on the Toronto Stock Exchange.

Spracklin said access to credit is of utmost concern for franchise organizations when it comes to expansion.

"You grow the restaurant by finding franchisees who want to open new stores but if credit conditions are such that franchisees can't get the funding required then that's going to mean a slower growth in new openings going forward," he said.

Spracklin said the sector took a big

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The first new restaurant of 2009 – a Scores franchise – will open in Ontario

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hit on the stock markets in 2006 when federal Finance Minister Jim Flaherty announced his government would be taxing income trust distributions by 31.5 per cent starting in 2011.

“The biggest problem with these investor royalty income funds is investors don’t know what’s going to happen in

2011,” Spracklin said.

PDM chief financial officer Bill Lane said Wednesday that Flaherty “already changed our world” when he announced the tax on income trusts.

The tax changes will come online in two years’ time.

“His announcement took \$50 billion out of the market overnight,” Lane said.

He added that the future structure of

the company is something executives discuss with trustees every month.

The problem is finding a new model.

“Nobody in our segment of the income fund world has found a solution yet, whether it’s the A & W’s out there or the Boston Pizza’s,” Lane said.

“We’re all in the same world saying we’d love a solution but nobody has found the crystal ball yet.”
