Cooks Global Foods

Company outlook

Growing the global footprint

Food & beverages

Cooks Global Foods (CGF) is ready to take the Esquires Coffee House franchise to the next phase, with a new plan to fund its trajectory and key relationships in place to significantly expand its presence in China. It also plans to establish a beachhead in the US market in the next 12 months. The New Zealand-listed company has embarked on a growth strategy to lift its presence from 77 stores to 710 stores by FY21. Our DCF valuation of NZ$0.23/share post-recapitalisation is based on this strategy's success.

Year end	Revenue (NZ$m)	PBT* (NZ$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
03/14	4.5	(4.0)	(1.65)	0.0	N/A	N/A
03/15	9.2	(3.9)	(1.37)	0.0	N/A	N/A
03/16e	9.8	(3.2)	(0.68)	0.0	N/A	N/A
03/17e	14.1	(0.6)	(0.13)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

Building a global brand

CGF's business plan is to significantly grow its Esquires Coffee House franchise business from its current 77 stores into a major international brand across Europe, the Middle East, Asia and North America. The company expects to have 710 stores (all franchised) by FY21, from which it will earn royalties paid by franchisees, revenue from the sale of master franchises and sales from coffee and other products to the franchises. In the near term, the company expects to build flagship stores in new territories such as the US and then sell them on as it establishes master or regional franchises. It has also been sharing the cost of updating its UK stores with the franchisees, with an immediate benefit of a sales uplift. CGF has plans to bring its coffee roasting in-house, which should deliver mid-teens earnings improvement in the medium term.

Recapitalisation plan

The company has announced a significant restructuring and capitalisation plan which, subject to shareholder approval, will result in one if its key Chinese partners, Jiajiayue Group (JJY), becoming a 25.3% shareholder. JJY and CGF chairman Keith Jackson have negotiated to jointly acquire all but 1m shares of the 40.38% stake held by DSL Management and plan to inject NZ$9m into the company in exchange for 70.3m shares. It is proposed that a further NZ$9m be sought via a public offer to help fund the company's growth plans. This will position the company to focus on driving store growth in existing and new territories and help create a war chest for additional acquisitions.

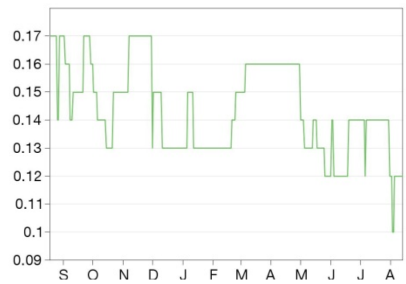
Valuation: Upside in valuation, near-term capital raise

Our DCF valuation (post-transaction) is NZ$0.23 a share, 92% above the current share price. The valuation is based on a WACC of 10.7% and a terminal growth rate of 2.0%. It is also predicated on CGF achieving its goal of rolling out 710 stores by FY21. In the near term, the share price may experience headwinds as the company completes its proposed recapitalisation plan and raises another NZ$9m.

17 August 2015

Price	**NZ$0.12**
Market cap	**NZ$41m**
	£0.42/US$0.65/NZ$1
Net cash (NZ$m) at 31 March 2015	3.3
Shares in issue	338.4m
Free float	~11%
Code	CGF
Primary exchange	NZX
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(14.3)	(7.7)	(26.8)
Rel (local)	(14.7)	(6.7)	(32.4)
52-week high/low		NZ$0.17	NZ$0.12

Business description

Cooks Global Foods owns the global rights to the Esquires Coffee House brand with 78 stores currently operating in the UK, Ireland, China and the Middle East via master franchising arrangements. It is planning significant expansion in store number over the next five years.

Next event

AGM	September 2015

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Edison profile page

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Investment summary

Deals done, operational focus key

Since our initiation report Building a global coffee franchise published on 29 April 2014, CGF has established several key relationships designed to develop its global franchise and the master franchises in China, the Middle East, North America and Europe. The company has also secured the Canadian intellectual property rights of the Esquires brand, giving it the international Esquires brand rights globally excluding Australia and New Zealand. CGF has ambitions to establish a beachhead in the US in the next 12 months, targeting five or more stores for development in order to attract master or regional franchises. This, together with its established franchises in the UK, Ireland, China, and the Middle East, positions the company to focus on building out the brand in these territories. The company is confident it will end FY16 with 125 stores in operation, on the path to developing 710 stores by FY21.

Valuation: Sensitive to store build

Our DCF valuation of NZ$0.23 a share, post-transaction, is predicated on CGF rolling out 710 stores by FY21 and completing the proposed NZ$9m capital raise from Mr Jackson and JJY. The proposed recapitalisation plan would see an additional 70.3m shares issued at NZ12.8c/share to Mr Jackson and JJY. There is upside to our valuation if the company overshoots its five-year store roll-out plan. For example, if CGF manages to roll out 1,000 stores by FY21, the DCF valuation increases by $0.20 a share.

Near term, we anticipate that earnings will be negative, as the company co-invests with its franchisees in the refurbishment of another 22 stores in the UK and establishes a beachhead of at least five stores in the US. The capital required for these ventures will be funded from the NZ$9m that the company is raising from Mr Jackson and JJY and the additional NZ$9m the company proposes to raise from a public offer. The capital raise could have a near-term dampening effect on the share price; however, it should also improve the stock liquidity. It is estimated that if CGF completes the public offer at the current price of NZ$0.12, the additional shares to be issued would bring our DCF valuation down to NZ$0.19 a share, still a sizable premium to the current price. Company specific risks include: CGF is very dependent on a key manager, the possibility that restructuring benefits are slow to flow through or that new technology adoption is slow.

Financials: Strong cash flows in store numbers

CGF reported its FY15 results on June 15, and in the process, restated the FY14 results after changing the accounting treatments adopted for its previous acquisition. The company noted that having completed a number of master franchise agreements it was now focused on opening stores, with 22 under construction or design, and that its rebrand of Esquires was converting into increased same store sales across its territories. The depth and breadth of CGF's global expansion is forecast to convert into strong returns by FY18 with EBITDA margins expected to rise from 15% in that year to 45% by FY21.

Exhibit 1: Earnings projections

NZ$m	FY14	FY15	FY16e	FY17e	FY18e	FY19e	FY20e	FY21e
Year-end store numbers	62	71	121	197	296	418	555	710
Revenue	4.5	9.2	9.8	14.1	18.9	25.4	33.0	41.5
EBITDA	(3.8)	(3.3)	(2.7)	(0.0)	2.9	7.2	12.6	18.7
EBIT	(3.9)	(3.7)	(3.1)	(0.5)	2.4	6.6	11.9	17.8
PBT	(4.0)	(3.9)	(3.2)	(0.6)	2.2	6.4	11.9	18.2
NPAT (norm)	(4.0)	(3.9)	(2.3)	(0.4)	1.6	4.6	8.6	13.1
EPS (norm)	(1.65)	(1.37)	(0.68)	(0.13)	0.46	1.36	2.53	3.88

Source: Edison Investment Research. Note: *PBT, NPAT and EPS all exclude exceptional items.

Company description: Expanding the global footprint

CGF is a coffee franchise business with 77 Esquires stores in operation across eight countries. The company plans a ten-fold increase in operations over the next five years to have 710 stores across both existing and new regions by FY21. It aims to achieve this by selling master franchises in selected countries or regions and earning both royalties on sales by the franchisees and sales of coffee and other products to the franchisees. CGF also generates sales from fresh and processed asparagus and kiwifruit products through its wholly owned company, Progressive Processors and has ambitions to develop this high margin business into a significant food processor.

CGF listed in October 2008, as Cooks Food Group, with plans to build a portfolio of food manufacturers via acquisitions. At that time, the company owned two small food manufacturers. The company did not raise capital at listing and initially failed to raise further capital in the face of the global financial crisis. In August 2013, CGF announced it was acquiring the global franchise rights to the Esquires Coffee House franchise, as well as the master franchises in the UK, Ireland, China and the Middle East. It also acquired Progressive Processors.

Road map to meaningful global footprint

Since our initiation report Building a global coffee franchise, which was published on 29 April 2014, CGF has repositioned the Esquires Coffee House brand as a fair trade, organic coffee franchise, capitalising on New Zealand's 'clean and green' reputation. It achieved this through both sourcing its coffee from fair trade countries and from the fair trade teas its Scarborough Fair business delivers. It is building on the wave of international demand for Antipodean coffee culture.

CGF has expanded its footprint with the acquisition of Esquire the master franchise in China and joint ventures with Shandong supermarket giant, Jiajiayue Group, and Shenzhen-listed retail and property giant Bubugao Group to roll out stores in the Shandong and Hunan provinces. Its Chinese relationships, with Yunnan Metropolitan Construction Company yielding its master franchise agreement in exchange for a 15.75% stake in CGF, and the JVs with JJY and Bubugao, will eventually put the Esquires Coffee brand alongside Starbucks in shopping centres in Shandong and Hunan. It is perhaps no accident that the company's first Chinese foray was in Yunnan, where Starbucks also forged its first Chinese presence.

The company has also acquired the Esquires intellectual property rights in Canada, the country where the brand was first established, and now owns the international Esquires brand globally, excluding Australia and New Zealand. This positions CGF to develop its own presence in North America, building on the three stores in Alberta, Canada, with the company honing plans to invest in its first flagship stores in the US this financial year.

CGF has also embarked on a refurbishment program in the United Kingdom and Ireland, utilising its in-house design company, Design Environments, to redesign several older franchise stores. It has resulted in a significant uplift in sales post refurbishment. In Durham, for example, the Esquires store sales were up 21.5% in the 30 weeks after its refurbishment.

The company's announced recapitalisation plan, which will require shareholder approval, proposes to raise up to NZ$18m, which it plans to deploy in the following ways:

- US$1m investment in five company owned stores in the US;
- £1m investment in the refurbishment of 22 stores in the UK;
- NZ$500,000 to upgrade the point of sale and data suites systems across the group;
- NZ$1,000,000 to build coffee roasters in one or more locations; and
- Up to NZ$12.4m for working capital and further acquisition opportunities.

Experienced management team

CGF is fortunate to have a board and management team experienced in building both coffee brands and consumer-based businesses. Chairman Keith Jackson is a former CEO of NZ chicken manufacturer, Tegel Foods, and is responsible for founding CGF. It is his vision that resulted in CGF securing the global rights to the Esquires Coffee brand. Mr Jackson has also spearheaded the Chinese relationships which will recapitalise the group for significant expansion in both existing and new territories.

CGF now controls 77 of the109 Esquires stores around the world with the remainder controlled by Australia-listed Retail Food Group. RFG's success with the Esquires brand has not emulated that of CGF's. It announced in early June 2015, after writing down its investment in Esquires, that it would be rebadging its stores either under the Michel or Gloria Jeans' banners. This would potentially allow CGF to enter the Australian and New Zealand markets with its own coffee brand.

Exhibit 2: Esquires Coffee branded stores by country and master franchise

Location	Number of stores	Master franchise controlled by
UK	25	Cooks Global Foods
Ireland	8	Cooks Global Foods
Middle East	20	Cooks Global Foods
China	21	Cooks Global Foods
Canada	3	Cooks Global Foods
Subtotal – CGF	**77**	
NZ	28	Retail Food Group
Australia	4	Retail Food Group
Subtotal - others	32	
Total	**109**	

Source: Cooks Global Foods, company websites

Global branded coffee demand

The branded coffee market has been one of the highest growth retail sectors since the global financial crisis. A key feature of the branded coffee chain market across most countries is that the pace of growth has outpaced broader retail spending. In several of CGF's key markets, the growth rate of this segment has been staggering. Research house Allegra forecasts that the total UK coffee shop market will exceed 20,500 outlets and a turnover of £8.7bn by 2018, up from 16,501 outlets and £6.2bn in 2013. Allegra estimates that the branded coffee shop segment will generate more than £4.1bn of turnover across 7,000 outlets by 2018; with outlets predicted to grow at 5.2% compound and revenue at 10% compound over the next five years. It is estimated that the UK could comfortably host more than 9,500 branded coffee shops. With 26 stores currently in the UK, CGF is just outside the top 10 but still has less than 10% of the stores held by the number six player.

Exhibit 3: UK Branded Coffee houses by number of stores in 2013

Chain	Number of stores
Costa	1,552
Starbucks	760
Caffè Nero	530
SSP	429
Wild Bean Café	315
M&S Café	304
Coffee Republic	104
AMT Coffee	70
Muffin Break	45
Thorntons Cafés	35

Source: Statista.com

It is worth noting that Costa, Starbucks and Caffe Nero, which in 2013 held 54% of the coffee market between them, have all continued to build their UK presence. Whitbread announced that

Costa Group ended FY15 with 1,755 stores and a target of 2,200 by 2020. Costa also has 344 stores across 31 cities in China and plans to grow this to 900 by FY20. Starbucks has increased its stores to 824 in the UK and at the end of 2014 had 823 stores in China. Caffe Nero lifted its store count to 590 in the UK at the end of 2014.

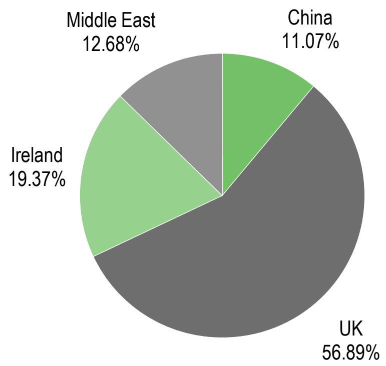
In Ireland, where CGF is opening its eighth store, the branded coffee house growth rate (measured as turnover) has also outpaced the overall retail economy growing 14% in 2014. Allegra predicts the branded coffee shop segment will exceed €360 million across 515 outlets by 2020, with outlets predicted to see a 9% compound annual growth rate (CAGR) and revenue at a 14.5% CAGR over the next five years. CGF's two recent openings at Mullingar and Navan in Ireland were immediately successful with Mullingar already the highest sales store in the system.

In China, research group Mintel predicts that coffee consumption will grow to RMB16m (US$2.5b) by 2017, an increase of 75% since 2012. HSBC forecasts that branded coffee shop turnover will grow 19% a year until 2030.

Growing the brand in a high growth sector

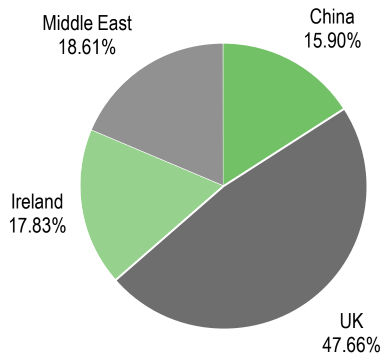
One of the key features of CGF's operational performance to date has been the rapid change in its geographical mix of revenues. Having established master franchises first in the UK and Ireland, then across the Middle East, including Saudi Arabia, United Arab Emirates, Bahrain and Kuwait, and more recently in China, the company's revenue mix has shifted to reflect the different emphases, as the following breakdown of FY14 and FY15 revenues demonstrate.

Exhibit 4: FY14 breakdown of revenues by region



Source: Cooks Global Foods

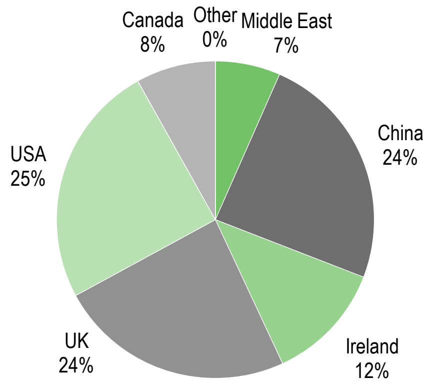
Exhibit 5: FY15 breakdown of revenue by region



Source: Cooks Global Foods

By our estimates, the geographical spread will only intensify, by FY21 by which time CGF is expected to have built a presence in the US and Canada as shown in Exhibit 6.

Exhibit 6: Estimated revenue share by country by FY21



Source: Edison Investment Research

The geographical split will be driven by store roll-out with China forecast to become the largest presence for CGF by number of stores by FY21 followed by the US and the UK. New territories such as Egypt, Cyprus and Indonesia, where CGF has recently signed master franchises are also expected to deliver good store growth as shown in Exhibit 7.

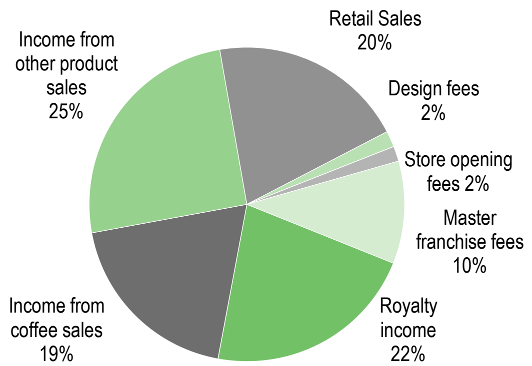
Exhibit 7: Estimated store roll-out by region

	China	Ireland	UK	Middle East	Canada	USA	New territories	Total
FY15	21	5	24	21	0	0	0	71
FY16e	41	8	34	27	0	6	5	121
FY17e	61	12	46	33	8	18	19	197
FY18e	81	17	62	39	22	36	39	296
FY19e	101	23	82	45	42	60	65	418
FY20e	121	29	106	51	65	90	93	555
FY21e	141	34	130	57	92	132	124	710

Source: Edison Investment Research

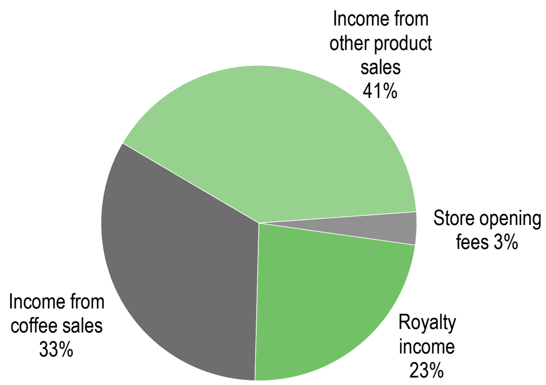
Over time, CGF anticipates that its revenue mix will tighten, with income from coffee and other product sales becoming the main sources of income. Exhibit 9 also highlights the expectation that almost all revenue streams will become recurring as one-off fees such as store openings and design fees fall away.

Exhibit 8: Revenue split in FY15



Source: Cooks Global Foods

Exhibit 9: Revenue split in FY20e



Source: Cooks Global Foods, Edison Investment Research

The above exhibits also underscore the importance of CGF's manufacturing and supply businesses, Progressive Processors and Scarborough Fair. Progressive predominantly manufactures fruit juices, primarily kiwifruit, for third parties and has ambitions to create its own juice brand. Scarborough Fair was acquired to give CGF access to a fair trade tea brand to roll out across the franchise network.

Capital requirements

CGF ended FY15 with net cash of NZ$3.3m. While this is sufficient capital to fund the platform for the next 12-18 months, it does not allow the company to explore new markets such as the US or gain the benefit from upgrading its existing stores in the UK.

The company's announced recapitalisation plan will allow the company to fund the upgrade of its UK stores and establish a presence in the US. The NZ$9m proposed injection by Mr Jackson and JJY together with the proposed NZ$9m public offer will give CGF a war chest for upgrades to its UK stores, global point of sales systems and enable the funding of five stores in the US. It would also enable the group to consider bringing its coffee roasting in-house, a move which in the longer term could add 10-15% to our DCF valuation. We discuss this opportunity in the scenario analysis below. The raising would also leave sufficient capital for opportunistic moves, such as acquiring secondary brands or potentially the master franchise for Esquires in Australia and New Zealand.

Exhibit 10: Potential capital expenditure from capital-raising

Capex plans	NZ$m
UK refurbishment (22 stores at £50,000 each)	2.6
US roll-out (US$1m on five stores)	1.5
POS/digital upgrade	0.5
Coffee roasters (two coffee roasters at NZ$500,000)	1.0
Funds for opportunities	12.4

Source: Cooks Global Foods

Management and board

CGF's board comprises one executive director and two non-executive directors. The company is in the process of recruiting additional directors following the resignations of Stuart and Lewis Deeks in the wake of the sale of their shares to Mr Jackson and Jiajiayue Group. As part of its shareholding, JJY will have the right to board representation.

Keith Jackson, executive chairman – founded CGF in 2008 and has been the driving force in its transformation into a global coffee franchise. Mr Jackson was formally CEO of Tegel Foods, a New Zealand-based chicken manufacturer and an investor in several other food businesses, especially in the dairy sector.

Andrew Kerslake, non-executive director – an investor and entrepreneur with a background in logistics and shipping.

Mike Hutcheson, non-executive director – has a background in advertising, publishing and media. He previously served as managing director of advertising agency Saatchi and Saatchi, New Zealand.

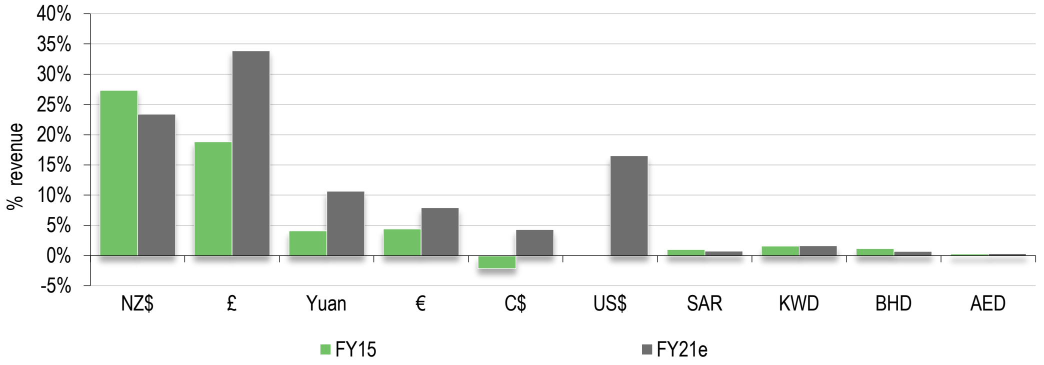
Sensitivities

Competition: the branded coffee house segment is competitive with several Western brands such as Starbucks, Dunkin Donuts and Costa Coffee establishing dominant positions in both their own and offshore markets. These brands are already well established in CGF's existing and planned markets, making it more challenging for smaller players to secure brand acceptance and consumer attention. Esquires is seeking to overcome this by promoting its New Zealand 'clean and green' heritage and fair trade offerings.

Business plan execution: the increasingly international reach of CGF's business presents a challenge for management from both a brand development and operational perspective. The Deeks brothers bring strong business development and operational experience to the company, having grown the Esquires brand from one store to over 50 in Australasia, before selling it. Maintaining consistency of the brand across several cultures and consistency of product are additional challenges for the company. CGF will also need to ensure it has the right executive mix to manage the different legal and operational environments across its group. The company is in the throes of recruiting a global franchise support manager to drive excellence at the store level to mitigate this risk. The appointment, which is likely to be UK-based, is expected to be finalised in September.

Currency risk: CGF is exposed to almost a dozen different currencies from both a revenue and costs perspective, with the conversion of reported revenue back into New Zealand dollars. The weakening of the NZ dollar against currencies such as sterling and the US dollar, underscores the need for CGF to develop treasury and currency management skills to manage its exchange rate exposures. As the following exhibit demonstrates, the sterling, Chinese yuan and US dollar are forecast to become increasingly important in revenue terms.

Exhibit 11: CGF currency exposure changes



Source: Edison Investment Research estimates

Stock liquidity: The company's free float is ~11% with Keith Jackson, Jiajiayue Group Co, Yunnan Metropolitan Investment Company, and non-executive director Andrew Kerslake controlling almost 90% of the company. The proposed NZ$9m public offer may assist in freeing up some liquidity. We estimate if completed at the current price of $0.12, it could lift the number of shares in issue by 75m.

Our primary valuation method is DCF. The following exhibit sets out the projected free cash flows until 2021. We have utilised the company's base case expectations for store roll-out for the next five years and have also factored in CGF's plans to refurbish its UK stores and develop a beachhead in the United States. We have not, however, incorporated expectations for in-house coffee roasting.

Traditionally the franchisees pay for store expansion, but as CGF has been revitalising the Esquires brand in the UK and Ireland, it has adopted a partnership arrangement with the franchisees to refurbish the stores. This has resulted in double-digit turnover increases in the two stores recently refurbished in the UK and has encouraged CGF to look at refurbishing all its UK stores. As Exhibit 12 demonstrates, we anticipate meaningful free cash flow from FY18, once the store refurbishment is completed and CGF establishes its presence in the US.

Exhibit 12: Estimated free cash flows

NZ$000s	FY16e	FY17e	FY18e	FY19e	FY20e	FY21e	FY22e	FY23e	FY24e	FY25e	FY26e
EBIT	(3,080)	(484)	2,355	6,608	11,907	17,775	18,664	19,597	20,577	21,606	22,038
- Tax	862	136	(659)	(1,850)	(3,334)	(4,977)	(5,226)	(5,487)	(5,762)	(6,050)	(6,171)
+ Depreciation	383	436	502	604	727	882	882	882	882	882	882
- Capex	(2,526)	(1,102)	(1,188)	(454)	(592)	(744)	(744)	(744)	(744)	(744)	(744)
+/- Working cap.	(20)	(97)	(109)	(148)	(175)	(194)	(203)	(214)	(224)	(235)	(240)
Free cash flow	(4,380)	(1,112)	900	4,759	8,533	12,743	13,373	14,035	14,730	15,459	15,766

Source: Edison Investment Research estimates

The following exhibit sets out the DCF and key valuation parameters. Our asset beta estimate is derived from the peer group shown in Exhibit 14. We assume that CGF continues to have net cash on its balance sheet over the forecast period, thus the WACC is the same as the cost of equity.

Exhibit 13: Discounted cash flow valuation

NZ$000s		Valuation parameters	
Forecast period	38,601	Asset beta	1.01
Terminal value	49,899	Equity beta	1.01
NPV to capital	88,500	Gearing	0.0%
Net debt/(cash)	(3,307)	WACC	10.7%
NPV to equity	91,807	Cost of equity	10.7%
Value per share (NZ$)	0.271	Terminal growth rate	2.0%

Source: Edison Investment Research

Exhibit 14 sets out the peer valuation metrics for branded coffee houses using 12-month forward valuation metrics. We have included CGF using our FY18 forecasts in order to get a meaningful comparison. Relative to its peers, CGF is trading at a premium on an EV/EBITDA and P/E basis, reflecting less mature but higher near-term earnings growth.

Exhibit 14: Peer valuation comparison

Company	Currency	Price	Mkt cap (local m)	Mkt cap (US$m)	P/E (x)	EV/EBITDA (x)	EBITDA margin (%)	Operating margin (%)
Cooks Global Foods (FY18e)	**NZ$**	**0.12**	**41**	**27**	**25.3**	**15.4**	**15.1**	**12.4**
Starbucks Corp	US$	58.70	87,123	87,123	40.0	20.7	23.5	18.9
Dunkin' Brands Group	US$	54.27	5,223	5,223	30.3	17.7	51.3	45.8
Keurig Green Mountain	US$	76.59	11,792	11,792	20.2	10.0	24.8	19.7
Restaurant Brands Int.	US$	43.55	20,347	20,347	42.4	41.7	30.2	20.2
Retail Food Group	A$	5.20	847	625	15.8	12.5	37.4	36.6
Cafe de Coral Holdings	HKD	26.85	15,634	2,017	26.1	15.4	12.8	8.9
Whitbread	£	52.15	9,515	14,843	24.0	14.9	25.6	19.2
Minor International	TWD	27.25	119,963	3,500	33.5	36.8	14.0	6.0
Gourmet Master Co	TWD	139.00	19,616	19,616	30.8	9.0	10.1	5.2
President Chain Store	US$	229.50	238,593	238,593	26.4	13.3	7.7	5.1
Coffee house companies	**Median**				**26.4**	**14.4**	**23.3**	**18.8**

Source: Bloomberg, Edison Investment Research. Note: Priced at 5 August 2015.

Financials

Earnings: CGF reported its FY15 results on 15 June, delivering NZ$9.2m in revenues and a net loss of NZ$4.0m. It also restated its FY14 results on the advice of its new auditors PWC, reversing accounting treatment of the goodwill from its 2014 acquisition of Franchise Development.

Exhibit 15: Reported earnings FY14 and FY15

Year end 31 March (NZ$m)	FY14	FY15
Revenue	4.5	9.2
EBITDA	(3.8)	(3.3)
NPBT	(4.0)	(3.9)
NPAT normalised	(4.0)	(3.9)
NPAT reported	(5.1)	(4.0)
EPS normalised (c)	(1.7)	(1.4)

Source: Cooks Global Foods

The lift in revenues was ahead of our expectation, reflecting better than expected royalty payments and product sales from Progressive Processors. CGF's revenues are generated from three sources – store revenues, which include royalty payments, sale of coffee and other supplies such as cups & napkins; franchise development revenue from the sale of master franchises and store opening fees; and product sales from Progressive and Scarborough Fair to third parties and Esquires stores.

As Exhibit 16 shows, we anticipate systems sales, which are total sales generated by all stores, to grow at a CAGR of 41% from FY15 to FY21e. CGF's revenue is forecast to grow at a CAGR of

24.5% for the same period. EBITDA margins are expected to grow from 15% in FY18 to 45% in FY21 as a result of the move to franchised stores and the fixed cost leverage from increased scale.

Exhibit 16: Earnings projections

NZ$m	FY15	FY16e	FY17e	FY18e	FY19e	FY20e	FY21e
Year-end store numbers	60	110	197	296	418	555	710
System sales	26.9	40	70.6	109.9	162.5	225.2	299.4
CGF revenue	9.2	9.8	14.1	18.9	25.4	33.0	41.5
EBITDA	(3.3)	(2.7)	(0.0)	2.9	7.2	12.6	18.7
PBT	(3.9)	(3.2)	(0.6)	2.2	6.4	11.9	18.2
NPAT	(3.9)	(2.3)	(0.4)	1.6	4.6	8.6	13.1

Source: Edison Investment Research. Note: System sales are gross sales from all Esquires stores and used for the royalty payment calculations.

Cash flow: operating cash flow is expected to be a loss of NZ$1.7m in FY16 turning cash flow positive in FY17 and generating NZ$13.7m by FY21. We expect capex to lift to NZ$2.6m in FY16 to fund the UK refurbishments, the US expansion and ongoing maintenance capex requirements for Progressive and Scarborough Fair. We have assumed no dividends are paid in the forecast period.

Balance sheet: apart from factoring in the NZ$9m equity raise, CGF is not expected to return to the capital markets to fund its current business plan. Our forecasts anticipate net cash for the foreseeable future.

Scenario analysis

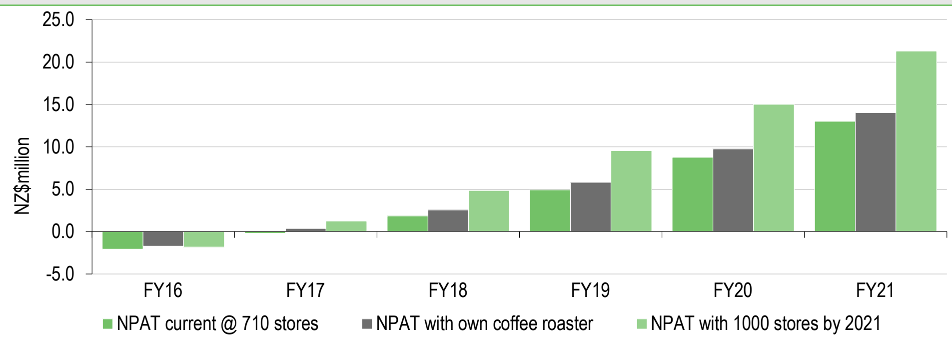
We have undertaken a scenario analysis to test the impact on valuation and earnings should the company decide to invest in its own roasting facilities, which we estimate could save it NZ$400,000 per 50 tonnes of coffee and add NZ$0.03 a/share to our valuation. We have also considered the valuation and earnings impact if the company delivers 1,000 stores by FY21 and this adds NZ$0.20 a share to valuation. We have also looked at the downside scenario of fewer store openings. If CGF only manages to open 560 stores by FY21, which is more than 20% fewer than currently anticipated, the DCF falls to NZ$0.18 a share. These scenarios are highlighted below.

Exhibit 17: Scenario analysis: impact on current DCF valuation

Current DCF valuation (based on 408m shares in issue post first NZ$9m capital injection)	$0.23
DCF if roasts own coffee	$0.26
DCF if opens 1,000 stores by March 2021	$0.43

Source: Edison Investment Research estimates

Exhibit 18:Scenario analysis impact on forecast NPAT by year



Source: Edison Investment Research estimates

Exhibit 19: Financial summary

Year-end March	NZ$'000s	2013	2014	2015	2016e	2017e	2018e
		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		1,501	4,488	9,202	9,818	14,084	18,875
Cost of Sales		0	(1,779)	(2,856)	(2,450)	(3,221)	(4,027)
Gross Profit		1,501	2,709	6,346	7,368	10,863	14,849
EBITDA		1,240	(3,773)	(3,345)	(2,697)	(48)	2,857
Operating Profit (before amort. and except.)		1,240	(3,944)	(3,690)	(3,080)	(484)	2,355
Intangible Amortisation		0	0	0	0	0	0
Exceptionals		0	(1,055)	(82)	0	0	0
Other		0	0	0	0	0	0
Operating Profit		1,240	(4,999)	(3,772)	(3,080)	(484)	2,355
Net Interest		(78)	(86)	(217)	(104)	(113)	(190)
Profit Before Tax (norm)		1,162	(4,030)	(3,907)	(3,184)	(598)	2,165
Profit Before Tax (FRS 3)		1,162	(5,085)	(3,989)	(3,184)	(598)	2,165
Tax		0	0	0	891	167	(606)
Profit After Tax (norm)		1,162	(4,030)	(3,907)	(2,292)	(430)	1,559
Profit After Tax (FRS 3)		1,162	(5,085)	(3,989)	(2,292)	(430)	1,559
Average Number of Shares Outstanding (m)		26.9	244.9	285.1	338.4	338.4	338.4
EPS - normalised (c)		4.32	(1.65)	(1.37)	(0.68)	(0.13)	0.46
EPS - normalised fully diluted (c)		4.32	(1.65)	(1.37)	(0.68)	(0.13)	0.46
EPS - IFRS (c)		4.32	(2.08)	(1.40)	(0.68)	(0.13)	0.46
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		100.0	60.4	69.0	75.0	77.1	78.7
EBITDA Margin (%)		82.6	-84.1	-36.4	-27.5	-0.3	15.1
Operating Margin (before GW and except.) (%)		82.6	-87.9	-40.1	-31.4	-3.4	12.5
BALANCE SHEET							
Fixed Assets		0	20,899	12,003	14,145	14,812	15,498
Intangible Assets		0	19,171	10,584	10,584	10,584	10,584
Tangible Assets		0	1,423	1,105	3,247	3,914	4,600
Investments		0	305	314	314	314	314
Current Assets		1,828	3,655	9,901	5,809	6,991	9,080
Stocks		0	298	974	1,071	1,536	2,059
Debtors		1,569	567	1,499	1,648	2,364	3,168
Cash		259	1,683	4,505	0	0	763
Other		0	1,107	2,923	3,091	3,091	3,091
Current Liabilities		(5,489)	(6,439)	(9,796)	(10,863)	(13,308)	(14,525)
Creditors		(286)	(5,049)	(8,598)	(8,823)	(9,907)	(11,124)
Short term borrowings		(5,203)	(1,390)	(1,198)	(2,039)	(3,401)	(3,401)
Long Term Liabilities		0	(1,430)	(3,492)	(3,492)	(3,492)	(3,492)
Long term borrowings		0	0	0	0	0	0
Other long term liabilities		0	(1,430)	(3,492)	(3,492)	(3,492)	(3,492)
Net Assets		(3,661)	16,685	8,616	5,600	5,003	6,561
CASH FLOW							
Operating Cash Flow		(163)	(2,985)	(4,191)	(2,717)	(146)	2,747
Net Interest		(78)	(86)	0	(104)	(113)	(190)
Tax (incl GST)		0	0	0	0	0	(606)
Capex (net of disposals)		(1,242)	(447)	(160)	(2,526)	(1,102)	(1,188)
Acquisitions/disposals		0	(2,127)	(2,588)	0	0	0
Financing		494	4,444	9,953	0	0	0
Dividends		0	0	0	0	0	0
Net Cash Flow		(989)	(1,201)	3,014	(5,346)	(1,361)	763
Opening net debt/(cash)		(3)	(259)	(293)	(3,307)	2,039	3,401
HP finance leases initiated		1,245	1,235	0	0	0	0
Net related party advances/(repayments)		0	0	0	0	(0)	0
Closing net debt/(cash)		(259)	(293)	(3,307)	2,039	3,401	2,638

Source: Company accounts, Edison Investment Research

Contact details	Revenue by geography
Cooks Global Foods Level 5 3 City Road Auckland, New Zealand +64 9 307 0567 www.cooksglobalfoods.com	

Management team	
Executive chairman: Keith Jackson	**GM supply: Stuart McIntosh**
Keith Jackson has extensive experience in the management of food and dairy-based businesses. He was CEO of NZ chicken manufacturer Tegel Foods for 16 years and has been involved in the NZ dairy sector since the mid-1990s. He founded Cooks Global Foods in 2008.	Stuart has an extensive background in the fast-moving consumer goods sector in manufacturing and operations roles and in the branded coffee chain sector for a New Zealand based competitor. He focuses on the supply chain.

Principal shareholders	(%)
DSL Management (Stuart and Lewis Deeks)	40.4%
Yunnan Metropolitan Investment Company	15.8%
Keith Jackson	15.1%
ADG Investments (Andrew Kerslake – Director)	13.1%

Companies named in this report

Dunkin' Brands Group (DKDN.US), Keurig Green Mountain (GMCR.US), Gourmet Master (2723.TT), Retail Food Group (RFG.AX), Starbucks Corporation (SBUX.US), Whitbread (WTB.LN),Restaurant Brands (NZX:RBD), Café De Coral (HKG:0341), President Chain Store (TPE: 2912), Minor International (BKK:MINT)

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