VSA capital

Initiation of Coverage

Marketing Communication (Connected Research)

Cooks Coffee Company#

BBG Ticker: CCC NZE *Price: NZ$0.41/sh.* *Mkt Cap: NZ$21.2m* **BUY**

Year to March	Revenue (NZ$m)	EBITDA (NZ$m)	PBT (NZ$m)	EPS (NZcents)	DPS (NZcents)	EV/Sales (x)	EV/EBITDA (x)	P/E (x)
FY 2021A	1.7	-0.9	-2.6	-3.0	n/m	11.4	n/m	n/m
FY 2022A	7.4	0.8	-0.2	-0.5	n/m	2.7	24.1	n/m
FY 2023E	7.7	1.4	0.6	0.6	n/m	2.5	13.8	34.2
FY 2024E	8.8	2.2	1.6	1.6	n/m	2.2	8.9	13.5

SOURCE**: Company Data, VSA Capital Research. **NOTE £1.00 = NZ$1.96

Expanding in the UK and Ireland

Cooks Coffee (CCC NZX), which was founded in 2008 in New Zealand and is listed there, owns master franchises for **Esquires Coffee**, the ethical coffee and fresh food regional café chain. Having restructured and reduced international operations, the business is now driven by expanding revenues from UK and Ireland franchised cafés. Small legacy revenues are derived from 26 outlets in ROW, primarily MEA. In 2020, Cooks acquired UK-based, franchise-operated, **Triple Two Coffee**. This brought in a more metropolitan-focused café bar proposition. At year end March 2022 (FY 2022) Cooks had 67 UK outlets, together with 15 outlets in Ireland. Cooks, given geographic focus, now plans to dual list in the UK on the Aquis Exchange.

Strong Recovery Post COVID-19 Restrictions

Cooks' FY 2021 was impacted by COVID-19 lockdowns. Outlet sales fell by 49% to NZ$24.8m (£12.7m) to see Cook's revenue, mainly derived from royalties on outlet sales and franchise fees, reduce from NZ$4.2m (£2.1m) to NZ$1.7m (£0.9m). FY 2022, on COVID-19 restrictions lifting, saw combined UK and Ireland outlet numbers grow by 20% to 82 driving end store sales and franchise fees. Cooks' revenue, excluding NZ$0.4m (£0.2m) of COVID grants, rose to NZ$7.4m (£3.8m) from NZ$1.7m (£0.9m) and an EBIT loss of NZ$1.7m (£0.9m) moved to a profit of NZ$0.2m (£0.1m). For FY 2023, we estimate revenue of NZ$7.7m (£3.9m) and profit of NZ$0.6m (£0.3m) and for FY 2024, revenue of 12.9% to NZ$8.7m (£4.4m) and profit of NZ$1.6m (£0.8m).

Buoyant Franchisee Growth

Cooks is growing revenues, particularly from suburban and regional outlets combining specialised coffee with fresh food and, through Triple Two, city-based café bars and as it attracts new franchisees. Triple Two store sales for the period in April to August 2022 were up 77.3% on 2021 and LFL sales were up 29.2%. The brand has grown from 9 cafés as at 1 April 2021 to 20 cafés at 31st August 2022 and Triple Two plan, by FY 2023 end, to have grown to 30 cafés.

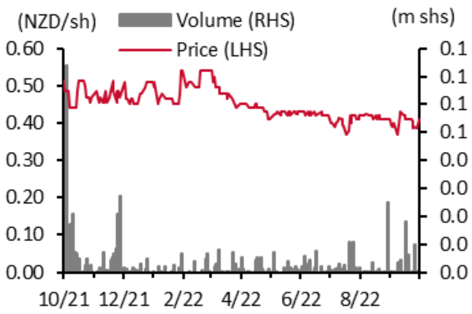
Recommendation

We initiate research coverage of Cooks Coffee with a **Buy recommendation and 12-month share price of NZ$0.78/sh.**

Group Description

International franchised coffee shop chain

One Year Price Performance



Price % chg	1mn	3mn	12mn
	5.1%	2.5%	-15.4%
12mn high/low			0.54/0.37

***SOURCE**: Eikon, as of 7 October 2022 close*

Market:	NZSE
Shares in issue (Voting) plus 1.33m non-voting but ranking equally	51.73m
Target Price (NZ$/sh.)	0.78
Free float:	11.0%
Net debt (March 22) NZ$m	-2.2
Enterprise value NZ$m:	23.4
Major shareholders	
Keith Jackson	22.6%
Jiajiayue Holdings Group Ltd	20.5%
Yunnan Health	13.0%

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Investment Case

Recent Trading Sees Like for Like (LFL) Sales Momentum

Like For Like sales reflect underlying performance of existing outlets outside revenues from net new added stores. Despite a tough operating environment, Esquires and Triple Two are proving a draw for customers and LFL sales are continuing to grow. Esquires UK (ECUK) LFL store sales in FY 2022, were 1.5% higher than FY 2019, a strong recovery from the overall fall in end store sales in FY 2021. The average value per transaction in FY 2022 rose by 26% to NZ$12.32 (£6.29). The September 27th, 2022, trading update highlighted further progress with ECUK LFL stores up by 2.4% in the April - August 2022 period vs 2019 (Pre-Covid) and overall café sales, given growth in outlet numbers, up by 46.9%. 50 cafés in operation at 31st August 2022. Esquires Ireland (ECHI), with 15 outlets in FY 2022 experienced stricter COVID-19 regulations that lasted for longer than in the UK. It was not until late February 2022, close to the end of FY 2022, that restrictions eased. ECHI LFL stores were up 5.0% in the April- August 2022 period vs 2019 (Pre-Covid).

Opportunity to Expand

Esquires and Triple Two are coffee focused brands providing high quality, ethically sourced coffee alongside a broad range of food offerings. The branded café sector is divided into coffee focussed and food focussed. The former focusing on coffee with a range of food, the latter offering coffee but a wider range of food. Cooks' brands fill in a gap in the market straddling both sectors. Through the acquisition of Triple Two, Cooks is expanding into the café / bar market through an evening cocktails/drinks offering on major property developments such as London, Royal Wharf and the new London, Fresh Wharf & Bromley locations where Triple Two worked directly with the developers to secure the site. The café market is fragmented, and Cooks will be able to complement its rising organic growth with acquisition opportunities.

Margins are Rising as UK and Ireland Focus Drives Profits

FY 2022 saw underlying revenue of NZ$7.4m, an EBIT of NZ$0.2m and EBITDA of NZ$0.8m, this respective margins of 3.2% and 11.0% - a move into profit as margins rose. LFL outlet sales are increasing, and new franchises being signed up - this driving end sales and franchise fees. Costs, in an inflationary environment, are being managed. Given these factors, we forecast EBIT and EBITDA margins to rise. For FY 2023, we forecast an EBIT margin of 13.4% and an EBITDA margin of 18.6%. For FY 2024, we estimate an EBIT margin of 21.8% and EBITDA margin of 25.3%.

Managing Costs in a Tough Environment

Consumer discretionary spend is under pressure and costs for café outlets are growing. End prices are rising to accommodate some of the cost increases. Market leaders **Costa** and **Greggs** have raised prices in 2022. Cooks' brands have too. Gross margins for cafés are high and there is flexibility to absorb cost increases as has been done as coffee prices rose. Cooks' focus of fresh food best sellers to complement its high-quality coffee, including breakfasts that share eggs as an ingredient with other dishes thus reducing waste. This cross use of ingredients is reflected across the food range. Unlike larger competing multiple franchises, Cooks' brands franchisees are single store operators and will normally work on premise – this eases labour costs. Energy costs for the brands has been around 3% of store cost. Energy prices are now capped, and this is factored into our estimates.

Valuation

At the current share price, Cooks is valued at NZ$21.8m (£11.1m). Our FY 2023 forecast is for Cooks to produce an EBITDA profit of NZ$1.4m rising to NZ$2.2m for FY 2024. Our valuation, to set a 12-month price target, is based on a blend of three valuation methods: EV/Revenue, EV/EBITDA and a DCF. Based on our FY 2023 estimates, this implies; an EV/Revenue valuation of NZ$15.1m, and an EV/EBITDA valuation of NZ$15.3m, the valuations weighted 30% each respectively. Our DCF, and based on explicit forecast cashflows, produces a valuation of NZ$81.5m weighted at 40%. We are, on a blended basis, valuing Cooks at an EV of NZ$43.2m and market capitalisation of NZ$41.0m (given NZ$2.2m net debt for March 2022 end). **Buy. Target Price NZ$ 0.78**.

Background

In 2008, Executive Chairman Keith Jackson founded Cooks via the merger of four companies. Cooks Coffee Company is today headquartered in Auckland, New Zealand. Quoted on the NZ Stock Exchange as Cooks Global Foods, in March 2022, the Group changed its name to Cooks Coffee Company (CCC). Today, Cooks owns the international intellectual property and master franchising rights to Esquires Coffee Houses worldwide, excluding New Zealand and Australia. Esquires is a long-established brand:

- During 1993, Esquires Coffee House was founded in Vancouver, Canada, by two entrepreneurs, Doug Williamson, and Gary Buckland. The following year Peter Wudy joined to develop franchise operations and over the coming years 37 branches are subsequently opened across Canada and then follows international expansion. 2000 to 2001 saw Esquires Coffee expand into the UK followed by Ireland. Peter Kirton, the original Esquires UK master franchisee from 2000 still works for Cooks as a Contract Project Manager.

- In 2002, Stuart and Lewis Deeks established the Esquires Coffee brand in Australia and New Zealand through a master franchise agreement with the Canadian parent.

- 2011 saw the Australia and New Zealand franchise rights sold to Retail Food Group (RFG), one of Australia's largest multi-brand retail, food, and beverage franchise owners, whilst rights were retained for the Middle East and China.

- In 2013, Cooks acquired the intellectual property and master franchising rights to Esquires Coffee worldwide, excluding New Zealand and Australia. The following year, Cooks acquired the Esquires Canadian intellectual property rights, which the original Esquires Coffee franchisor founded in 1993. Also in 2013, Cooks acquired the Ireland master franchise from Tony Mc Verry. He has remained with the Group and is the current Managing Director for Ireland & Europe.

- During the period 2017-2019, the Group incurred losses and internationally retrenched and restructured the business to focus on the UK and Ireland.

- In June 2020, Cooks expanded in the UK by acquiring Triple Two Coffee for NZ$7.5m in shares; at the time equating to 7.25x Triple Two's 2019 EBITDA. Triple Two (222), named after Brunel's original 222 rail gauge, has now grown to 20 UK outlets by the end of FY 2022.

- In FY 2022, Triple Two was identified as a "rising star" by IGD (Institute of Grocery Distribution) in a report into the UK Coffee Sector. Founder David Hodgetts recently won the rising star award at the QSR awards, recognised as the leading entrepreneur in the hospitality industry under 30.

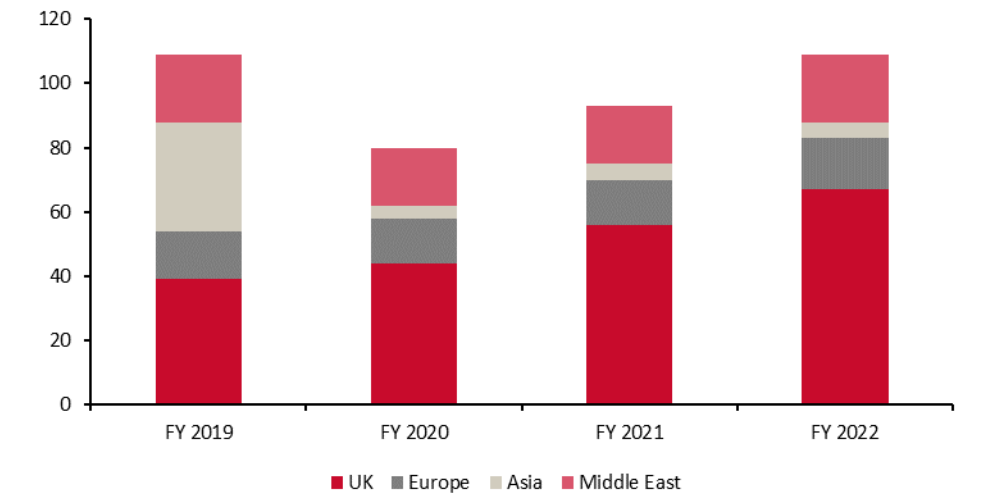
Expanding in the UK and Ireland

By year end March 2020, Cooks Coffee had franchised a total of 157 outlets. Of this total, 78 were in China and these comprised workplace automatic machines, kiosks, and some full stores. Cooks had held a minority interest in a Chinese Joint Venture (JV) for several years. During 2018, on JV partners being asked to provide additional capital to fund working capital & growth, Cooks decided to withdraw from the JV and an agreement was reached where the other partners assumed the working capital obligations. In consideration, the Group sold the interest in the China JV with the rights to use the Esquires brand provided in perpetuity for zero royalties. As noted already, in June 2020, the Group's UK presence was further increased with the acquisition of Triple Two.

The Group has historic country level franchise agreements that cover the Middle East, Pakistan, and Indonesia. It now only derives a relatively small royalty from the franchise stores, which total 26 out of a Group total of 108 in FY 2022 and contribute just NZ$0.3m to Cooks' top line.

As of FY 2022, most of Cooks' business was derived from its stores across the UK (Esquires and Triple Two) and Ireland (Esquires), at which point the Group had 108 outlets comprising 67 in the UK, 15 in Ireland, 1 in Portugal and 25 ROW ("Cooks Global" – mainly the Middle East) as shown in the chart below:

Changing Geographic Focus – Outlet Numbers Increase in UK and Europe (Ireland)



SOURCE: *Company Data, VSA Capital Research.*

Franchise Terms and The Core Business Model

Franchising is the granting of a licence by one person (the franchisor) to another (the franchisee), which entitles the franchisee to trade under the trademark/trade name of the franchisor and to make use of an entire package, comprising all the elements necessary to establish a previously untrained person in the business and to run it with continual assistance on a predetermined basis. McDonalds is one of the best-known global franchisors. In the UK, it has 1,364 restaurants of which over 1,100 are franchised.

Cooks Coffee franchises out two brands: Esquires Coffee and Triple Two Coffee.

Group Revenue and Costs

Cooks' revenues are reported in NZ$ (NZ$1.96 = £1.00 as at close October 5th, 2022). Group revenues are mainly derived from operational royalties on franchised store revenues, a marketing royalty that is invested by Cooks to build and promote brands, initial and annual franchise fees plus supplier incentives. Capital revenue is derived from the franchise fee plus there is the discretionary use of services such as Design, Project Management, Property Search, and the provision of store fit out and construction activities.

- Franchise outlet sales growth is very important as it attracts new franchisees to the brands.
- The food and coffee are sourced by franchisees from Group-monitored and approved suppliers. Little material is purchased at Group level (mainly construction materials at Triple Two) and so the cost of sales is low, and the gross margin is high at over 85%. Cooks' main costs are marketing, franchisee support and central office including board and listing costs.

Esquires Franchises

Esquires Coffee has been franchising ethical and sustainable coffee stores for over 25 years. There are two Esquires businesses: Esquires UK (ECUK) and Esquires Ireland (ECHI) where the master franchise is owned by Cooks.

Typically, it costs a franchisee in the region of £250,000 in initial set-up costs for an Esquires Coffee shop including property identification, securing lease, design and store fit out. This is dependent on location, size and condition of the site or building. Inventory, new store marketing and working capital are not included in this initial cost.

Esquires supports and advises franchisees throughout the entire set-up process. Thereafter, the Company provides ongoing brand marketing, training, and management support.

Opening a store takes anywhere from 6-8 months, including signing the franchise agreement, locating premises, and securing the lease, ensuring all the legal documents are in order, designing the store, planning, tendering, store fit-out, training, and opening the store.

The Franchisee organises and funds the initial store set-up with company support including leases, design and fit out. Esquires is on hand to advise with access for franchisees on property sourcing, property design (exterior and interior) property management, project management, construction, and shop fit.

In the majority of cases the master lease for the properties is held by Esquires which, in turn, sublets to the Franchisee. Esquires' revenues are derived as follows:

- For ECUK & ECHI, the basic franchise fee of £19,500. (converted to Euros for Ireland)
- Esquires identifies prospective locations themselves but given the extent of the UK retail geographic landscape, also employs external contractors to identify locations under its Regional Development (RD) Program (see "Markets and Competition" section).
- Each Regional Developer (RD) becomes responsible for the growth of a specific region. ECUK receives £5,000 for each new store in the RD regions East of England, Southeast. Northeast, London & East Midlands. RD's pay a fee to Esquires for the right to be responsible for a region. Typically, this fee is in the ranges from £250,000 to £500,000 depending on the region.
- RD's secure a 50% royalty on franchisee sales for the region. Although this halves Esquires UK income for the region, this is offset in part by the upfront fee and the royalty level is restored once the RD doubles the stores in their region.
- When the Franchise Fee is paid in other regions including the Southwest, West Midlands, Northwest, Yorkshire-Humber, Scotland & Wales, the Company receives the full £19,500.
- Esquires charges a royalty fee of 6% and marketing fee of 2% of franchise outlet gross sales (net of VAT).
- Multi-Store franchises are available where it is agreed to open a specific number of stores or kiosks over a set time usually within a certain area/region.

Triple Two Franchises

Setting up a Triple Two franchise costs in the region of £200k-270k depending on the size and condition of the site or building. Inventory, new store marketing and working capital are not included.

Esquires and Triple Two approach store construction in two different ways: whilst ECUK and ECHI undertake all of the set-up work and incur costs themselves, Triple Two offers all of this work as a service (classified as "Construction" in our estimates) and charges for it creating additional revenue streams and profit margin. Triple Two has in-house functions including property sourcing, property design (exterior and interior) property management and shop fit out.

New franchisees seeking to take on their first store typically pay down 15% themselves and will borrow the balance from main banks that the Group works with, such as NatWest.

- The upfront (one off) franchise fee is £17,500.
- Triple Two charge a royalty fee of 6% and marketing fee of 2% of Franchise outlet gross sales.
- A Kiosk franchise fee costs £12,500 a 6% royalty fee and 2% advertising levy.
- A van franchise fee costs £19,500 with £120 p/w royalty fee and £10 advertising levy p/w.

- Multi-Store franchises are available where it is agreed to open a specific number of stores or kiosks over a set time usually within a certain area/region.

Strong Recovery Post COVID-19 Lockdowns

Cooks has not only restructured to increase focus on the UK and Ireland but also emerged from the impact of COVID-19. The business has turned around and moved into profit as can be seen in the table below:

P&L History

Profit & Loss NZ$m's Year end March	2018A	2019A	2020A	2021A	2022A
Revenue	6.7	5.9	4.2	1.7	7.4
Grants (COVID 19) and other income	0.0	0.1	0.0	1.0	0.4
Total revenue	**6.8**	**6.0**	**4.2**	**2.7**	**7.8**
EBIT	-0.9	-3.7	-0.2	-1.7	0.2
Interest	-0.4	-0.8	-0.7	-0.9	-0.9
Reduction in consideration payables	0.0	0.0	0.0	0.0	6.4
Impairment of goodwill	0.0	0.0	-2.5	0.0	-6.0
Share of loss of associate	-0.3	-0.4	-0.2	0.0	0.0
Profit/(loss) Before Tax	-1.6	-4.8	-3.6	-2.6	-0.2
Tax	0.0	0.0	0.0	0.1	0.1
Net profit/(loss) from continuing operations	**-1.6**	**-4.8**	**-3.6**	**-2.5**	**-0.1**
Net profit/(loss) from discontinued operations	-2.2	0.0	-1.6	0.0	-0.3
Net profit/(loss) attributable to shareholders	-3.9	-4.8	-5.2	-2.5	-0.4
Change in foreign currency translation reserve	-0.3	0.7	-0.1	0.1	-0.1
Profit/loss attributable to shareholders	-4.2	-4.1	-5.3	-2.5	-0.6

SOURCE: *Company Data, VSA Capital Research.*

FY 2018 (year end March): Group revenue rose by 26% to NZ$6.7m (FY17 NZ$5.3m). Net losses reduced to NZ$1.6m (FY17 NZ$3.5m). Annual net losses, including discontinued operations, fell to NZ$3.9m (FY17 NZ$12.2m) as the Group's former Chinese subsidiary became an investment in an associate. On a like-for-like basis, overall Group end store revenue rose by 1.1% to NZ$33.6m.

FY 2019: Group revenue fell by 11.8% to NZ$6.0m. Net losses increased to NZ$4.8m. Group Borrowings increased to NZ$5.7m and included loans from entities associated with Keith Jackson as well as certain convertible loan notes. Losses rose through reduced revenue, investment in growth in the UK and Europe, a non-cash share of the Chinese associate's losses and write-offs associated with the company's Romanian operations.

Core Group revenues, derived from royalties on end store sales and franchise fees were now primarily from the UK and Europe (mainly Ireland). UK store numbers increased to 41 from 35, end store sales rose by 17% to NZ$20.6m. Ireland constant currency total store sales rose by 19.4% to NZ$16.4m. On a like-for-like basis, overall Group end store revenue rose by 0.9% to NZ$40.0m.

FY 2020: having internationally restructured in FY 2019, revenue from the continuing business rose by 4.3% to NZ$4.2m and the net loss was NZ$1.1m (NZ$2.6m including a NZ$2.5m impairment on the China investment carrying value). Overall end store revenue, from which the Group derives royalties, fell by 1.4% to NZ$48.6m. Group end debt closed at NZ$5.5m (FY19 NZ$5.7m) and cash at NZ$0.3m. During the period, Cooks acquired Triple Two to bring in 13 stores with historic EBITDA of NZ$1.0m.

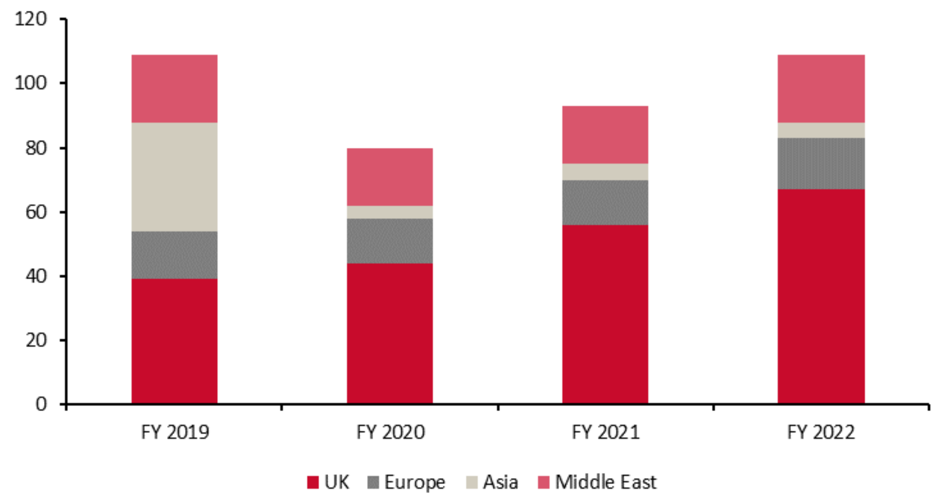
FY 2021: COVID-19 took hold with national lockdowns and social distancing in place. Cooks saw a number of Esquires and Triple Two franchised stores closed for considerable periods of time and others operated as takeaway outlets. Esquires Coffee UK store revenues fell by 41% to NZ$12.2m and those in Ireland fell by 58%. Group overall Esquires outlet sales fell by 49% to NZ$24.8m and this resulted in Group revenue reducing from NZ$4.2m to NZ$1.7m (NZ$2.7m including an NZ$1.0m UK Government COVID grant) producing a loss of NZ$2.5m (vs. loss of NZ$3.6m). Group borrowings rose 18% to NZ$6.5m (FY20 NZ$5.5m) and end cash closed at NZ$0.8m.

FY 2022 saw core regions emerge from lockdowns, new franchises taken up, overall store sales and like for like sales rise.

During FY 2022, Cooks, given rising royalties and rising franchise related fees, moved into profit. Group underlying revenue increased from NZ$1.7m to NZ$7.4m, an EBIT loss of NZ$1.7m moved to a profit of NZ$0.2m. Cooks Global (mainly Middle East) accounted for just NZ$0.3m: the UK and Ireland were responsible for the majority of revenue and profit.

In FY 2022, **Esquires UK** opened 4 new franchised stores, closed 2 and 1 store was reopened after a period of closure during COVID-19, to end the period with 47 UK outlets. **Triple Two** opened 11 new stores and temporarily closed 2 during the financial year with 20 cafés operating by the end of FY 2022. In total, this saw Cooks with 67 UK outlets up from 56 at the close of FY 2021, a 20% growth in number of franchised outlets. In Ireland, Cooks' brand, the long-established Esquires saw the number of stores unchanged at 15. This can be seen in the chart below:

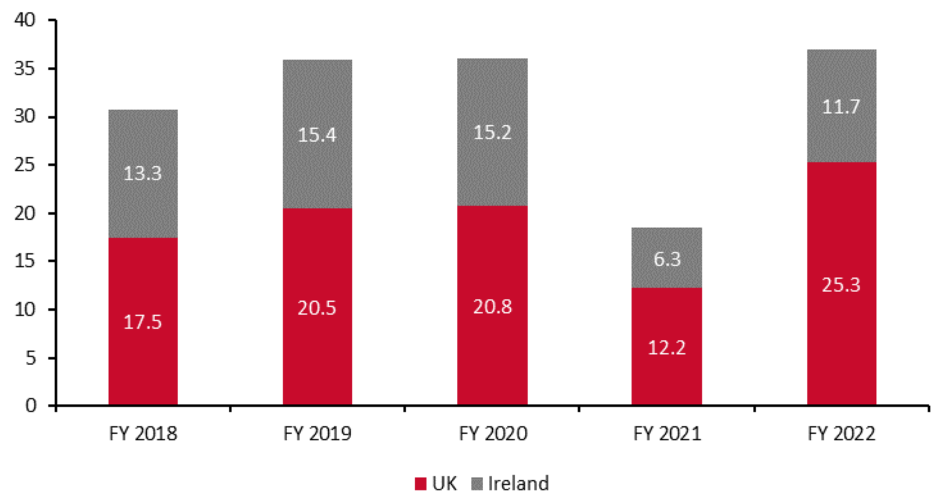
Outlet Numbers Rise in FY 2022



SOURCE: *Company Data, VSA Capital Research.*

The combined effect of the above was to increase FY 2022 store sales as can be seen in the chart below: In turn this drives Group royalty revenues and related franchise fees.

UK and Ireland Overall Stores Sales, NZ$m



SOURCE: *Company Data, VSA Capital Research.*

ECUK LFL revenues in FY 2022, were 1.5% higher than FY 2019, a strong recovery from the overall fall in end store sales in FY 2021. The average value per transaction rose by 26% to NZ$12.32.

Cooks issued an AGM trading update on September 27th, 2022, covering the trading over April to August 2022 (within our FY 2023 forecast period).

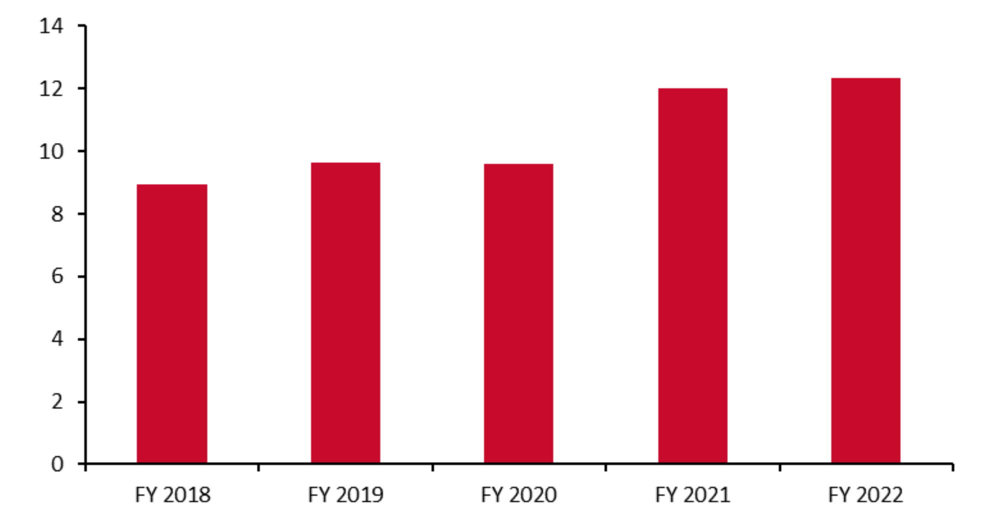
ECUK, during April - August 2022 vs 2019 (Pre-Covid) saw overall café sales including those from new outlets, up by 46.9% and LFL stores sales up by 2.4% vs 2019 pre Covid levels. 50 cafés were in operation at 31st August 2022.

ECHI, in FY 2022 had 15 outlets. The Group found its Ireland outlets operating under stricter COVID-19 regulations than the UK for most of fiscal FY 2022 and it was not until late February 2022 that it saw the majority of restrictions lifted. This saw different sales patterns to the UK, which was experiencing strong recovery and during FY 2022 ECHI LFL sales were 76% of those in FY 2019. In the March – May 2022 period when restrictions were fully lifted, ECHI LFL sales rose to 104% of FY 2019. Sales for April – August 2022, on an LFL basis were 5.0% above those in 2019.

Triple Two was acquired in June 2020. Store sales for the period April to August 2022 rose by 77.3% on 2021 and LFL sales were up 29.2%. The brand has grown from 9 cafés as at 1 April 2021 to 20 cafés as at 31st August 2022. We forecast that Triple Two will expand to 29 cafés by the end of FY 2023. The September 2022 AGM statement set a target of 30 outlets by the end of FY 2023.

Encouragingly, the Group is seeing average transaction values grow as customers spend more on food as well as coffee.

UK Stores Average Transaction Values, NZ$



SOURCE: *Company Data, VSA Capital Research.*

As the FY 2022 results show, new franchisees continue to be attracted to the brands, vs. the franchises offered by major competitors such as Costa Coffee, Starbucks, or Greggs. **The attraction of Esquires and Triple Two cafés starts with ethical, certified, high-grade coffee and a complementary food offer.**

ESG: Ethical, High-Grade Coffee

The coffee we drink is derived from the coffee plant which produces fruit ("cherries"), and the coffee bean is the seed found inside the fruit. The fruit is harvested, and the green coffee beans are extracted, packaged, shipped, and stored ready to then be roasted. Green coffee beans are more stable than roasted beans and so coffee tends to be roasted close to the point of consumption and the UK has over 400 coffee roasters (See "Coffee Roasting" in Appendix 2). The roasting process brings out the aromas and flavours and produces a consumable product. There are four main types of coffee beans: Arabica, Robusta, which are the most common, as well as Liberica and Excelsa.

Arabica: this bean is the most popular and according to research from Growth Markets Reports, Arabica accounted for over 60% of global production. According to the U.S. Department of Agriculture (USDA), U.S. imports are dominated by unroasted Arabica coffee which expanded from 68% of unroasted coffee trade in 2011/12 to 80% in 2020/21. Arabica beans are grown at an altitude of between 800m and 2,300m above sea level, and have half the caffeine content of Robusta, meaning they are less bitter in taste and offer more complex flavours. Main growing regions are Latin America (Brazil, Bolivia, Columbia, Ecuador), Africa, Indonesia, and India.

Robusta: this type of bean accounts for 20% of the market and is primarily grown in Africa, Indonesia, and Vietnam. Robusta Coffee plants are grown at lower altitudes than Arabica, have double the caffeine content and so are bitter in flavour, have a higher yield than Arabica and are very resistant to disease, Main growing regions are Angola, Cameroon, Ghana, and Uganda.

Coffee Bean Prices

Coffee beans are traded on global markets as a "soft commodity" at wholesale prices in US¢/lb, with steady growth in consumer demand year on year. On the supply side, the weather's impact on the growing season plays a crucial role on market balances and therefore pricing each year.

The USDA, in June 2022, reported that Brazil Arabica output is forecast to recover 5.1m bags to total 41.5m and that the majority of producing areas are in the 'on-year' of the biennial production cycle, resulting in higher production potential. However, it also reported that quantity is well below recent on-year crops that peaked at nearly 50m bags. Arabica trees in many growing regions are recovering from severe frosts in June and July 2021, as well as high temperatures and below-average rainfall that lasted into September 2021.

Arabica Coffee Commodity Price History US¢/lb

SOURCE: *Company Data, VSA Capital Research.*

The Group has been able to absorb coffee price rises since 2020 and the move to profit as seen from the FY 2022 financial results has passed on some increases.

Esquires does not sell any products direct to franchisees, instead it selects key suppliers, negotiates, and manages master supply agreements. Franchisees then purchase directly from suppliers, including the sourcing of coffee and main food items. Esquires has fixed price agreements in place with its main coffee provider, Scotland-based roaster Matthew Algie & Company Ltd. that require 3 months' notice to change. Triple Two operate in a similar manner to Esquires and it sources coffee from roaster Chartley Coffee.

Coffee Selection

Café coffee pricing for both brands is set in line with the large national coffee brands. We now look at how the Cooks' brands select coffee suppliers:

Esquires Coffee Selection

Esquires uses 100% Arabica coffee beans. The coffee is roasted (see Appendix 2) essentially to Esquires' own 'recipe' (IP) with the sources of the various beans that make up the blend changing in conjunction with various harvests worldwide. Esquires' roaster, **Matthew Algie & Company Ltd. ("MA" https://www.matthewalgie.com/)** was established as a tea blender in 1864 and later became an established coffee roaster, which was acquired in 2016 by Germany based coffee and food services business **Tchibo**.

Matthew Algie only trades with producers who comply with its standards and sustainability practices. Coffee is sourced from farming cooperatives from around the world from locations including Ethiopia, Honduras, Indonesia, and Papua New Guinea. The coffee is grown without the use of chemicals and from crops that have been grown on land that is part of the existing ecosystem. Esquires only use Fairtrade certified coffee.

Triple Two Coffee Selection

Triple Two house blend coffee uses four different beans, 3 of which are Arabica (90%), and one is Robusta (10%) from India. Triple Two adds Robusta to provide extra "punch" to its blend. Triple Two coffee is sourced exclusively from small farm holders and co-operatives from around the world, including India, Brazil, Ethiopia, Honduras, Indonesia, and Peru.

- All beans are inspection graded before and after roasting.
- Price negotiations are conducted in collaboration with the roastery.
- Import, finance, and currency hedging are managed by specialist green bean importers.

Triple Two state that it differentiates itself by having developed a speciality blend.

Fresh Food, Prepared on Premises, A Broad Range Beverages, and Evening Offering

Cooks' Esquires brand offers choice and value to a broad demographic, whilst Triple Two caters for a younger, metropolitan audience that is increasingly visiting such venues in the evening to enjoy alcoholic drinks.

Esquires

Esquires focuses on a range of food that caters for broad tastes, incorporating gluten-free, ethnic, and vegan items and uses local ingredients where possible.

- We understand from the Group that for Esquires' UK outlets, coffee and beverages account for 60% of sales whilst food is 40%. For Ireland locations, food is typically 55-60% of sales. Coffee and beverages, overall, provide higher margins.
- Esquires targets broad geographic and consumer budget appeal, with outlets principally located in secondary suburban high streets and small-town centres.
- We understand from the Group that the majority of goods purchased by Franchisees are from Cooks' own Approved Supplier lists including UK based Matthew Algie & Company Ltd, Bidfood, Freshways Dairy & Arzyta.
- Cooks leverages the total volumes ordered across its franchises to ensure favourable pricing for its franchisees. We understand that key suppliers contribute to product development, promotional activities, and training for franchisees on products.

- Local supplies are sourced where appropriate and approved by the company

Shown below is an example of an Esquires menu, this one from the recently opened St Neots store:

Esquires Menu: Prices to Meet a Broad Range of Budgets

BREAKFAST & BRUNCH

BRUNCH

GF on request

Smashed avocado VE 296kcal – Avocado on toasted bloomer, chilli & tomato	6.25
Beans on bloomer V 445kcal – Tomato baked beans on bloomer	4.25
Bacon roll 514kcal – w/ choice of brown sauce or ketchup	4.50
Cumberland sausage roll 755kcal – w/ choice of brown sauce or ketchup	4.75
Eggs benedict 707kcal – Two eggs, British ham, baby spinach & hollandaise sauce on toasted English muffin	7.50
Eggs florentine V 613kcal – Two eggs, baby spinach & hollandaise sauce on toasted English muffin	6.75
Eggs royale 794kcal – Two eggs, cured smoked salmon, baby spinach & hollandaise sauce on toasted English muffin	7.50
Poached eggs on toast V 471kcal – Two poached eggs on two slices of bloomer	4.95
Scrambled eggs on toast V 502kcal – Two scrambled eggs on two slices of bloomer	4.95
Esquires full English 850kcal – Two eggs, smoked bacon, pork & herb sausage, roast tomato, field mushroom, baked beans, hash & toast	7.95
Esquires full vegan VE 604kcal – Smashed avocado, two vegan sausages, roast tomato, field mushroom, baked beans, hash, spinach & toast	7.95

SWEET BREAKFAST

Toast V 299kcal – Bloomer or GF w/ butter & jam	2.25
House porridge VE on request 506kcal – Rolled oats, banana & toasted seeds	4.50
Esquires granola V 430kcal – Jumbo oats, seeds, berry Greek yoghurt, seasonal fruits, chia seeds & nuts	4.95
Pastries – Choose from our selection	

KIDS BREAKFAST MENU

Little breakfast V 435kcal – Scrambled eggs, baked beans & sausage	3.95
Porridge V 282kcal – Berry & honey	3.25
Kids avocado on toast VE 215kcal	3.75

EXTRAS

Hash VE 100kcal	1.00
Baked beans VE 93kcal	1.00
Two slices of bloomer VE 299kcal	1.95
Smashed avocado VE 102kcal	3.00
Poached eggs V 170kcal	1.25
Scrambled eggs V 210kcal	1.25
Rasher of bacon 75kcal	1.00
Pork & herb sausage 217kcal	1.50

DELI MENU

SOUP OF THE DAY

Warming soup of the day 373-621kcal – Served w/ thick slice of bloomer. Ask about our soup of the day for correct calorie info	4.95

SANDWICHES & BAGUETTES

Falafel VE 551kcal – Hummus & baby spinach	5.50
Tuna melt 649kcal – Tuna mayo, baby spinach & cheddar	5.50
Grilled ham & cheese 679kcal – Ham & cheddar	5.50
Smoked salmon bagel 413kcal – Cream cheese, baby spinach & lemon	5.95
Mushroom melt V 471kcal – Mushrooms, cheddar & mozzarella	5.50
Ham & cheese melt 602kcal	5.50
Ham & cheese toastie 567kcal	4.75
Cheese & tomato toastie V 462kcal	4.75
Deli sandwich of the day – Please ask our staff for our daily specials	5.95

JACKETS

Naked w/ butter V 350kcal – Served w/ chopped garden salad	3.50
Add smashed avocado (VE) 171kcal, cheese & beans (V) 418kcal, tuna mayo 260kcal, or ask for our daily specials.	3.00

SOURCE: *Company Data, *Menu Pricing as of October 2022*

Esquires' new outlet in St. Neots highlights the attraction of the brand's food and drinks offering with a variety of food offerings, from smashed avocado with chilli, lemon, rocket & tomato, to deli sandwiches, bacon baguettes and sausage rolls, to muffins and freshly baked pastries. Esquires has gluten free and vegan options. Alongside coffee, the new outlet also serves smoothies. Fresh food products are offered on a grab and go basis but also to eat in, thus providing a broad range of freshly made food versus the more restricted range from the large chains.

Cooks also provides free Wi-Fi and power points in Esquires and Triple Two outlets, so that customers are able to spend more time in store, which tends to lead to higher spend on food.

For efficiency in fresh food preparation, Esquires selects a number of ingredients that can be used across the menu range to ensure that ingredients are not wasted through lack of sales and margins are protected. One example is eggs; used for the Full English Breakfast and higher margin dishes such as Benedict or Florentine.

Cooks' EPOS data from franchise outlets provides detailed information on which lines are selling and which are not. This enables franchisees to maximise sales, reduce product lines held and importantly reduce the amount of unsold food.

Triple Two: On Trend

Triple Two provides its customers with their coffee in the morning, lunch in the afternoon and in certain locations, alcoholic beverages in the evening. Triple Two is targeting a younger demographic than Esquires, which is to a degree reflected in the food offering but also an increasing number of Triple Two outlets are open in the evening offering drinks including cocktails.

Triple Two – Food On The Go & Evening Drinks

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ALL DAY BRUNCH

FULL ENGLISH 10.95
Lincolnshire sausages, bacon, folded eggs, tater tots, mushroom, tomatoes, beans & sourdough toast.

VEGGIE FULL ENGLISH 10.95
Quorn sausages, folden eggs, tater tots, mushrooms, tomatoes, beans, avocado & sourdough toast.

Half portions and swaps available.

SOURDOUGH SANDWICH 5.00
Back bacon or Lincolnshire sausages in two slices of sourdough.

SOURDOUGH TOAST 3.00
Served with your choice of jam, honey, Nutella or marmalade.

AVOCADO ON SOURDOUGH 5.95
Smashed avocado on sourdough.

BEANS ON SOURDOUGH 4.95
Baked beans on sourdough.

FOLDED EGGS ON SOURDOUGH 5.50
Free-range folded eggs on sourdough.

BUTTERMILK PANCAKES 5.50
Four buttermilk pancakes served with lemon yoghurt, maple syrup, mixed berry compote & fresh fruit.

EXTRAS
Back Bacon Rasher 2.50
Lincolnshire Sausages 2.50
Avocado 2.00
Vine Tomatoes 1.75

BOWLS

ORGANIC PORRIDGE OATS 4.95
Served with your choice of milk, and two toppings.

ORGANIC BRAZILIAN ACAI 8.50
Served with your choice of three toppings.

HOUSE GRANOLA & YOGHURT 5.50
Greek style yoghurt served with handmade granola & mixed berry compote.

PICK YOUR TOPPINGS Extras +1.00
Strawberries, Almond Butter, Blueberries, Honey, Banana, Maple Syrup, Chia Seeds, House Granola

BEER & CIDER

DRAFT

	1/2 Pint	Pint
Cruzcampo 3.8%	2.35	4.60
South West Orchard Cider 5.0%	2.20	4.30

BOTTLES
Camden Hells 330ml 4.6% 4.90
Camden Pale Ale 330ml 4.0% 4.80
Hop House 13 330ml 5% 4.80
BrewDog Punk IPA 330ml 5.6% 4.80
Portobello Pale Ale 330ml 4.6% 4.80
Old Mount Kiwi & Lime 500ml 4.0% 5.20
Peacock Apple Cider 500ml 4.8% 5.20

GLUTEN FREE & LOW ALCOHOL
BrewDog Vagabond 330ml 4.5% 4.10
Estrella Damm Daura 330ml 5.4% 4.90
Brew Dog Nanny State 330ml 0.5% 4.40

GIN & TONIC

Served tall as a double with your choice of tonic.

Choose from Fever Tree Tonics: Tonic Water, Light Tonic, Elderflower, Lemon or Light Cucumber

AGNES ARBOUR 6.95
BOMBAY SAPPHIRE 6.30
COTSWOLD GIN 6.95
PLYMOUTH SLOE 6.95
GIN MARE 6.95

SHOTS

SNICKERDOODLE 4.-
Kahlua · Hazelnut · Baileys

PICKLEBACK 5.-
Makers Mark Bourbon · Pickle Juice

TRIPLE TWO COFFEE VERMOUTH 4.-
Triple Two House Blend Infused Vermouth · Agnes Arber Gin

LEMON DROP 4.-
La French Vodka · Lemon Juice · Sugar

KENTUCKY SLAMMER 4.-
Agnes Arber Gin · Disaronno · Makers Mark Bourbon · Orange Juice

MOCKTAILS

MANGO MULE 4.50
Mango · Lime · Ginger Beer · Honey · Cucumber

BERRY SMASH 4.50
Raspberries · Blueberries · Mint · Lime · Gomme · Soda Water

VIRGIN MARY 3.95
Our classic Blood Mary, made without the tipple.

Enjoy a free coffee when you download our app!

SOURCE: *Company Data*

Stores: Localised, Attractive, Designed to Attract & Retain Customers

A we noted earlier, to open a store typically takes anywhere from 6-8 months, including the following steps:

1. Signing the franchise agreement.
2. Locating premises and securing the lease, ensuring all the legal documents are in order.
3. Designing the store.
4. Submitting planning and undertaking store fit-out.
5. Training staff and opening the store.

Once franchise agreements are signed, if a Regional Developer is not involved, Esquires and Triple Two work with the franchisees to identify appropriate premises and agree lease terms.

Head Leases are held in subsidiary companies, the ultimate owner being Cooks Coffee. All leases held are sublet to Franchise Owners on the same terms (less 7 days). Typical term of a leases are 10 years with a rental review every 5 years, however in some cases, Franchise Owners hold the Head Lease.

Cooks seeks to maintain brand consistency in terms of store exterior and interiors to ensure a cohesive brand appearance from the outside of the store all the way through to logos. Strong branding helps customers remember an enjoyable experience and encourages them to keep coming back and to recommend to others through word of mouth and, of course, social media. However, Cooks does not want to have "identikit stores" for each location so it works closely with franchisees to localise and differentiate exterior and interior designs.

Esquires' localisation begins with store fronts that are designed to fit in with town location neighbouring surroundings, to ensure kerb appeal but also satisfy planning requirements. The coffee shop store fronts are designed to be visually appealing, with large windows to give a clear view of the interior, plus where appropriate, outside seating to attract people inside.

Store Front Examples

London, Balham

Swindon

Bournemouth

Bristol

SOURCE: *Company Data, VSA Capital Research.*

Store Interior Design

Over the years, Esquires has been able to evaluate what type of store design and format works and what does not, and designs are evolved over time as public tastes change. The brand seeks to offer quirky coffee shops with each one feeling unique. Interior design is very important as it influences how customers feel when inside the premises, as well as setting expectations for branding and being practical.

The following are seen as key interior design factors:

Lighting: this helps create ambience and mood. Esquires sees variety as popular in coffee shop lighting design, with wall lights, lamps, and pendants all used to create cosy corners and well-lit areas.

Colours: again, important for mood and appetite when selling food and beverages.

Textures and materials: although Esquires see modern design as current and attractive, there is also the issue that it may go out of date quickly and be expensive to refurbish. The brand uses a combination of textures and materials that can be interchanged easily to freshen premises without the requirement for full refurbishment. Natural materials, particularly wood, are utilised to help to create a cosy atmosphere.

Layout: this is important from several perspectives including space for equipment and also staff to work freely, improving customer flow, safety, and speed of service to customers. The layout can also create a specific feel, e.g., of space and help to maximise the full potential of the space.

Shown below are several examples of interiors including the Esquires Coffee in Caerphilly for which the interior has been designed to have smooth, straight lines created by bench seating, complemented with natural light and hanging plants.

Esquires Interior Examples

Esquires, Leicester, Wullcomb

Triple Two, London, Leather Lane

Esquires, Caerphilly

Triple Two, Swindon

SOURCE: Company Data, VSA Capital Research.

See Appendix 3, later in the report, for further examples of store exteriors and interiors.

The Market and Competition

The largest geographic market for Cooks' brands is the UK and we will look at this first followed by Ireland.

Market research firm Statista estimated that in 2019, there were 25,892 coffee shops in the UK. Coffee shop outlets include branded coffee outlets, independent operators, and non-specialists.

In 2019, independent operators accounted for about 27% of coffee shops in the UK, while branded outlets accounted for approximately 32%, and non-specialist operators accounted for about 41% of coffee outlets.

The top five branded café outlets in the UK market, Costa Coffee (owned by Coca Cola, NYSE KO), Greggs PLC (LON GRG), Starbucks (Nasdaq SBUX), Caffè Nero and Pret a Manger. The top five branded outlets are the key competition to Cooks' brands, as are café-bars, such as Loungers PLC.

Cooks' Brands Positioned to Fill A Gap in The Market

The seen earlier, the branded café market is segmented into cafés that are coffee focussed and cafés that are food focused.

In the UK, Costa Coffee has the largest share in the coffee focussed segment and Greggs the largest market share in the food focused segment. The coffee focussed segment is circa 60% of the market and food focussed 40%.

Esquires and Triple Two both offer fresh food prepared on premises and have a distinct ethical and high-quality coffee focus. In our view they fill a gap in the market for customers that want a high-quality food offering, with high quality coffee enjoyed in a relaxing environment. This rather than grab and go food, i.e., a baguette or sandwich along with their favourite coffee as they head back home or to work.

Additionally, Triple Two also takes Cooks into the evening café/lounge market opening later and providing a broad range of alcoholic drinks alongside food; this serving the London market in particular.

Looking at UK market geographic spread, in 2021, according to Allegra research the overall number of branded outlets fell by 1.6% to 9,216 as the pandemic impacted revenues and drove closures. In 2021, 25% of outlets were in London and 75% in the regions.

The Branded Café Sector is Undergoing Strong Recovery Post Pandemic Impacts

Market research company Allegra Research (World Coffee Portal), in its highly comprehensive January 2022 Project Café report into the UK branded coffee shop sector, reported a UK-branded coffee shop market growing by 43% to £4.4bn in 2021 and regaining 87% of its pre-pandemic value. The Allegra report also noted:

- In 2022, the UK market is forecast to recover to pre-pandemic levels in terms of outlets, growing by 324 net stores since 2021 to reach 9,540 stores by the end of 2022.

- In 2021, according to data from Statista, the UK market leaders Costa Coffee, Greggs, and Starbucks all added locations to reach 2,791, 2,181 and 1,089 outlets, respectively. The overall branded market is concentrated with the leading players combined having a 76% share:

2021 UK Coffee Branded Outlet Market Share

Company	Outlets	% share
Costa Coffee	2,791	30%
Greggs PLC	2,181	23%
Starbucks	1,089	11%
Caffè Nero	650	7%
Pret A Manger	460	5%
Subtotal	7,171	76%
UK Market total	**9,402**	

SOURCE: *Statista and Allegra Research, VSA Capital Research*

- World Coffee Portal forecasts the UK branded coffee shop market will surpass pre-pandemic sales by the end of 2023 and reach £5.8bn over the next 5 years at 5.8% CAGR.
- The UK market is expected to exceed 10,500 outlets by the end of 2026, this a five-year outlet growth of 2.1% CAGR. Cooks grew outlet numbers by 20% in FY 2022.
- The UK coffee-focused segment is predicted to grow at 2.0% CAGR over the next five years to exceed 6,200 outlets, while the food-focused segment is anticipated to grow at 2.3% CAGR to exceed 4,300 outlets.

In Ireland, according to Allegra Research, the total Irish branded coffee shop market is estimated at 654 outlets.

Coffee shops are exceedingly popular in Ireland. A study from sleep experts Eachnight.com compared coffee shops per capita in leading European cities and Dublin came out on top with 232 café s for a 0.5m population i.e., 440 café s per million.

The market leader in Ireland is Insomnia which started with one outlet in 1997 and has since grown to over 170 outlets. ECHI note that a number of these are kiosks within the SPAR supermarket chain. Costa Coffee has 126 outlets and Starbucks 86 outlets. Esquires has 15 outlets in Ireland, and we forecast this to grow to 18 in FY 2023.

Recent Company Results Reflect the Branded Café Sector Recovery

The branded outlets are seeing strong recovery post COVID-19 measures:

Costa Coffee: parent company, Coca Cola reported in 4th quarter 2021 that Costa Coffee grew by 17% for the quarter and by 15% for the year, primarily driven by the ongoing reopening of Costa® retail stores in the United Kingdom.

Starbucks: saw year end September 2020 (FY 2020) revenue fall by 33% to £243m. FY 2021 revenue bounced back by 35% to £328m. In July 2022, The Times reported that Starbucks Corp. had appointed advisers to review options for its UK operations. A Starbucks spokesperson later told Bloomberg it "is not in a formal sale process for the company's U.K. business."

Greggs: reported 52 weeks ending 1st January 2022 results (FY 2021) and compared revenue performance with the prior pre pandemic period of 2019, and the height of the pandemic period of 2020 with 2021. FY 2021 revenue rose by 5.3% on 2019 level to £1,229.7m (2020: £811.3m, 2019: £1,167.9m). Like For Like (LFL) sales in company-managed shops 3.3% down on 2019 level. The 2021 pre-tax profit was £145.6m (2020: -£13.7m, 2019: £108.3m).

Caffè Nero: saw FY 2021 (May period end) annual UK sales fall by 36% from £239.7m to £153.3m and it moved into a loss of £16.0m. In 1H FY 2022, Caffè Nero reported sales of £135.7m, an increase of 211% for the same period in 2020, and an EBITDA of £29.4m.

Economic and Inflationary Risks Need to be Managed

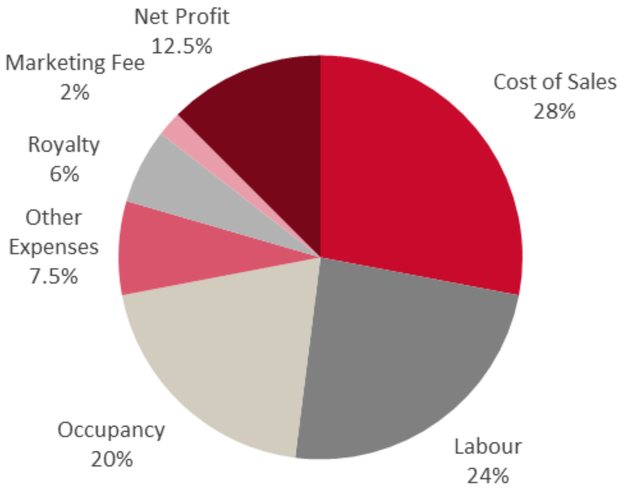
Inflation is now a key factor to consider in forecasting café businesses. Inflation can impact the disposable income consumers have to spend in Cooks' franchisee stores and cause rising costs for franchisees. If store revenues fall, it impacts Cooks' royalties, and falling profits could lead to stores closing.

A UK Consumer Spending Report published in July 2022 from Barclays Bank reported spending by card up by 7.0% in July 2022 when compared with July 2021, driven by a 29.9% rise in fuel spending. Non-essential card spend rose by 8.0% on rising travel spend post lockdowns. Consumers have been impacted by rising energy prices, with the average consumer spending 43.9% more on utilities compared to the same period last year. Spending on eating and drinking increased by 9.0% in July 2022 versus the same period last year, however when compared to the prior month, it was down for restaurants and bars, pubs, and clubs, as spend fell -4.5% and -2.7% respectively.

Cooks' franchisee stores require energy for fridges, heating, and lighting, but it is not just energy costs that are rising, with businesses in general also seeing staff and raw material costs increase.

We have looked closely at a Cooks franchise model to get an understanding of how inflation can be managed before resorting to increasing prices which could deter customer spend. The chart below shows the cost structure for a typical ECUK outlet. The outlet cost's structure is broadly similar for ECHI and Triple Two.

Cost Structure for Typical ECUK Outlet



SOURCE: *Company Data, VSA Capital Research*

The blended store gross margin is high at over 70%. Generally, margins are higher on coffee than for food as customers will pay a premium for a quality cup of coffee. The strong margins that can be achieved with the right quality of offering make coffee shops a popular business amongst franchisees. The better a cafés' brand in terms of product quality, overall offering and potential margins, the more attractive the brand will be to prospective franchisees.

COS: within Cost of Sales (COS) are costs for coffee, dairy (milk for lattes etc.) and food. As saw noted earlier, coffee commodity prices have doubled since the depths of the pandemic and have now stabilised. The industry has been absorbing this increase and passing on a proportion to customers through price rises. Cooks' brands prices for coffee track industry pricing. Leader Costa has increased pricing last year and this. Greggs as raised prices two times during 2022.

Accommodating food inflation: this requires Cooks brands to increasingly tighten up the range of food offered, using EPOS data to pareto monitor sales and achieve economies of scale through focus on volume sellers. Triple Two has recently introduced a focused Brunch Menu with a reduced number of items on offer. Costs can also be saved by cross use of ingredients to broaden menu offering and reduce food waste and cost, for example using eggs.

Labour: comprises c.24% of costs. Unlike the larger chain, the majority of Esquires and Triple Two outlets in the UK and also Esquires in Ireland, are single franchise outlets where the franchisee may work on premises. Also, many are regional where labour costs are lower and staff more readily available. The UK economy is softening, and this may help to free up the labour market and reduce pressure on pay.

Energy: we understand from our discussions with the Group this was c.3% of overall costs and is shown under the 7.5% "Other Expenses" shown. UK energy prices are now capped for an initial six months, and this is factored into our estimates.

Interest rates rise and franchisee ability to borrow to set up outlets: we understand from Cooks that it has a high rating with its lending partners. However, given the interest rate environment lending conditions for businesses will change. Franchises are likely to be looked at more favourably than completely new businesses given that franchises tend to be with already established brands. Whereas previously only tangible and saleable assets were financed, we understand from Cooks management that some institutions are now including franchise fees. For ECUK, whereby previously the franchisee would require circa £230k capital expenditure plus a £20k franchise fee with only £230k considered in terms of financing available, now all £250k can be so the relative % deposited by the franchisee for the loan is less. Despite interest rate rises, Cooks is growing the number of new franchisees attracted to its brands.

Technology, New Channels and Convenience Drive Sales

COVID-19 lockdowns saw café outlets close for extended periods and, when taking orders and serving externally, having to accommodate strict social distancing. This resulted in businesses quickly adapting their offering. Market research house Euromonitor reports that cafés have increasingly invested in products for off-trade home consumption, catering to new routines and habits. The sector is also having to adapt to pressure on consumer spend. The branded coffee outlet sector has been investing in technology, delivery methods and loyalty to attract and retain business. Geographic focus and differentiation are as important as ever.

Digitisation: greater adoption of digital apps including click and collect, digital loyalty schemes and digital offers. The Esquires Coffee digital app called the "The Esquires Perks Loyalty club" sees money spent using the app earn credit to spend on food and drink at any Esquires in the UK. The Esquires' customer loyalty card or phone is scanned at the point of purchase and the customer is rewarded with £0.05 of credit for every full £1.00 spent in store. Triple Two also offers an app mobile app for ordering and for its customer loyalty scheme.

Subscription models: are being used to entice customers to visit outlets more often during the week. Pret A Manger, for £25 per month, offers five Barista-made drinks (organic coffees, teas, frappes, hot chocolates and more) per day. We understand from Cooks that they do not see this as a profitable area of growth.

Coffee at Home: brands are increasingly targeting at-home consumption. This helps keep the brand fresh in consumers' minds and as the only coffee they drink. Triple Two offers its coffee beans for direct purchase through its website.

Delivery: a survey conducted by UK publication Which? found that 7 out of 10 people use delivery services. Esquires advertises delivery services using both social media and its website with seasonal offers to link through to platforms such as Just Eat, Deliveroo and Uber Eats. Esquires and Triple Two products are available for delivery by Deliveroo.

Drive-thru: highlighting the growing commercial potential of drive-thrus in the UK, 57% of consumers surveyed by World Coffee Portal in 2022 indicated they would purchase beverages from a drive-thru if the format were more readily available. By August 2022, Costa had reached 300 drive-thru outlets. Cooks' brands do not yet have drive-thru outlets although we understand that this is being considered for the future.

Branded vending machines: Costa machines, in retailers such as WH Smiths, are now a regular feature in motorway services alongside Costa outlets. Costa has over 8,000 machines in operation globally. Cooks' brands also do not yet have the outlet scale, in terms of 1,000's of outlets to offer vending machines, given their cost in low volumes.

Cooks' Brands Winning Franchisees in the face of Competitor Expansion

Costa Coffee, Greggs, Starbucks, and Pret a Manager all offer franchises across the UK and are the main competition. Despite the challenges of consumer spend pressures, the market is seen as attractive, and the sector is expanding:

Caffe Nero: in October 2021, when it announced its revenues recovering strongly post COVID-19 impacts, Caffe Nero announce that it was to open "dozens" of new outlets.

Greggs PLC: in July 2022, announced the opening of its 400th franchise. In October 2021, it outlined plans to accelerate the rate of net shop openings to c.150 per year from 2022, with an ambition to reach at least 3,000 shops across the UK as the next target for supply chain capacity planning assumptions. Of the yearly 150 net shop opening target, around 50 of these are expected to be opened via franchise partners and franchise shops and to account for 20% of the total estate in the years ahead.

Pret a Manger: UK sandwich chain Pret a Manger is planning to launch approximately 100 franchises outside London and other big UK cities, as part of its efforts to cope with the reduction of its office-working customer base. Pret a Manger has acknowledged that it had become too reliant on London, and that it suffered more than some rivals because of widespread working from home during the pandemic.

Starbucks: now has 70% of UK outlets franchised. In August 2022, Starbucks' franchise partner, 23.5 Degrees opened a store in Gateshead. This was 23.5 Degrees 90th UK store and it has plans to open 300 by 2027.

Cooks' brands: Esquires and Triple Two, through their own store individuality, quality of coffee and value for money food offerings, are successfully attracting franchisees to invest and are growing. In 2021, Cooks increased the total number of UK franchise outlets from 56 to 67 and we estimate it will grow to 86 UK outlets by year end March 2023.

Cooks' brands are winning new franchisees in the face of stiff competition, and it all starts with location.

Esquires is Growing Regionally: Triple Two is Evolving in New City Developments

Esquires has an established and growing regional focus in the UK and Ireland. Triple Two has a rapidly growing metropolitan presence, particularly on major new property developments. Looking at Esquires first,

Esquires: "Your Local"

Esquires' outlets are mainly "local" and nearer to consumers' homes in towns rather than main city centres commuted to for work. Outlets are encouraged to be an integral part of the local community, by employing and sourcing local produce as much as possible. Esquires is one of the few branded coffee franchise groups that can still offer a single store option – something that may be attractive in a region where the franchisee is local and does not want to manage outlets in other towns. All larger groups require a minimum, multi-site agreement and commitment engaging in community activities, charities, and community groups. Examples include church, community group meetings, student art exhibitions, book clubs, local business group meetings, BID meetings, student evenings (music or art usually).

Esquires seeks to target a broad demographic with stores generally operating in the daytime rather than evenings.

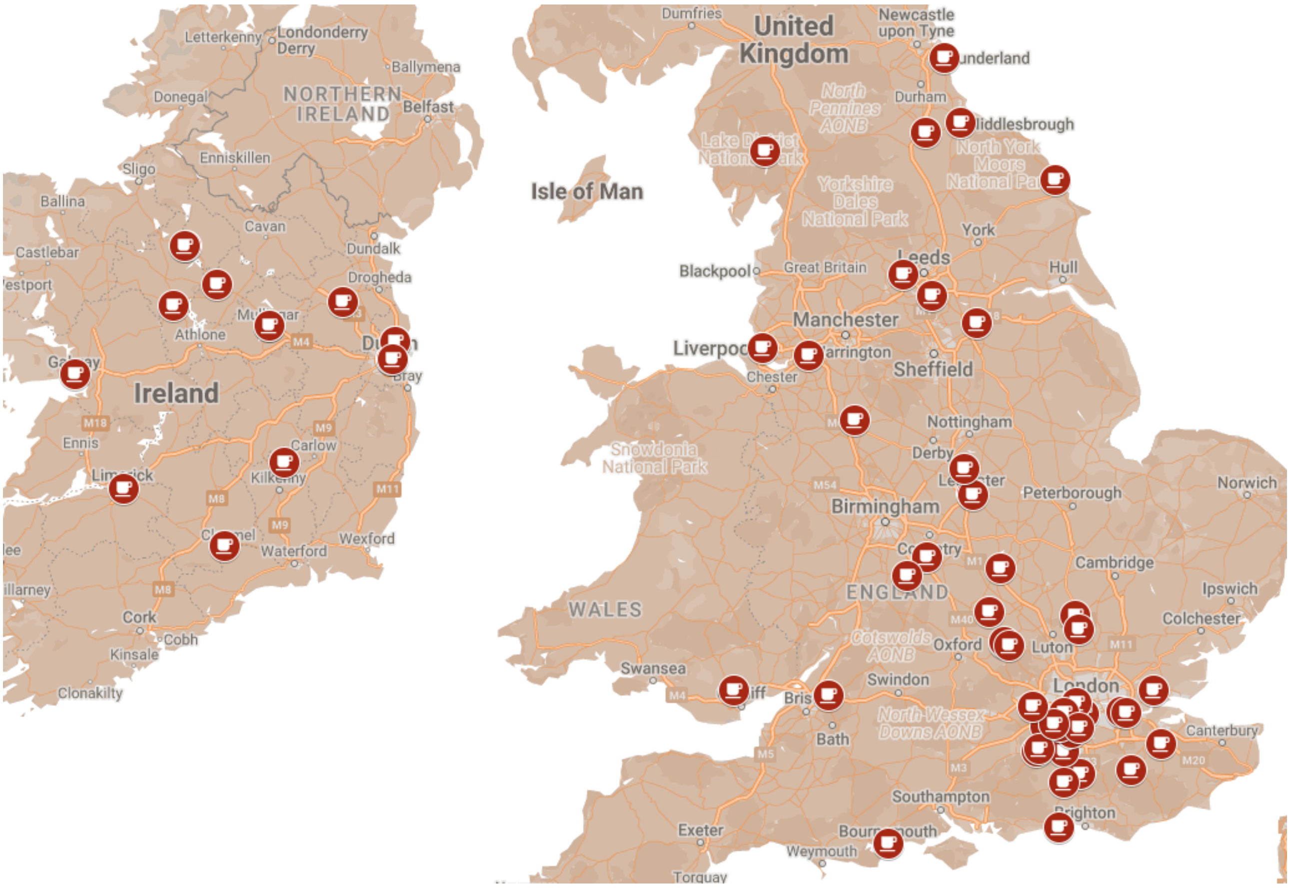
The following tables and maps show the Esquires store locations across England and Ireland as of FY 2022.

Esquires Locations: UK and Ireland

United Kingdom			Ireland
Addlestone	Dorking	Loughborough	Carrick on Shannon
Ambleside	Epsom Square	Maidstone	Carrick on Shannon, The Pod
Aylesbury	Esher	Middlesbrough	Castlecomer
Aylesbury Central	Guildford	Northampton	Clonmel
Aylesbury Lucas	Guildford Boxgrove	Scarborough	Dublin, Custom House
Basildon	Hanley	Stevenage	Dublin, Ilac Centre
Bournemouth	Horsham	Stockton Heath	Dublin, Talbot Street
Bradford	Leamington Spa	Stratford-upon-Avon	Galway
Buckingham	Leicester	Sunderland	Limerick
Caerphilly	Leicester Wullcomb	Tunbridge Wells	Longford
Coventry	Letchworth	Wakefield Ridings	Mullingar
Crawley	Liverpool	Walton on Thames	Mullingar, Harbour Centre
Crayford	London, Balham	Windsor	Navan
Darlington	London, Shepherds Bush	Worthing	Roscommon
Dartford	London, Sutton	Yate	Swords
Doncaster Wheatley	London, Twickenham		

SOURCE: Company Data, VSA Capital Research.

Esquires Locations: UK and Ireland Map



SOURCE: Company Data, VSA Capital Research.

Esquires has always been primarily town-based and this is now becoming an industry trend. Market research company Allegra Research, in its January 2022 Project Café report into the UK coffee shop sector, highlighted a move to smaller format coffee shops and neighbourhood locations.

Esquires identifies prospective locations themselves but given the extent of the UK retail geographic landscape, also employs external contractors to identify locations under its Regional Development Program. Each Regional Developer (RD) becomes responsible for the growth of that region.

- RD’s pay a fee to Esquires for the right to be responsible for a region. Typically, this fee is in the region of £250k-£400k. However, it can be set on a pro rata basis depending on population in the region and the strength of the company in that region

- RD’s secure a 50% royalty on franchisee revenues for the region. Although this halves Esquires UK income for the region, this is offset in part by the upfront fee and the royalty level is restored once the RD doubles the stores in their region.

- The RD areas/regions, as they become the responsibility of the local operator, retain Cooks audit support though not the level operational support provided to Cooks direct franchisees.

For the UK, in the West Midlands region for example, there are currently two Esquires stores, however the region includes the city of Birmingham and its surrounding area and so this offers large potential.

The RD model above has been deployed in the East of England since 2018 and has, according to the Group, almost doubled the number of stores through COVID-19 demonstrating that local knowledge and therefore the RD Program has been a success.

Esquires and Triple Two have both been attracting new franchisees to the brands, opening new outlets, and increasing revenues.

Triple Two is Growing Rapidly

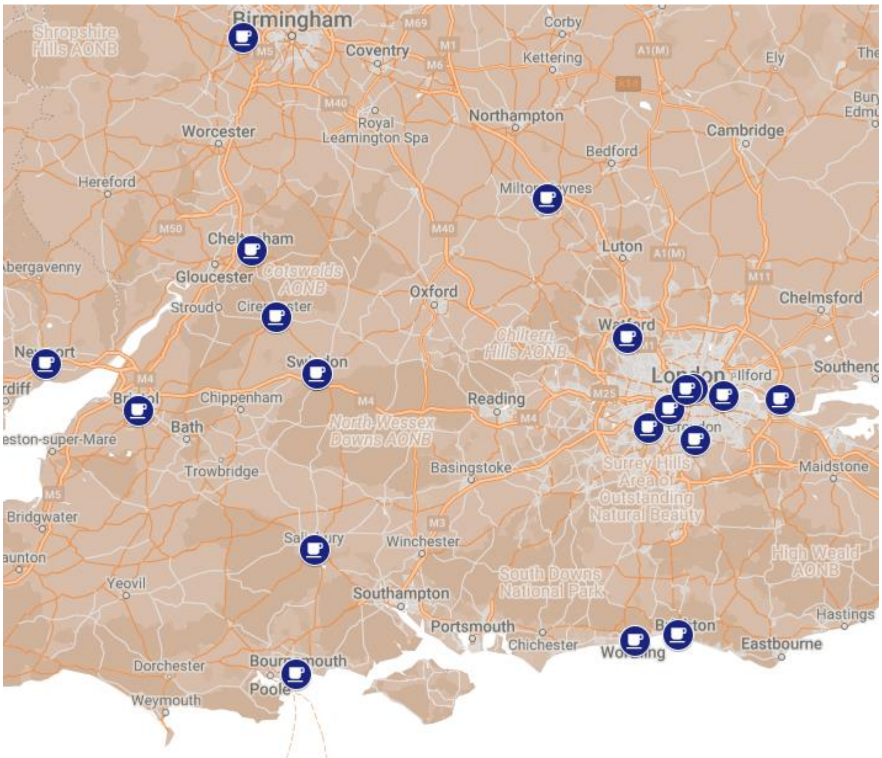
Triple Two opened its first outlet in 2016, was acquired by Cooks in June 2020, and since then has grown from 9 cafés as of 1 April 2021 to 20 cafés as at FY 2022, as shown in the table below. According to Cooks 2022 AGM presentation, Triple Two plans to end FY 2023 with 30 cafés.

Triple Two Locations in the UK

United Kingdom		**London**
Bournemouth	Milton Keynes	London, Croydon
Bristol	Newport	London, Leather Lane
Cirencester	Salisbury	London, Putney
Cheltenham	Swindon, H4	London, Royal Wharf
Grays, Lakeside	Swindon, The Crossing	London, Soho
Hove	Watford, South Oxhey	
Kingston-upon-Thames	Worthing	
Merry Hill, West Midlands		

SOURCE: *Company Data, VSA Capital Research.*

Triple Two locations UK Map



SOURCE: Company Data, VSA Capital Research.

Whilst Cooks' Esquires brand focus is on the High Street and suburban developments in the commuter belt, Cooks is targeting diversified locations through the Triple Two brand including:

New residential developments*:* these tend to offer lower store rents as the developers seek to have onsite key facilities for residents including cafés. London's new Royal Wharf development comprises over 3,385 residential units and a Triple Two outlet is located inside the Royal Wharf Clubhouse, offering an extensive drinks menu and food such as pastries, snacks, and mains including sandwiches, wraps, soups, and sushi; all available to eat in or take away.

Triple Two is to shortly begin operations at London, Fresh Wharf. This is Countryside and Notting Hill Genesis' £346m mixed-use regeneration scheme in Barking, East London. Countryside Property highlights the Triple Two outlet presence in its advertising for the development.

Vans: for delivery and to sell in any location such as major outdoor events.

Triple Two Vans

SOURCE: *Company Data, VSA Capital Research*

ESG: Ethical Coffee

Coffee growing is a major environmental issue as it has long been associated with deforestation and high water consumption. Coffee consumers are becoming increasingly aware of the issue, and this is driving the move to organic coffee. Esquires competes by offering only ethical coffee that is 100% organic.

Esquires only uses Fairtrade coffee. Fairtrade emphasises putting people rather than products first and was introduced to reduce the exploitation of small-hold farmers.

- A Fairtrade product certification means that farmers retain control and a guaranteed minimum price for their products. This is to ensure that coffee farmers get an equitable trade for their quality coffee.
- Fairtrade certification also facilitates full traceability of coffees and ensures that cooperatives receive at least the Fairtrade minimum price for coffee.
- The Fairtrade Premium is invested by the cooperative in programmes to support the development of the group and the wider community.

Triple Two purchases from and works with the same farms and co-operatives season-to-season, building trust and security, ensuring quality and consistency.

- Growers are audited independently at least bi-annually, to ensure not only quality, but adherence to community and environmental responsibilities.
- Coffees are from a variety of certifications, including Rainforest Alliance (House Blend 35%), and Fairtrade and Organic (Origin 100%).

Sustainability and Recycling

Coffee cups are also an environmental issue given problem of waste disposal. Esquires use cups that are fully compostable and 100% recyclable. The cups are PLA and PE free which means they do not contain any polyethylene and polylactic acid; two of the more commonly used materials in most paper cups.

Esquires promotes services such as Too Good To Go in local stores to tackle food waste, reduce environmental impact as well as generate extra revenue and introduce new customers to Esquires. We understand from Esquires that 54% of its stores currently use the service and since launching in the business at the end of 2019, has have saved over 10K meals from going to waste. Out of all of its participating stores, on average 80-85% Too Good To Go bags get sold on the app.

We note that Esquires that does not currently collect cups for recycling and instead relies on customers to dispose of them appropriately for recycling. This is understandable, given that the chain is still relatively small and is not able to cover the logistical costs associated with working with recycling companies to collect used cups that are specifically binned in stores. Costa Coffee for instance, now offers to recycle "*any* paper cup, small, large Costa or other". Customers just bring their empties to one of its outlets.

Triple Two works in partnership with KeepCup, a reusable takeaway coffee cup company with products in use across 75 countries.

Cooks Marketing: Attracting and Supporting Franchisees

Cooks undertakes a number of promotion and marketing strategies for Esquires and Triple Two to attract customers to its cafés and to support franchisees. These include:

Seasonal promotions: we understand that these are planned by analysing successes from previous campaigns, reviewing industry reports for consumer insight, and researching current market trends. The Group runs nationwide campaigns consisting of promoting limited-time only food and drink items with a point-of-sale visuals to advertise in stores, as well as comprehensive social media campaigns to raise awareness and drive footfall.

Product partnerships: Cooks chooses companies to partner up with for promotions to ensure they exhibit a similar ethos with emphasis on sustainability and responsible sourcing practices.

Social media: the Group's social media for its brands promotes seasonal campaigns and awareness days with topics related to the industry, e.g., International Coffee Day, National Vegan Day, World Earth Day and Fairtrade Fortnight. The brands utilise user-generated content to connect with online audiences as well as occasionally running competitions to create interest.

Loyalty scheme and delivery: as already noted, loyalty schemes are offered to customers either in the form of a physical loyalty card or through downloading the free loyalty app to their smartphone. Delivery is available for franchisees to serve customers through companies such as Deliveroo.

Delivery platforms: both brands are on food and drink delivery platforms as this is a growing trend.

New store openings: promoted on social networks and via press releases to the local areas. The Group also displays digital ads via purchasing advertising space for some locations, e.g., shopping malls.

Business development: the Group is active on WhichFranchise.com, a leading franchise website for industry related news and updates which allows it to generate leads. Cooks also runs regular Facebook adverts for the brands to attract prospects and expand its business.

Franchise Growth Forecasts

As we can see from the table below, by close of FY 2022, Esquires UK (ECUK) and Triple Two together in the UK had 67 franchised outlets and Ireland (ECHI) had 15. The Rest of the World (ROW – Pakistan, Indonesia and Middle East) accounted for 26 stores.

Forecast for the Number of Stores

Store profile	2021A	Opened in 2022	Closed in 2022	Net addition	2022A	Opened in 2023	Closed in 2023	Net addition	2023E	Opened in 2024	Closed in 2024	Net addition	2024E
ECUK	45	4	2	2	47	12	2	10	57	14	2	12	69
Triple Two	11	11	2	9	20	10	1	9	29	12	1	11	40
ECHI	13	3	1	2	15	3	0	3	18	4	1	3	21
Europe	1	0	0	0	1	0	0	0	1	0	0	0	1
Pakistan	4	1	2	-1	3	2	0	2	5	2	0	2	7
Indonesia	1	0	0	0	1	0	0	0	1	0	0	0	1
Middle East	18	5	2	3	21	1	0	1	22	1	0	1	23
Total	**93**	**24**	**9**	**15**	**108**	**28**	**3**	**25**	**133**	**33**	**4**	**29**	**162**
Growth	16.3%				16.1%				23.1%				21.8%

SOURCE: *Company Reports, VSA Capital Research*

FY 2022 revenue, derived primarily from royalties on end store sales and franchise fees, was NZ$7.4m with NZ$0.3m from ROW, this given historic low royalty-bearing licences. The strategic focus ahead is on expanding in the UK and Ireland; regions where the Group sees most longer-term end market potential.

In FY 2023, we forecast that ECUK will open 12 new franchises with 2 closing. ECUK has in H1 2023 announced 3 new franchise openings in Luton, St Neots and Walton-on-Thames. For FY 2024, it is estimated that 14 new franchises will open and 2 will close. Looking to earlier stated expansion plans from major competitors, our estimated rate of expansion seems modest.

During FY 2022, Triple Two increased the overall number of outlets by 9. For FY 2023, we forecast that Triple Two will open 10 new franchises in the UK with 1 closing to end FY 2023 with 29 outlets. So far, in H1 2023, Triple Two has announced 3 planned new franchise openings in Bromley, London, Fresh Wharf and London, Camden. The recent Cooks AGM statement notes that Triple Two is targeting having 30 outlets by the end of FY 2023. We estimate a further 12 new outlets will open and 1 close during FY 2024 bring the total number to 40.

The pace of growth for branded coffee outlets in Ireland is slower than for the UK market. We anticipate ECHI opening 3 new outlets in FY 2023 and a further 3 in FY 2024 bring the total number to 21.

ECUK, ECHI and Triple Two are the core revenue drivers for the Group. Shown in the table below are actual end store sales totals for FY 2021 and FY 2022 and our estimates based on the store openings and closings in the table above. The ROW stores provided original regional licence fees for Group, whereas now they provide a low level of sales per store.

Forecast for Store Revenues, NZ$ m

Royalty revenues	2021A	2022A	2023E	2024E
Number of outlets	93	108	133	162
Total outlet revenue	24.8	52.7	65.7	76.1
Revenue growth, YoY %		112.3%	24.7%	15.9%
Average revenue per outlet	0.27	0.49	0.55	0.60
Royalty fees	0.7	2.5	3.0	3.5

SOURCE: *Company Reports, VSA Capital Research*

FY 2021 saw average annual outlet revenues of NZ$0.27m and as lockdowns and COVID-19 restrictions ended, FY 2022 saw average per outlet annual revenues grow to NZ$0.49m.

In FY 2022, average value per store transaction rose 26% to NZ$12.30 although actual transaction numbers were lower.

For FY 2023, we estimate average annual store sales growing from NZ$0.49m per outlet to NZ$0.55m, a rise of 19% this as customer average value per transaction increases through a combination of:

- Development of click & collect including delivery.
- Higher spend through evening café/bar offering.
- Digital app increasing loyalty and store including longer stay and food purchase.
- Inflationary price increases.

For FY 2024 we estimate per store sales growth of 9% supported by the above but a lesser level of inflationary price increase.

Financials

Revenue

The table below summarises our revenue estimates. Note that in FY 2022 the reported revenue was NZ$7.7m. However, this included NZ$0.4m of UK government COVID-19 payments. We have excluded this and shown the underlying revenue of NZ$7.4m in our table.

Royalties: as can been seen in our overall revenue forecasts below, are a main revenue stream:

Number of Stores and Revenues

Group Revenue Summary	2021A	2022A	2023E	2024E
Franchise fees	0.3	3.0*	1.1	1.1
Royalties (at 5% of outlet revenue)	0.7	2.5	3.0	3.5
Incentives from suppliers	0.5	0.9	1.1	1.2
Sale of beans and other products	0.0	0.3	0.5	0.6
Construction and Other	0.2	0.7	2.0	2.4
Group underlying revenue	**1.7**	**7.4**	**7.7**	**8.8**

SOURCE: *Company Reports, VSA Capital Research*

The Group also derives revenue streams from franchise fees for new stores, incentives from suppliers as store sales volumes increase, external sales of coffee beans and other products, construction and other fees for store identification, leasing arrangement, design and fit out and regional licences for brands on a country basis.

Franchise fees: Esquires ECUK and ECHI basic franchise fees for a new outlet are £19.5k (NZ$38k) and £5k (NZ$9.8k) via a regional developer. For Triple Two, the fee is £17.5k (NZ$34k).

*FY 2022 franchise fees increased to NZ$3.0m from NZ$0.3m in the prior year. We have specifically asked the Company about this as the NZ$3.0m achieved seems high in relation to post COVID-19 business recovery, new store openings and therefore increased franchise fees. We understand that in FY 2022, under revenue classification, that NZ$1.6m relates Triple Two revenue from new franchisees using its in house property acquisition, design, and construction services for new outlets. Going forward this revenue will be reclassified under “Construction and Other” as shown in the table above.

For FY 2023 and FY 2024, we estimate annual franchise fees of NZ$1.1m supported by our estimated growth in ECUK, ECHI and Triple Two store numbers.

Incentives from suppliers: the Group recognises incentives from suppliers derived from its franchises at a point in time, based on purchases by franchisees that are reported back to Company on a monthly basis for purchases that occurred in that month. These incentives are paid by suppliers based on end store sales volumes.

Sales of beans and other products: we understand from Cooks' management that external sales of coffee beans and other products account for circa 1% of overall stores end sales. Triple Two has an online store selling coffee beans and branded merchandise. Out of store revenues for Group have increased since the acquisition of Triple Two in in FY 2021. Our expectation is as the Triple Two brand grows and more customers buy in store, they will also purchase the specialist coffee for home use. For FY 2023 and FY 2024 respectively, we forecast that sales of beans and other products will grow to NZ$0.5m (vs. NZ$0.3m) rising to NZ$0.6m.

Construction and Other: as noted earlier, whilst Esquires advises new franchisees and helps them identify external resource to undertake services including property identification, securing lease, design and store fit out, Triple Two keeps these services in-house and derives revenues through providing them to new franchisees.

For FY 2023 and FY 2024 respectively, we estimate revenue of NZ$2.0m rising to NZ$2.4m from increasing Triple Two new franchises and store openings.

Overall, for Group, we forecast FY 2023 revenue of NZ$7.7m (vs. NZ$7.4m underlying) rising to NZ$8.8m in FY 2024

Gross profit and margins

Cost Of Sales (COS) for Group is associated with sales of beans and other products alongside Triple Two construction related activities. FY 2022 COS was NZ$1.6m. This would have included costs from discontinued operations and COVID-19 period costs for stores as they opened and closed during shutdowns. For FY 2023 and FY 2024 respectively, we expect costs to normalise and estimate a COS of NZ$1.1m rising to NZ$1.2m.

Operating costs

Group operating costs in FY 2022, a total of NZ$6.0m, comprised NZ$2.5m staff costs, NZ$2.4m other costs including marketing, administration, travel and central, NZ$0.6m amortisation and depreciation and NZ$0.2m receivables loss and NZ$0.2m foreign exchange loss.

For FY 2023, we assume no receivables or foreign exchange losses, depreciation, and amortisation NZ$0.4m, staff costs up NZ$0.2m to NZ$2.7m as business is growing and other costs up NZ$0.1m to NZ$2.5m to give overall FY 2023 operating costs of reduced to NZ$5.6m from NZ$6.0m in FY 2022. For FY 2024, Group operating costs are expected to be flat overall at NZ$5.6m with increased staff costs offset by lower deprecation.

EBIT and EBITDA Margins

For FY 2023 and FY 2024 respectively, we forecast an EBIT of NZ$1.0m rising to NZ$1.9m and margin of 13.4% and 21.8%, an EBITDA of NZ$1.4m rising to NZ$2.2m and margin of 18.6% and 25.3%.

Financial income and costs

In FY 2022, Cooks P&L interest charge was NZ$0.8m. This related to debt comprising NZ$2.0m from a family trust associated with Keith Jackson and a further NZ$2.8m of related and third-party loans. Keith Jackson converted his NZ$2.0m debt to shares in December 2021. We estimate that FY 2023 end debt reducing from NZ$3.9m to NZ$3.0m. We therefore estimate, given lower debt, the P&L interest charge to reducing to NZ$0.4m for FY 2023 and FY 2024.

Tax

The Group has tax losses and we do not expect it to incur charges for FY 2023 and FY 2024.

Net profit/loss

In FY 2022, the Group produced a net loss of NZ$0.4m. For FY 2023 and FY 2024, on rising same store sales and an increase in ECUK, ECHI and Triple Two outlets, we estimate net profits of NZ$0.6m rising to NZ$1.6m.

On March 23rd, 2022, the Group undertook a 1 for 15 share consolidation of 775.9m shares in issue to result in 51.7m voting and 1.3 non-voting shares in issue. As at June 30th, 2022, there were 53.1m shares in issue. We reference this for our Earnings Per Share (EPS) calculations.

Earnings Per Share

For FY 2023 and FY 2024 respectively or estimated net profits of NZ$0.6m rising to NZ$1.6m produce an EPS of NZ$ cents 1.2, rising to NZ$ cents 3.0 this equating to an EPS of 0.6p rising to 1.5p.

Cashflow

FY 2022 (period ending March 2022) operating cash flow was influenced by the impacts of the acquisition of Triple Two which had been acquired in June 2020 (during FY 2021) during COVID-19's peak impact.

In FY 2022, the carrying value of Goodwill relating to the Triple Two business, was reduced by NZ$6.0m from NZ$11.5m to NZ$5.5m following a review of actual performance since the date of acquisition against the original forecasts, impacted by the Covid pandemic and key receivables being written off. Contingent consideration payable to Triple Two of NZ$6.4m was "derecognised" – this combined net losses and NZ$6.1m of goodwill add back saw FY 2022 operating cash outflow pre-working capital of NZ$0.2m. This, post an assessment considering actual cash flows generated relating to periods already completed, and revisiting cash flow forecasts to the end of the last earn out period (31 December 2022).

Within FY 2022 working capital, main movements were due to trade receivables reducing by NZ$3.4m to NZ$1.2m whilst payables in relation to deferred revenue reduced from NZ$5.2m to NZ$1,1m. Both movements mainly relate to double entry accounting of Debtors and Creditors for deferred revenue in relation franchise fees and, we understand from the Group, are essentially non-cash and were bought into account in the FY 2021 when the Triple Two Directors believed that certain Franchisees would deliver. In a number of cases initial Franchise Fees were paid.

In relation to deferred revenue, going forward, our forecasts will now only consider the cash that will be received from the ECUK Regional Development deals that have already been announced for London, East England & East Midlands.

The FY 2022 overall net operating cash outflow was NZ$0.6m. This combined with a NZ$0.2m outflow from capital spend and a NZ$1.1m inflow from financing saw the Group close with NZ$1.7m of cash and NZ$3.9m of debt.

For FY 2023, we estimate a net operating cash inflow of NZ$0.7m, capital spend of NZ$0.2m and a NZ$1.0m outflow from financing mainly paying down debt to see the Group close with NZ$0.5m of cash and NZ$3.0m of debt.

For FY 2024, we estimate a net operating cash inflow of NZ$1.4m, capital spend of NZ$0.2m outflow and no change in financing to see the Group close with NZ$0.3m of cash and NZ$3.0m of debt.

Valuation

We are setting a valuation of NZ$41.0m and 12-month share price target of NZ$ 0.78/sh.

Our valuation is based on a blend of Sum Of The Parts (SOTP) EV/Revenue, Group EV/EBITDA and is supported by a Discounted Cash Flow (DCF) which highlights the value potential as growth is realised. We have % weighted our valuation EV/Revenue 30%, EV/EBITDA 30% and DCF 40%. We have given the DCF a heavier weighting as this is a growth company moving into profit in FY 2023 to see growth strongly accelerate in on FY 2024.

- Our EV/Revenue SOTP valuation sets a valuation of NZ$15.1m
- A Group EV/EBITDA multiple, just set our FY 2023 EBITDA rather FY 2024 when profit growth really kicks in, sets a valuation of NZ$15.3m
- Our DCF produces a valuation of NZ$81.5m

This blended approach which demonstrates comparable results, is therefore strongly underpinned by a variety of growth metrics while the DCF driven by our earnings forecasts highlights the upside potential.

Peer Group Valuations: The Branded Café Sector

Market Cap. $m's	Ticker	EV / Revenue Year 1	EV / Revenue Year 2	EV / EBITDA Year 1	EV / EBITDA Year 2	EBITDA Margin %	Price EPS
Cake Box Holdings PLC	CBOX.L	1.3	1.3	7.2	6.8	24.3	10.4
Chipotle Mexican Grill Inc	CMG	4.7	4.2	27.4	22.5	14.4	36.5
City Pub Group PLC	CPC.L	1.4	1.3	8.1	6.4	2.7	12.2
Fulham Shore PLC	FULH.L	1.4	1.2	6.3	5.5	21.7	11.5
Fuller Smith & Turner PLC	FSTA.L	1.2	1.2	7.3	6.9	15.3	17.0
Greggs PLC	GRG.L	1.4	1.3	7.6	7.1	21.4	15.0
GYM Group PLC	GYM.L	3.3	2.7	7.9	6.9	23.1	20.8
Hollywood Bowl Group PLC	BOWL.L	2.7	2.7	7.5	7.7	38.6	11.5
Hostmore PLC	MOREH.L	1.0	0.9	8.1	7.4	15.3	12.8
J D Wetherspoon PLC	JDW.L	1.1	1.1	9.2	9.1	-24.4	13.1
Loungers PLC	LGRS.L	1.2	1.1	7.2	6.6	18.3	20.0
McDonald's Corp	MCD	9.0	8.8	17.4	16.1	49.1	22.6
On The Beach Group PLC	OTB.L	1.3	1.1	7.7	4.3	-45.6	7.0
Starbucks Corp	SBUX.O	3.6	3.2	18.7	16.4	21.9	26.5
Ten Entertainment Group PLC	TEG.L	3.1	2.9	7.3	6.7	32.2	7.3
Tortilla Mexican Grill PLC	MEX.L	1.2	1.0	17.8	14.7	17.0	43.1
Wingstop Inc	WING.O	12.9	11.2	45.1	38.4	27.7	72.9
Average exc. Wingstop & McDonalds		**2.0**	**1.8**	**10.4**	**9.0**	**13.1**	**17.7**
Average		3.0	2.8	12.8	11.2	16.1	21.2

Source: Eikon, VSA Capital Research.

Discounted Cash Flow (DCF) Valuation

Cooks has the potential to be a highly cash flow generative business and, based on our forecasts, will produce an FY 2023 EBIT of NZ$1.0m and margin of 13.4% and an FY 2024 EBIT of NZ$1.9m and margin of 21.8%. The Group, given high gross margins, has the potential for high operating leverage and we estimate the EBIT margin rising to 23.0% in FY 2025 and maintaining this as a steady state, as the Group will still need to invest in marketing and in developing its technology in the years ahead.

Cooks, in our view, is more than capable of achieving strong double digit top line growth. Towards the end of our 10-year forecast period, we moderate this to 5% growth so that the DCF terminal value does not overly weigh on overall value from core cashflow generation. We believe that a WACC of 9.4% is appropriate given that the business is well established, however it has gone through restructuring and is at an early stage of profitability and margin expansion. Our DCF valuation is shown below.

Discounted Cash Flow Valuation

Discounted cashflow NZ$m's	Mar-23E	Mar-24E	Mar-25E	Mar-26E	Mar-27E	Mar-28E	Mar-29E	Mar-30E	Mar-31E	Mar-32E
Sales	**7.7**	**8.8**	**12.3**	**15.9**	**19.9**	**23.9**	**27.5**	**30.3**	**31.8**	**33.4**
% Change	4.8%	13.4%	40.0%	30.0%	25.0%	20.0%	15.0%	10.0%	5.0%	5.0%
EBIT	1.0	1.9	2.8	3.7	4.6	5.5	6.3	7.0	7.3	7.7
EBIT Margin	13.4%	21.8%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Depreciation & Amortisation	0.4	0.3	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
EBITDA	1.4	2.2	2.9	3.8	4.7	5.7	6.5	7.2	7.5	7.9
Change in working capital	-0.3	-0.5	-0.1	-0.2	-0.2	-0.2	-0.3	-0.2	-0.3	-0.3
Capital Expenditure	-0.1	-0.2	-0.2	-0.2	-0.3	-0.4	-0.4	-0.5	-0.5	-0.5
Cash tax	0.0	0.0	0.0	-0.7	-0.9	-1.0	-1.2	-1.3	-1.4	-1.5
FCFF to Equity	**1.0**	**1.5**	**2.6**	**2.7**	**3.4**	**4.0**	**4.6**	**5.1**	**5.4**	**5.7**
WACC	9.4%									
Discount factor	1.00	0.91	0.84	0.76	0.70	0.64	0.58	0.53	0.49	0.45
Discounted cash flow	**1.0**	**1.4**	**2.2**	**2.0**	**2.3**	**2.6**	**2.7**	**2.7**	**2.6**	**2.5**
10-year NPV NZ$m's	22.1									
10-year NPV £m's	11.3									
Terminal value NZ$m's	59.4									
Terminal value £m's	30.3									
EV NZ$m's	**81.5**									
Net cash NZ$m=	-2.2									
Equity value NZ$m's	79.4									
Equity value £m's	40.5									
Number of shares m's	53.1									
DCF price per share NZ cents	149.5									

Source: Company Data, VSA Capital Research.

The explicit DCF forecast period provides a Net Present Value (NPV) of NZ$22.1m and a terminal value of NZ$59.4m. Our overall DCF valuation, using conservative assumptions for the Weighted Average Cost of Capital (WACC) and growth rates, clearly demonstrates the value proposition and growth potential. Our DCF produces a market capitalisation of NZ$79.4m and 12-month share price target of NZcents 150 vs. 41 currently.

Our Sum Of The Parts (SOTP) valuation is shown in the table below:

Sum Of The Parts Valuation

	Revenue NZ$m's YR1	EV/Revenue Multiple YR1	Implied EV NZ$m's YR1	Revenue NZ$m's YR2	EV/Revenue Multiple YR2	Implied EV NZ$m's YR2	Valuation Weighting	Valuation Contribution £m's
Cooks Coffee	7.7	2.0	15.4	8.8	1.8	15.8		
EV/Revenue			15.4			15.8	30%	4.7
EV/EBITDA			15.4			19.9	30%	6.0
DCF						81.5	40%	32.6
12 month EV Valuation Target NZ$m's								43.3
Net Cash NZm’s								-2.2
12 month Market Capitalisation target NZm’s								41.2
Shares in issue m’s								53.1
12 month share price target NZ cents								**78**

Source: Company Data, VSA Capital Research

Key Risks

Inflation and the supply chain: rising inflation is a global phenomenon and as economies have emerged from COVID-19 measures. Supply chains also remain stretched. In mainland Europe and the UK, compounded by the war in Ukraine, energy price increases have added to inflation and costs for business. Inflation and supply issues have also seen commodity price increases including coffee, dairy products, and wheat (for baked products). This puts pressure on sector costs and impacts profit margins. Price increases can only be passed onto customers to a degree.

Staff availability and costs: the UK hospitality sector has suffered from staff shortages driven by the pandemic and exacerbated by the curtailment of European workers post Brexit. This is a challenge to the hospitality industry and within it, coffee shops. Although Cooks' coffee shops are mainly run and staffed by franchisees, nonetheless, they do need to continue to attract staff and offer attractive pay. Inflation is driving up wages.

Interest rates: franchisees may borrow to cover the initial costs of associated with setting up a new franchise outlet including property identification, lease arrangements, store fit out and stocking. Given costs can be up to £270k depending on outlet size, location and condition, would-be franchisees may have to borrow a considerable part of these initial costs. Rising interest rates could deter potential franchisees.

New COVID-19 variants: the pandemic seriously impacted the hospitality sector. These effects are well documented and included outlet closures through lockdowns and restricted customer footfall. Cooks' revenue and profits fell during the height of the pandemic. The sector has adapted by increasing delivery channels beyond in-store, however, there remains the risk that a new COVID variant could emerge that once again requires lockdown measures.

Food safety and regulation: Cooks' brands offer fresh food prepared on its premises. Food must be prepared to ensure that products are safe and of the correct quality, Products are labelled for allergens and any cross contamination during preparation is avoided. Environmental and health are areas covered by regulation. This regulation can change and could lead to additional costs for equipment or staff.

Brand reputation: Cooks provides beverages and food to consumers. Franchisees must offer high product quality, ensure outlet cleanliness, comfort, and safety to ensure positive reviews by customers and to ensure health standards are met. If not, the brand reputation can be damaged which is a serious risk to the business. A cyber security incident could also impact IT infrastructure including EPOS and product ordering systems, potentially leading to a loss of data, including personal data. This in turn could cause disruptions to Group operations and lead to brand reputational damage and fines.

Appendix 1: Board and Senior Management

Board of Directors

Keith Jackson, Executive Chairman and Founder

Keith has an extensive background in management and governance with particular emphasis on the food and dairy industries. He was CEO of New Zealand's largest chicken company, Tegel Foods for 16 years from 1980 to 1996, Deputy Chairman of Ernest Adams and Managing Director of Independent Dairy Producers, a fresh milk company. Together with two others, Keith formed Dairy Farm Investments. Keith established Dairyland Products which was sold to a Danish company in 2017. Keith founded Cooks in 2008 via a merger of four companies and the company acquired the global rights to the Esquires Coffee (except NZ & Australia) brand in 2013. Keith has a Bachelor of Commerce from Otago University.

Peihuan Wang, Director

Peihuan Wang is currently the Chairman and General Manager of Shandong Jiajiayue Investment Holdings Co. Limited and Vice President of the China Chain Store and Franchise Association. Jiajiayue ("JJY") operates more than 1000 supermarkets in China and employs more than 30,000 staff. Mr Wang is of Chinese nationality and resides in the Shandong Province. He has been the recipient of a number of awards in China including 'the National Quality Excellent Manager', 'Person of the Year - Chinese Chain Industry', 'Person of the Year - Chinese Retail Industry', and 'Weihai City Mayor's Quality Award'. Mr Wang also currently sits on the board of New Zealand company Weihai Station Limited, which runs farming operations and was granted consent from the overseas investment office to buy 595 hectares of land situated southwest of Auckland.

Mike Hutcheson, Independent Director

Mike co-founded leading advertising agencies; Colenso BBDO and Hutcheson Knowles Marinkovich, culminating his advertising career in Auckland as Managing Director of Saatchi and Saatchi. He has written five books including his latest on creative ways to reinvent yourself post COVID-19. He has produced humour and innovation columns for newspapers and magazines and has been named Business Columnist of the Year in the Magazine Publisher's Awards. He is a director of a number of private and public companies and is a regular television guest and commentator. In 2021 he was inducted into the Marketing Hall of Fame. He is a Fellow of the Chartered Institute of Marketing and in 2017 he was appointed an Adjunct Professor at Auckland University of Technology.

Paul Elliot, Independent Director

Paul Elliott has extensive experience as CEO and CFO of major New Zealand corporates, including Metlifecare, Zespri, Pacific Retail Group and, more recently, Asset Finance Limited, a regional non-bank deposit taker. He has served as a director of both publicly listed and privately held companies and is a chartered member of the New Zealand Institute of Directors. For the past nine years he has been a partner in a boutique corporate finance business, Time Capital NZ. During that time, he has acted as advisor in a number of business acquisitions and turnaround assignments and has managed due diligence projects on behalf of several mergers. He continues to provide advisory services to New Zealand corporates and several high-net-worth individuals as a partner in Time Capital.

Michael Ambrose, Director

Michael is an experienced Company Director, business consultant and Chartered Accountant with a broad range of governance, financial, general management, strategic and IPO skills. Michael was founding Director of Arvida Group Ltd. This Public Company was listed in 2014 and is comprised of 32 Retirement Villages and Aged Care facilities. He is also: a Director of Fiordland Lobster Company & related Companies, Chairman of the international board of Garra International Limited, a meat and chicken trading company which has its head office in Brazil, Chairman of the Board of Deep Creek Fruits LP, Chairman of the Board of Chateau Hotel Marlborough Ltd and Chairman of Senior Move Managers Limited, which provides a complete relocation service to seniors moving house or into Retirement Villages or individual homes.

Senior Managers

Craig Brown, Chief Financial Officer

On September 27th, 2022, the Company announced the appointment of Craig Brown to the role of Chief Financial Officer with effect on 1 October 2022. Craig was previously the CFO of Cooks Coffee for approximately six years, before departing in 2019 to co-found Management Response Limited, a New Zealand company providing business advisory, governance, and contract executive services. Accordingly, Craig comes into the CFO role with an extensive knowledge of the Cooks Coffee business and an ability to draw on additional resources from Management Response, where required. Craig has extensive experience in senior financial roles providing targeted support to owners and manager to help facilitate business improvement, change or transformation. He has experience in senior commercial leadership roles encompassing audit, project financial and general management working with a wide range of enterprises.

Aiden Keegan, Managing Director, UK

Aiden has more than 20 years' experience in the food and beverage industry, with skills in franchisee and supplier relationship as well as optimisation of operational systems. Aiden has been with Esquires for more than 14 years and was Operations Manager in Ireland before taking up his current role.

Tony McVerry Managing Director, Ireland and Europe

Tony is the former master franchise holder in Ireland. He grew the Irish Esquires Coffee franchise business from a standing start in 2000 to a total of five stores before selling the master franchise to Cooks Coffee Company in 2013. Prior to that Tony had a long career in banking. Starting with the Bank of Ireland in 1972, he then moved to First Active Bank in a variety of senior roles.

David Hodgetts, Co-Founder, Triple Two Coffee

David is the co-Founder of Triple Two Coffee, which was started in 2015. He has been responsible for building the business to where it is today regarded as one of the fastest-growing café brands in the UK. David has overseen extensive growth at Triple Two, taking the brand from a start up to having over 200 people employed by the Triple Two brand. David recently won the rising star award at the QSR awards, recognised as the leading entrepreneur in the hospitality industry under 30.

Appendix 2: Coffee Roasting

Roasting the green coffee beans extracted from the cherries changes both their physical and chemical properties such as the concentrations of sugars, acids, proteins and acids. Beans are first loaded into a hopper, screened to remove any unwanted elements and then fed into either a drum roaster, with a heat source under the drum or a hot air (fluidised bed) roaster. Temperature and heating timings are then varied to achieve the roasting temperature/time profiles ("roast profile") that creates the desired blend and mix of flavours. Other profile factors also consider the coffee bean origin, variety, density and moisture content.

The 4 main types of roasts are Light, Medium, Medium-Dark and Dark, all determined by temperature and roast time. Coffee beans expand when roasted and moisture evaporates, and "crack" once they heat internally to 196 Degrees C. This first "crack" is the start of the Light Roast.

Coffee Roasts: Light/Medium/Medium-Dark/Dark

***SOURCE:** perfectdailygind.com, VSA Capital Research.*

The difference between the four roasts is succinctly described by Esquires' roaster, Glasgow based Matthew Algie (https://www.matthewalgie.com) which supplies thousands of cafés and have been roasting coffee for over 150 years:

"Why does the colour of the roast matter? It depends on the beans, but light roasts usually have quite a green aroma. Expect bright acidity, citrusy flavours and a noticeably astringent aftertaste. Medium roasts add more body and a caramel nose – along with nutty, chocolatey flavours and a smooth aftertaste. The darker roasts hit you with a smokier aroma and low acidity. Cocoa flavours give way to a more bitter aftertaste."

Appendix 3: Store Exteriors and Interiors

Further Store Front Examples

Cirencester

Leicester

Watford

St Neots

SOURCE: *Company Data, VSA Capital Research.*

Esquires Interior Examples

Leicester, Wullcomb

Leicester

Caerphilly

St Neots

SOURCE: *Company Data, VSA Capital Research.*

Financials

Forecast Income Statement, Year End March, NZ$m

Profit & Loss	**2021A**	**2022A**	**2023E**	**2024E**
Revenue	1.7	7.4	7.7	8.8
Grants (COVID 19) and other income	1.0	0.4	0.0	0.0
Total revenue	**2.7**	**7.8**	**7.7**	**8.8**
Underlying revenue growth %			4.8%	13.4%
Raw materials and consumables	**-0.1**	**-1.6**	**-1.1**	**-1.2**
Gross profit	**2.6**	**6.2**	**6.6**	**7.6**
Gross margin	94.9%	79.2%	85.8%	86.3%
Depreciation and amortisation	-0.8	-0.6	-0.4	-0.3
Impairment loss on receivables	0.0	-0.2	0.0	0.0
Net foreign exchange loss/gain	0.4	-0.2	0.0	0.0
Employee cost	-2.3	-2.5	-2.7	-2.8
% of sales	131.9%	32.0%	34.9%	31.7%
Other expenses	-1.6	-2.4	-2.5	-2.6
% of sales	91.0%	32.8%	32.2%	29.3%
Total operating costs	**-4.3**	**-6.0**	**-5.6**	**-5.6**
EBIT	**-1.7**	**0.2**	**1.0**	**1.9**
EBIT Margin %	n/a	3.2%	13.4%	21.8%
EBITDA	**-0.9**	**0.8**	**1.4**	**2.2**
EBITDA Margin	n/a	11.0%	18.6%	25.3%
Finance Income	1.1	1.1	1.2	1.2
Finance charges	0.0	0.0	0.0	0.0
Interest expense on leases	-1.3	-1.2	-1.2	-1.2
Interest on loans	-0.8	-0.8	-0.4	-0.3
Reduction in consideration payables	0.0	6.4	0.0	0.0
Impairment of goodwill	0.0	-6.0	0.0	0.0
Profit/(loss) Before Tax	**-2.6**	**-0.2**	**0.6**	**1.6**
Tax	0.1	0.1	0.0	0.0
Tax %	n/a	n/a	n/a	n/a
Net profit/(loss) from continuing operations	-2.5	-0.1	0.6	1.6
Net profit/(loss) from discontinued operations	0.0	-0.3	0.0	0.0
Net profit/(loss) attributable to shareholders	**-2.5**	**-0.4**	**0.6**	**1.6**
Change in foreign currency translation reserve	0.1	-0.1	0.0	0.0
Profit/loss attributable to shareholders	**-2.5**	**-0.6**	**0.6**	**1.6**
Average shares in issue m's (inc. 1.3m non-voting)	41.9	53.1	53.1	53.1
Weighted average shares in issue m's	41.9	53.1	53.1	53.1
EPS cents	-5.9	-1.1	1.2	3.0
EPS diluted cents	**-5.9**	**-1.1**	**1.2**	**3.0**
EPS p	**-3.0**	**-0.5**	**0.6**	**1.5**
EPS Growth	n/a	n/a	n/a	154%
Dividend per share cents	n/a	n/a	n/a	n/a

Source: Company Data, VSA Capital Research

Forecast Cash Flow Statement, Year End March, NZ$m

Cash Flow	2021A	2022A	2023E	2024E
Profit/(loss) after income tax	**-2.5**	**-0.4**	**0.6**	**1.6**
Depreciation and amortisation	0.8	0.6	0.4	0.3
Impairment loss	0.0	0.2	0.0	0.0
Net foreign exchange gains /loss	-0.4	0.2	0.0	0.0
Revaluation of consideration payable	0.0	-6.4	0.0	0.0
Impairment of goodwill	0.0	6.0	0.0	0.0
Subtotal	**-2.1**	**0.2**	**1.0**	**1.9**
Inventories	0.0	0.0	0.0	0.0
Trade and other receivables decrease/(increase)	-5.5	3.4	0.1	-0.5
Other short-term assets	0.7	0.7	0.0	0.0
Trade and other payables (decrease)/increase	1.4	-0.9	-0.3	0.0
Contract liabilities (deferred revenue)	5.6	-4.1	-0.1	0.1
Other liabilities	-0.1	0.2	0.0	0.0
Change in working capital	**2.1**	**-0.8**	**-0.3**	**-0.5**
Cash from/(used in) operating activities	**0.0**	**-0.6**	**0.7**	**1.4**
Lease interest paid	0.0	0.0	0.0	0.0
Tax (paid)/received	0.0	0.0	0.0	0.0
Net cash from operations	**0.0**	**0.0**	**0.0**	**0.0**
Disposal	0.2	0.0	0.0	0.0
Acquisition of subsidiary	0.5	0.0	0.0	0.0
Property, plant and equipment	-0.1	-0.1	-0.2	-0.2
Acquisition of intangible assets	0.0	-0.1	0.0	0.0
Net cash used in investing activities	**0.5**	**-0.2**	**-0.2**	**-0.2**
Free cash flow	**0.5**	**-0.2**	**-0.2**	**-0.2**
Proceeds from borrowings	1.7	1.0	0.0	0.0
Proceeds from share issue	0.0	0.9	0.0	0.0
Repayment of right-of-use lease liabilities	-0.7	-0.2	-0.1	0.0
Repayment of borrowings	-0.8	-0.6	-0.9	0.0
Net cash used in financing activities	**0.1**	**1.1**	**-1.0**	**0.0**
Net (decrease)/increase in cash and cash equivalents	**0.6**	**0.9**	**-1.2**	**-0.2**
Cash and cash equivalents at beginning of period	0.3	0.8	1.7	0.5
Exchange rate changes impact on balances	0.0	0.0	0.0	0.0
Cash and cash equivalents at end of period	**0.8**	**1.7**	**0.5**	**0.3**
Debt at period end	**6.5**	**3.9**	**3.0**	**3.0**
Net cash/(debt)	**-5.7**	**-2.2**	**-2.5**	**-2.7**

Source: Company Data, VSA Capital Research

Forecast Balance Sheet, Year End March, NZ$m

Balance Sheet	2021A	2022A	2023E	2024E
Property, plant and equipment	0.1	0.2	0.2	0.2
Right-of-use assets	0.7	1.6	0.0	0.0
Lease receivables	16.2	16.5	16.1	16.1
Goodwill	11.6	5.5	5.5	5.5
Intangibles (brands value)	7.5	7.3	7.1	6.9
Other non-current financial assets	0.0	0.0	0.0	0.0
Total Fixed Assets	**36.1**	**31.0**	**28.8**	**28.7**
Cash and cash equivalents	0.9	1.2	0.5	0.3
Trade and other receivables	4.6	1.2	1.9	2.4
Lease receivables	2.1	2.8	2.0	2.0
Other current assets	1.3	0.6	0.6	0.6
Total Current Assets	**8.9**	**5.7**	**5.0**	**5.3**
Total assets	**44.9**	**36.8**	**33.8**	**34.0**
Trade Payables	5.4	4.5	4.2	4.2
Deferred revenue	5.2	1.1	1.0	1.1
Leases	1.9	2.9	2.2	2.2
Contingent consideration payable	6.4	0.0	0.0	0.0
Related and third-party loans	3.5	2.8	1.9	1.9
Other liabilities	0.6	0.6	0.6	0.6
Total Current Liabilities	**23.1**	**12.0**	**9.9**	**10.0**
Net Current Assets	**-14.3**	**-6.3**	**-4.9**	**-4.7**
Total Assets Less Current Liabilities	**21.8**	**24.7**	**23.9**	**24.0**
Deferred revenue	1.8	1.5	2.4	3.2
Leases	17.1	18.2	17.8	17.8
Deferred tax liability	1.3	1.1	1.1	1.1
Borrowings	3.0	1.1	1.1	1.1
Other liabilities	0.4	0.5	0.5	0.5
Non-current liabilities	**23.6**	**22.4**	**21.3**	**22.1**
Total liabilities	**46.7**	**34.4**	**31.2**	**32.1**
Net Assets/(liabilities)	**-1.8**	**2.4**	**2.6**	**1.9**

Source: Company Data, VSA Capital Research.

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VSA Capital Limited's recommendations are defined as follows:

BUY: The stock is expected to increase by in excess of 10% in absolute terms over the next twelve months.
HOLD: The price of the stock is expected to move in a range between -10% and +10% in absolute terms over the next twelve months.
SELL: The stock is expected to decrease by in excess of 10% in absolute terms over the next twelve months.

In addition, on occasion, if the stock has the potential to increase by in excess of 10%, but on qualitative grounds rather than quantitative, a SPECULATIVE BUY may be used

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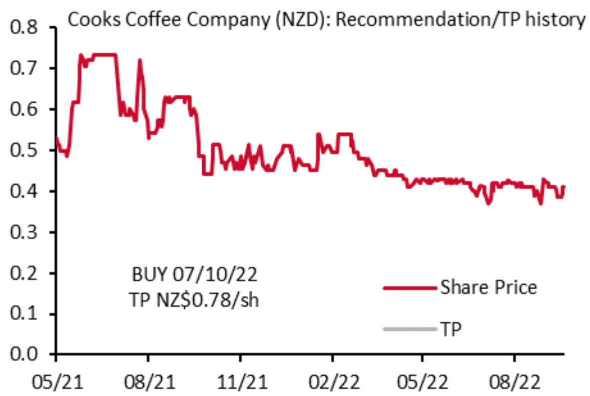
Recommendation and Target Price History



Valuation basis

Our valuation is derived from a risked NPV calculation.

Risks to that valuation

COVID-19, political risk, execution risk, financing risk.