

Marley Spoon AG (MMM) - Initiation

Initiation of coverage – Delivering Healthy Structural Growth

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Recommendation

Buy PT \$3.96

Risk Rating	High
12-mth Target Price (AUD)	\$3.96
Share Price (AUD)	\$2.63
12-mth Price Range	\$0.21 - \$3.80
Forecast 12-mth Capital Growth	50.6%
Forecast 12-mth Dividend Yield	0.0%
12-mth Total Shareholder Return	50.6%
Market cap (\$m)	673.3 (EUR 437.7m)
Net debt (net cash) (\$m)(Dec 20)	(5.3) (EUR 1.8m)
Enterprise Value (\$m)	676.0 (EUR 439.4m)
Gearing (Net Debt/ Equity)	17%
Shares on Issue (m)	256.0
Options / est. Convertible bonds (m)	15.1
Sector	Consumer Discretionary
Average Daily Value Traded (\$)	\$980,000
ASX 300 Weight	0.2%

Financial Forecasts & Valuation Metrics

Years ending Dec € m	19(A)	20(A)	21(e)	22(e)	23(e)
Sales revenue	129.6	254.0	322.5	383.6	441.2
Sales growth	41%	96%	27%	19%	15%
EBITDA	-30.2	-0.9	11.9	25.2	37.1
NPAT (reported)	-34.5	-86.2	1.4	14.4	25.7
NPAT (adjusted)	-40.1	-14.8	1.4	14.4	25.7
EPS (adjusted)	-27.4	-7.9	0.5	5.3	9.5
EPS growth	-23%	-71%	Large +ve	Large +ve	79%
DPS	0.0	0.0	0.0	0.0	0.0
OCF / share	-20.7	2.4	5.0	9.9	14.2

Valuation

P/E	-6.2x	-21.6x	325.8x	32.3x	18.1x
P / OCF	-8.2x	72.6x	34.2x	17.3x	12.1x
EV / Sales	3.8x	1.8x	1.3x	1.1x	0.9x
EV / Ebitda	-16.4x	-479.9x	36.4x	16.6x	10.5x
Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Cash from Operations	-30.3	4.4	13.5	26.7	38.4
Net cash (net debt)	-47.6	-1.8	18.3	37.0	67.4
Enterprise Value	494.0	449.6	433.7	418.5	391.4

MMM SHARE PRICE PERFORMANCE



Summary

Marley Spoon AG (MMM) is a subscription-based weekly meal kit provider founded in Germany in 2014. A meal kit is a box delivered directly to the customers' home which includes the required ingredients to cook typically two or more meals along with step-by-step recipe instructions. Menus change weekly with 20-30 different choices per week.

MMM currently services customers in 8 countries across 3 three continents: Australia, USA and Europe (Austria, Belgium, Denmark, Germany, the Netherlands and Sweden). Since launch, it has delivered over 92 million meals (46m in 2020). In Q4 2020 it had 327,000 active customers, up 80% year-on-year. MMM has also launched a second brand – Dinnerly which targets more cost-conscious consumers.

MMM launched in Germany in August 2014, the USA in April 2015 and Australia in June 2015. It listed on the ASX in July 2018 raising A\$70m at an IPO price of A\$1.42 per CDI (CHESS Depository Interests: 1,000 CDIs are equivalent to 1 underlying share).

Record CY2020 Results – Covid beneficiary

MMM delivered impressive growth in a watershed year:

- Revenue EUR 254m (~A\$391m) up 96% with strong growth in all regions: USA +127%, Australia +76%, Europe +66%.
- 327,000 Active customers in Q4, up 145,000 (+80%) yoy.
- 5.6m orders (v 3.0m +89%) and 46.7m meals (v 22.4m +108%) demonstrates strong consumer adoption.
- Contribution margin (Gross Profit less fulfilment expenses) EUR 74.1m (v 32.3m) +129% due to business process efficiencies and scale benefits.
- Ebitda loss of EUR -0.9m (v -30.2m) a + EUR 29.3m improvement. Australia and USA profitable before HO costs.
- Net Loss (normalised) EUR -14.8m (v -40.1m loss).
- Operating cash flow EUR 4.4m (v -30.3m) + EUR 34.7m.
- Net debt reduced to EUR 1.8m (v - 47.6m) dn EUR 45.8m.

Our Forecasts

We estimate revenue growth of 27% / 19% / 15% for CY21e / CY22e and CY23e. Our CY21 forecast is in line with MMM's guidance of 25-30% growth. We expect a normalisation in net new customer additions and order frequency in 2H21.

We expect ~68% revenue growth in Q1 before MMM cycles stronger comparables from Q2 (peak Covid) onwards.

Recommendation & Opinion

We believe that Covid has caused a permanent step change in consumer adoption and brand awareness of the meal kit model. Further, we believe that MMM and its main competitor Hello Fresh have developed a powerful customer friendly business model that ticks a lot of our boxes.

Potential user numbers and TAMs (total addressable markets) are huge at ~ 177m households for MMM's existing countries.

We initiate coverage with a Buy / High Risk recommendation. Our 12-mth price target is \$3.96 (based on our DCF and EV/ Sales comparables) which implies +51% potential upside.

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Introduction and Forecasts

We initiate coverage on Marley Spoon AG (ASX: MMM) with this detailed report, and highlight the many positives of the subscription-based meal kit business model. We believe that MMM has now achieved critical mass, boosted by a permanent step-change in consumer adoption and awareness in all of its markets. Whilst some normalisation in growth rates is expected as countries return to normal post-Covid, we believe the meal kit industry is still in its infancy in terms of market penetration. MMM is one of only two multi-national players, and MMM is just 6% of the market cap of its larger rival Hello Fresh SE (HFGG.F).

Marley Spoon (MMM) - Sequoia Forecasts							
Years ended Dec (€m)	CY17A	CY18A	CY19A	CY20A	CY21e	CY22e	CY23e
Op. Revenue	53.2	92.0	129.6	254.0	322.5	383.6	441.2
Revenue growth %	163.6%	72.8%	40.8%	96.1%	26.9%	19.0%	15.0%
Cost of Goods Sold	(34.5)	(54.2)	(71.8)	(133.3)	(167.7)	(195.6)	(220.6)
Percentage of revenue	-64.8%	-58.9%	-55.4%	-52.5%	-52.0%	-51.0%	-50.0%
Gross Profit	18.7	37.8	57.8	120.7	154.8	188.0	220.6
Gross profit margin %	35.2%	41.1%	44.6%	47.5%	48.0%	49.0%	50.0%
Growth	n/a	101.7%	52.9%	108.9%	28.2%	21.4%	17.3%
Fulfillment costs	(9.9)	(18.5)	(25.5)	(46.6)	(57.1)	(68.2)	(79.1)
Percentage of revenue	-18.6%	-20.1%	-19.7%	-18.3%	-17.7%	-17.8%	-17.9%
Contribution Margin	8.8	19.3	32.3	74.1	97.7	119.7	141.4
Percentage of revenue	16.6%	21.0%	25.0%	29.2%	30.3%	31.2%	32.1%
Marketing costs	(15.7)	(30.0)	(34.2)	(39.3)	(48.4)	(57.5)	(66.2)
Percentage of revenue	-29.6%	-32.6%	-26.4%	-15.5%	-15.0%	-15.0%	-15.0%
Cash Operating Expenses	(17.7)	(23.7)	(27.9)	(35.4)	(36.9)	(36.4)	(37.4)
Percentage of revenue	-33.3%	-25.7%	-21.5%	-13.9%	-11.4%	-9.5%	-8.5%
Share based payments	(2.2)	(0.7)	(0.4)	(0.4)	(0.5)	(0.6)	(0.7)
EBITDA	(26.8)	(35.0)	(30.2)	(0.9)	11.9	25.2	37.1
Ebitda margin	-50.4%	-38.1%	-23.3%	-0.4%	3.7%	6.6%	8.4%
Depreciation & Amortisation	(0.4)	(0.8)	(4.6)	(6.5)	(8.0)	(8.8)	(9.5)
EBIT	(27.2)	(35.9)	(34.8)	(7.4)	3.9	16.4	27.7
Ebit margin	-51.2%	-39.0%	-26.8%	-2.9%	1.2%	4.3%	6.3%
Net Interest income (expense)	(1.3)	(5.2)	(5.6)	(7.4)	(2.5)	(2.0)	(2.0)
Pre-tax Profit (Loss)	(28.5)	(41.1)	(40.4)	(14.8)	1.4	14.4	25.7
Tax expense	(0.0)	(0.0)	(0.0)	(0.1)	0.0	0.0	0.0
Tax Rate	0.0%	0.0%	-0.1%	-0.9%	0.0%	0.0%	0.0%
Minorities share of (profit) loss	0.5	0.2	0.3	0.1	0.0	0.0	0.0
Reported NPAT (ex NRI's)	(28.0)	(40.9)	(40.1)	(14.8)	1.4	14.4	25.7
Abnormals	0.0	(0.1)	5.5	(71.4)	0.0	0.0	0.0
Reported NPAT (incl NRI's)	(28.0)	(41.0)	(34.5)	(86.2)	1.4	14.4	25.7
Adjustments	0.0	0.1	(5.5)	71.4	0.0	0.0	0.0
Normalised NPAT	(28.0)	(40.9)	(40.1)	(14.8)	1.4	14.4	25.7
EPS (reported)(incl NRIs) € cents	(24.4)	(35.7)	(23.7)	(46.1)	0.5	5.3	9.5
EPS (normalised) € cents	(24.4)	(35.6)	(27.4)	(7.9)	0.5	5.3	9.5
Weighted Avge CDIs on Issue (F/D)	114.8	114.8	146.1	187.2	271.1	271.1	271.1
(Note 1)							
Change in working capital	n/a	6.3	(1.8)	1.5	4.1	3.6	3.3
Cash from Operations	(20.9)	(4.8)	(6.2)	(21.6)	325.8	32.3	18.1
Investment cash flow	(1.6)	(4.7)	(6.3)	(8.6)	(10.0)	(8.0)	(8.0)

Source: Company actuals; Sequoia forecasts

Note 1: CY17 share count & EPS - We notionally use the FY18 share count for illustrative purposes

Segmental

Marley Spoon (MMM) - Sequoia Segmental Forecasts							
Years ended Dec (€m)	CY17A	CY18A	CY19A	CY20A	CY21e	CY22e	CY23e
1. Operating Revenue							
USA	18.8	37.1	56.1	127.2	166.9	197.0	226.5
Australia	19.9	32.3	48.8	86.0	95.5	116.3	133.7
Europe	14.5	22.7	24.6	40.8	60.1	70.4	80.9
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Group	53.2	92.0	129.6	254.0	322.5	383.6	441.2
2. Revenue growth							
USA	161%	97%	51%	127%	31%	18%	15%
Australia	503%	62%	51%	76%	11%	22%	15%
Europe	49%	56%	9%	66%	47%	17%	15%
Other							
Total Group	163%	73%	41%	96%	27%	19%	15%
3. Contribution margin €							
USA	2.2	4.5	11.4	32.7	46.7	57.1	68.0
Australia	4.6	10.7	16.1	31.4	35.3	43.6	50.8
Europe	2.1	4.2	4.9	10.1	15.6	19.0	22.7
Other							
Total Group	8.9	19.4	32.3	74.1	97.7	119.7	141.4
4. Contribution margin %							
USA	12%	12%	20%	26%	28%	29%	30%
Australia	23%	33%	33%	36%	37%	38%	38%
Europe	14%	19%	20%	25%	26%	27%	28%
Other							
Total Group	17%	21%	25%	29%	30%	31%	32%
5. Ebitda							
USA	(9.4)	(17.2)	(13.0)	4.1	15.3	22.5	29.9
Australia	(4.3)	(3.0)	(1.7)	9.7	10.4	16.9	22.1
Europe	(5.9)	(7.6)	(7.7)	(1.9)	2.7	4.8	7.0
Head Office / Central costs	(5.8)	(6.6)	(7.4)	(12.4)	(16.0)	(18.4)	(21.2)
Operating Ebitda (before SBPs)	(25.4)	(34.3)	(29.8)	(0.5)	12.4	25.8	37.8
Share-based payments	(1.4)	(0.7)	(0.4)	(0.4)	(0.5)	(0.6)	(0.7)
Ebitda	(26.8)	(35.0)	(30.2)	(0.9)	11.9	25.2	37.1
6. Ebitda margins %							
USA	-50.0%	-46.3%	-23.2%	3.2%	9.1%	11.4%	13.2%
Australia	-21.6%	-9.2%	-3.5%	11.3%	10.9%	14.5%	16.5%
Europe	-40.7%	-33.6%	-31.2%	-4.7%	4.5%	6.8%	8.7%
Head Office / Central costs							
Operating Ebitda margin - Group	-47.7%	-37.3%	-23.0%	-0.2%	3.9%	6.7%	8.6%
Ebitda margin (after SBPs)	-50.4%	-38.1%	-23.3%	-0.4%	3.7%	6.6%	8.4%
7. Active Customers (000's)							
USA	36	87	80	161	217	250	287
Australia	31	44	68	99	129	148	170
Europe	27	42	35	67	87	100	115
Other							
Total Group	93	173	183	327	433	498	573
8. Active Customer Additions (000's)							
USA	17	51	(7)	81	56	33	37
Australia	24	13	24	31	30	19	22
Europe	10	15	(7)	32	20	13	15
Other							
Total Group	51	80	10	144	106	65	75

Source: Company Actuals; Sequoia estimates

Company Description

Founded in 2014 in Germany, Marley Spoon AG (ASX: MMM) is a subscription-based weekly meal kit service that services customers in three primary regions: Australia, United States and Europe (servicing Austria, Belgium, Denmark, Germany, the Netherlands and Sweden). Since launch, Marley Spoon has delivered over 92 million individual meals and developed more than 32,000 recipes. As at 31 December 2020, Marley Spoon had over 327,000 Active Customers across both the Marley Spoon and Dinnerly brands. MMM estimates its total addressable market at 177 million households for the countries in which it currently operates. This implies a market penetration to date of just 0.2%.

A meal kit is a box, usually sent directly to a customer's home, which includes the required quantity of ingredients to cook typically two or more meals along with step-by-step recipe instructions. Meal kit providers, including Marley Spoon, provide a subscription-based service where customers sign up to a weekly plan and choose a set number of meals and portions – from a changing menu which are then delivered the following week. There are no lock-in contracts and customers can change, cancel or skip weekly orders by the weekly cut-off date at no charge.


Meal kits provide customers with an opportunity to cook for family or friends at home without sourcing all the ingredients themselves (customers are assumed to have basic pantry items such as cooking oil, butter, flour, milk, salt, pepper, soy sauce, vinegar etc. already but the major items come in the kit).

MARLEY SPOON

1 Select a plan 2 Set location 3 Delivery details 4 Payment 5 Choose meals

CHOOSE THE RIGHT MEAL KIT FOR YOU

2-PERSON BOX
Delicious dinners for two people



Meals per week:
 2 3 4 5


\$11.25 per portion

+ \$8.95 shipping
Total per week: \$76.45

Make your box vegetarian

Select

4-PERSON BOX
Delicious dinners for families and friends



Meals per week:
 2 3 4 5

\$9.35 per portion

+ \$8.95 shipping
Total per week: \$121.15

Make your box vegetarian

Select

Weekly delivery
 Skip any week
 Choose your dishes

You can edit your order in your account area

Benefits to consumers

Approximately 92% of orders are from repeat customers. Key reasons why customers buy meal kits include the following:

- Choice and variety;
- Health;
- Convenience and time savings;
- Flexibility;
- Family time; and
- Food waste reduction.

Brands

In the United States, Australia and Germany, Marley Spoon has also launched a separately branded offering named Dinnerly, which is a lower cost meal kit designed to broaden the customer base by targeting more cost-conscious consumers.

Pricing

MMM believes it can provide its meal kits at a similar price to customers buying the ingredients at a supermarket, but with the convenience and other benefits included. This is made possible because there is virtually no waste for both the consumer, and for MMM's production facilities as all ingredients are sourced precisely for the meals ordered. Scale benefits are also derived due to the large purchasing volumes MMM places with its chosen suppliers and growers, and centralised, semi-automated production.

We note that MMM's latest prices per meal for Australia are either equal to, or slightly lower than those shown in the June 2018 Prospectus (page 46). However, shipping is now added on (not previously).

We also show below pricing for MMM's closest competitor Hello Fresh in Australia. MMM's delivery charge at \$8.95 per order is cheaper than Hello Fresh's \$9.99, but overall the plan prices are pretty similar. MMM is slightly dearer on the 2-person plan, but slightly cheaper on the 4-person plan for 2 & 3 meals per week.

Both companies approximately doubled sales in CY20 with MMM up 96% worldwide (+101% constant currency; 8 countries) and Hello Fresh up 107% worldwide (14 countries). Both companies demonstrated strong consumer adoption and acceptance.

Marley Spoon: Example Meal kit prices in Australia (A\$)				
	2 meals per week	3 meals per week	4 meals per week	5 meals per week
2 person box				
Price per meal	\$ 12.50	\$ 11.25	\$ 10.95	\$ 10.50
Shipping	\$ 8.95	\$ 8.95	\$ 8.95	\$ 8.95
Price per week	\$ 58.95	\$ 76.45	\$ 96.55	\$ 113.95
4 person box				
Price per meal	\$ 10.50	\$ 9.35	\$ 8.85	\$ 8.50
Shipping	\$ 8.95	\$ 8.95	\$ 8.95	\$ 8.95
Price per week	\$ 92.95	\$ 121.15	\$ 150.55	\$ 178.95
Hello Fresh: Example Meal kit prices in Australia (A\$)				
Family Friendly plan (same as Meat & Veggies plan)	3 meals per week	4 meals per week	5 meals per week	
2 person box				
Price per meal	\$ 10.99	\$ 10.69	\$ 9.99	
Shipping	\$ 9.99	\$ 9.99	\$ 9.99	
Price per week	\$ 75.93	\$ 95.51	\$ 109.89	
Marley Spoon	\$ 76.45	\$ 96.55	\$ 113.95	
MMM Difference to Hello Fresh	0.7%	1.1%	3.7%	
4 person box				
Price per meal	\$ 9.99	\$ 8.99	\$ 7.99	
Shipping	\$ 9.99	\$ 9.99	\$ 9.99	
Price per week	\$ 129.87	\$ 153.83	\$ 169.79	
Marley Spoon	\$ 121.15	\$ 150.55	\$ 178.95	
MMM Difference to Hello Fresh	-6.7%	-2.1%	5.4%	

Source: Marley Spoon website (March 2021)

Source: hellofresh.com.au/plans (March 2021)

Dinnerly prices

Dinnerly prices are aimed at a significantly lower price point and different customer. The lower price point is achieved through a reduction in the number of individual ingredients in a meal, by designing lower-priced recipes, using digital recipe cards instead of paper ones, and simple packaging.

Dinnerly: Example Meal kit prices in Australia (A\$)					
	2 meals per week	3 meals per week	4 meals per week	5 meals per week	6 meals per week
2 person box					
Price per meal	N/a	\$ 7.25	\$ 6.95	\$ 6.50	\$ 6.45
Shipping		\$ 8.95	\$ 8.95	\$ 8.95	\$ 8.95
Price per week		\$ 52.45	\$ 64.55	\$ 73.95	\$ 86.35
Difference to Marley Spoon		-31%	-33%	-35%	
4 person box					
Price per meal	N/a	\$ 6.25	\$ 5.75	\$ 5.50	\$ 4.85
Shipping		\$ 8.95	\$ 8.95	\$ 8.95	\$ 8.95
Price per week		\$ 83.95	\$ 100.95	\$ 118.95	\$ 125.35
Difference to Marley Spoon		-31%	-33%	-34%	

Source: Dinnerly.com.au (March 2021)

Production / Operations

MMM employs approximately 1,500 staff worldwide (FTEs)(625 on LinkedIn), up from 661 at IPO (refer Prospectus page 59). It operates centralised picking and packing operations in each region that enable it to reach over 80% of households:

- USA – 3 fulfilment centres in Texas (Dallas, 11,900 sqm), New Jersey (Newark) and California (Tracy). These cover ~92% of US households (all States except Alaska & Hawaii).
- Australia – 3 fulfilment centres in Sydney (currently in Enfield, 2,950 sqm. Moving soon to larger purpose-built facility in Wetherill Park 14,200 sqm), Melbourne (Altona North, 6,000 sqm) and Perth (Bibra Lake, opened Dec 2020, 3,000 sqm).
- Europe – 6 countries served from a single facility in the Netherlands (Utrecht, 6,000 sqm facility).
- Central services in Portugal (Lisbon) e.g. Customer care (multi-lingual, various nationalities including Australians).
- Head Office: Germany (Berlin).

Distribution

Meals are packed in insulated boxes (and ice packs in Australia and some other markets). Deliveries to customer households is outsourced to specialist providers within a delivery window chosen by the customer.

Delivery is out-sourced to specialist providers, with service level agreements and performance incentives (a few different providers in USA and Europe, 1 provider in Australia – HDS).

Competition

Marley Spoon believes it is competing within the intersection of the grocery market and restaurant market, with its subscription-based meal kit services offering an alternative to both groceries and 'eating out' or getting 'takeaway' from restaurants. As such, Marley Spoon's competitors include supermarket chains, online only vendors of groceries, corner stores such as convenience stores and takeaway stores, dine-in restaurants, delivery only and take-away platforms, pre-prepared meal providers and other meal kit providers.

MMM's key meal kit competitors in each of its geographic regions include:

- Multiple continents - Hello Fresh (HFGG.F, market cap €11.3bn). Currently only Hello Fresh and MMM operate on multiple continents.
- United States: Hello Fresh, Blue Apron (APRN.K, market cap US\$113m), Home Chef (owned by Kroger Co, NYSE: KR, market cap US\$27bn), Sun Basket (US private coy).
- Australia: Hello Fresh, EveryPlate (owned by Hello Fresh - Vic, NSW, ACT, Qld, WA), Pepper Leaf (Vic, NSW, ACT, SA), Dinner Sorted (Melbourne).
- Other peers in regions where MMM does not yet operate: Guosto (UK private), Chefs Plate (Canada, now owned by Hello Fresh), Linas Matkasse (Sweden, LMKG.ST, market cap 1.01bn SEK ~98.6 EUR), My Food Bag Group (MFB.NZ, market cap NZ\$386m, NZ only).

Snapshot of operations

MMM Europe

- May 14: Company founded in Berlin.
- Aug 14: Launched in Germany.
- Dec 14: Launched in the Netherlands.
- Apr 15: Relunched with a subscription-based model.
- Sep 15: Acquired Austrian business (Kochabo, founded 2012).
- Apr 16: Belgium launched.
- Jul 18: 3 fulfilment centres (FCs) in operation at IPO – Germany, the Netherlands and Austria.
- Jul 18: IPO at A\$1.42 per CDI completed and listed on the ASX 2 July 2018.
- 1Q19: Closed German FC (1,400 sqm) and consolidated production into Netherlands FC (3,195 sqm).
- 1Q19: New global shared services facility opened in Portugal (Lisbon).
- 1Q19: Increased offering to 20 different recipes per week.
- 3Q19: Closed Austrian FC (912 sqm) and consolidated production into the Netherlands FC.
- Oct 19: Commenced deliveries and marketing to Denmark.
- Jan 20: Commenced deliveries and marketing to Sweden.
- Jul 20: Dinnerly brand launched in Germany.
- 4Q20: Europe at break-even operating Ebitda for first time (before central costs).
- 4Q20: Completed global rollout of new ERP system.
- 4Q20: New CEO for Europe, Ebony Morczinek joined December 1 (ex Faster Capital, Brightstar Corp, Head of M&A Lufthansa LSG SkyChefs, Investment Banker Salomon Smith Barney).
- 4Q20: New CFO Jennifer Bernstein appointed (ex 13 years at Pepsico in senior finance roles in the US and Europe; Berlin based).
- Mar 21: New Supervisory Board director announced, to replace Christoph Schuh at the AGM in May - Roy Peticucci, ex head of Amazon EU Operations (a network of 60 sites in 12 countries; 2013-2020, 7 yrs), and ex- Tesco and ex-CEO of Tesco.com (2000-2007, 7 years).

MMM USA - Snapshot

- Launched April 2015.
- Apr 16: 5-year licencing and promotion agreement with Martha Stewart Living Omnimedia (MSLO). In the US, the brand is known as “Martha Stewart and Marley Spoon”.
- Jul 17: Second brand – “Dinnerly” created and launched at a price point approximately 50% lower than Marley Spoon brand.
- Jul 18: At IPO, MMM had 3 fulfilment centres in New York (the Bronx), California and Texas.
- 1Q19: Relocates from the Bronx to new East Coast FC in New Jersey (Newark).
- 1Q19: New larger Texas FC (Dallas).
- 1Q19: Increased offering to 20 different recipes per week.
- 2Q20: Positive operating Ebitda for the first time.
- 2Q20: Extended Martha Stewart Living alliance by 1 year to end CY23.
- 4Q20: Expanded refrigeration space in Texas FC.
- 4Q20: First price increase in 5 years.
- 2021: New larger California FC (Tracy) expected to commence operations.

martha stewart
&
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MMM Australia – Snapshot

- Launched June 2015 in Sydney by CEO and Co-founder in Australia Rolf Weber.
- Nov 17: Fulfilment centre in Melbourne (Altona) commenced; Expansion of deliveries to Adelaide.
- Mar 18: Second brand - Dinnerly launched on the east coast.
- 2Q19: New manufacturing technology rolled out to Sydney & Melbourne FCs.
- 2Q19: Australia becomes Ebitda positive for the first time.
- 7/6/19: 5-year strategic partnership with Woolworths (WOW) announced; \$30m investment by WOW into MMM structured debt (\$26m) and equity (\$4.1m, 8.2m CDIs at \$0.50 each). Both companies to work collaboratively to grow the Marley Spoon and Dinnerly brands in Australia, and to identify and implement operational synergies. Ability for MMM to engage with WOW's large customer base as well as to work with WOW's sourcing and supply chain teams. WOW to gain insights from MMM's manufacturing, distribution and market experience on home-delivered meal kits.
- 3Q19: First marketing campaigns with Woolworths.
- 3Q20: Signed pre-lease for new purpose-built 14,200 sqm FC in Sydney.
- Dec 20: New FC opened in outer Perth (Bibra Lake, 3,000 sqm) and Dinnerly brand launched. The Marley Spoon brand launch is expected to follow later in 2021.

The screenshot shows the Woolworths website interface. At the top, there is a navigation bar with 'Woolworths' logo and a search bar. Below the navigation bar, there is a horizontal menu with various categories: Specials, Easter, Fruit & Veg, Meat, Seafood & Deli, Bakery, Dairy, Eggs & Fridge, Pantry, Freezer, Drinks, Liquor, Front of Store, Pet, Baby, Health & Beauty, and Household. A delivery address field is visible, along with a 'Time of Delivery' section. The main content area features a video player with the text 'Cook with Marley Spoon' and a 'Play Video' button. The video shows a woman in a kitchen preparing food. The left sidebar contains a list of categories, with 'Featured Brands' highlighted.

Source: <https://www.woolworths.com.au/shop/discover/featured-brands/marley-spoon>

Summary of Performance to Date

Since its start-up seven years ago, MMM has established itself as the #2 player in most of its 8 countries, on three continents. It is Ebitda positive in Australia and the USA, and approaching Ebitda profitability in Europe and overall at group level.

Three-year compound annual growth rates (CAGRs) are very impressive, at +68% per annum for revenue, +52% per annum for active customer numbers (active in the last quarter) and +71% per annum for number of orders.

Growth was strong before the Covid pandemic, and accelerated during Covid. The meal kit companies seem to have developed a winning formula which we think is here to stay. And the business still appears to be in its infancy based on MMM's estimated addressable market of 177 million households.

MMM - Rapid establishment of Business since 2014							3 Yr CAGR
Years ended Dec	CY15	CY16	CY17	CY18	CY19	CY20	(CY17-20)
Revenue (€ m)							
USA	0.3	7.2	18.8	37.1	56.1	127.2	89.1%
Australia	0.2	3.3	19.9	32.3	48.8	86.0	62.9%
Europe	3.4	9.7	14.5	22.7	24.6	40.8	41.2%
Total	3.9	20.2	53.2	92.0	129.6	254.0	68.4%
growth (yoy)		418%	163%	73%	41%	96%	
Ebitda (€ m)							
USA	-1.5	-7.7	-9.4	-17.2	-13.0	4.1	-175.7%
Australia	-0.8	-2.2	-4.3	-3.0	-1.7	9.7	-231.2%
Europe	-5.0	-7.6	-5.9	-7.6	-7.7	-1.9	-31.4%
Head Office / central costs	-2.8	-4.5	-5.8	-7.4	-6.6	-12.4	
Total	-10.1	-22.0	-25.4	-35.1	-29.0	-0.5	-72.9%
Ebitda margin	-259%	-109%	-48%	-38%	-22%	-0.2%	
OPERATING STATISTICS							
Active customers (order at least once per quarter)(000's)							
USA	4	18.5	35.7	87	80	161	65.2%
Australia	2	6.4	30.6	43	68	99	47.9%
Europe	12	17	27	42	35	67	35.4%
Total	18	42	93	173	182	327	52.1%
growth (yoy)		133%	121%	86%	5%	80%	
Active subscribers (order or skip weekly per quarter)(000's) - New measure just introduced							
USA					56	114	
Australia					45	69	
Europe					30	50	
Total					131	233	
growth (yoy)						78%	
Meals (million)	n/a	n/a	7.9	15.2	22.4	46.7	80.8%
growth (yoy)			n/a	92%	47%	108%	
No. of Orders (000's)							
USA	n/a	143	366	874	1,278	2,744	95.7%
Australia	n/a	68	393	683	1,083	1,840	67.3%
Europe	n/a	231	371	596	628	1,010	39.6%
Total	n/a	442	1,129	2,153	2,969	5,622	70.8%
growth (yoy)			155%	91%	38%	89%	
Orders per customer (Frequency, pa)							
USA	n/a	12.7	13.5	14.2	14.7	22.8	
Australia	n/a	16.2	21.2	18.5	25.2	22.0	
Europe	n/a	15.9	16.9	17.3	15.0	19.8	
Total	n/a	16.2	21.2	18.5	25.2	22.0	
growth (yoy)			31%	-13%	36%	-13%	

Sources: MMM Prospectus, Annual Reports, quarterlies

Reasons to Buy

1. **Excellent and exciting capital-light business model** – There are multiple positive dimensions to MMM's business model that we really like, and investors need to appreciate:
 - **Direct to consumer model** – MMM sells directly to consumers online (website, mobile apps), rather than through physical outlets. This is generally considered to be a superior, capital-light business model. Also, customers enter their own orders online – No sales people, no call centres and no order-takers required.
 - **Subscription based business** – Customers order multiple meals in advance on a weekly subscription basis. 91% of Sales in CY2020 were from repeat customers.
 - **Approximately one third of new customers come via referrals from existing customers and word of mouth** (Prospectus page 53). The balance is acquired through a variety of paid channels including online search, online display, social media, traditional print media, TV advertising, outdoor advertising, discount vouchers in letterboxes and other channels.
 - **Customer acquisition costs are low and falling** (EUR 40 in CY20 Vs EUR 62 in pcp and EUR 69 at IPO)(Google ad words, paid search, discounts to encourage new customers to trial). MMM estimates a pay-back period on customer acquisition costs (CAC) of < 4 months (down from ~6 months at IPO). MMM estimates the lifetime value of the customers acquired is at least 3.0x the CAC investment (refer Prospectus page 58).
 - **Highly scalable business model** – FY20 sales increased by EUR 124m, +96% (+101% in constant currency terms). Fixed operating costs were up 20%. This was despite some logistics problems from the Covid pandemic. MMM currently operates in 8 countries and we think could expand to a number of other countries in time (competitor Hello Fresh operates in 14).
 - **Positive working capital** – Customers pay for their orders up-front; MMM pays suppliers ~25 days later. In CY20 this boosted cash flow by \$1.5m or +52%. We think this attribute will become more evident and more material in coming years.
 - **Minimal food waste /ESG friendly** - Purchases are done to exactly match customer orders received in advance, so there is no waste and only minimal inventories need to be carried (e.g. packaging materials). There is also no waste at the consumer end – no left over ingredients to go unused and potentially spoil.
 - **Low inventories** – MMM handles just 150 sku's (stock keeping units) in any given week Vs a typical supermarket holding perhaps 10-25,000 sku's at every store. December 2020 inventories of were remarkably low, at just EUR 6.6m (2.5% of CY20 sales of EUR 254m).
 - **No food processing & minimal double-handling** - MMM does no cooking. Meat, fish, chicken pieces arrive pre-cut from suppliers. No expensive cooking or food preparation equipment required – only semi-automated picking equipment and chillers required.
 - **Centralised assembly facilities** – MMM services 6 countries in Europe from a single fulfilment centre in the Netherlands; the USA from just 3 centres, and Australia also from just 3 centres (Sydney, Melbourne & Perth). 7 fulfilment centres in total. Fulfilment centres are generally in inexpensive fringe locations, but close to transport routes (e.g. Altona in Melbourne, Wetherill Park in Sydney).
 - **Small number of suppliers** - Delivery is outsourced to 1 or 2 service providers, so MMM can maximise its buying power. Same with other food and ingredients suppliers. MMM also tries to deal directly with growers, cutting out wholesalers.
 - **Capital light business model** – MMM has just EUR 21.0m of physical Property, plant and equipment and leased assets on its balance sheet. Total assets are just EUR 73.1m and this includes EUR 34m of cash.
 - **Data driven** – MMM collects an enormous amount of data about its subscribers, their meal preferences and order behaviour (order size, frequency, add-ons, etc.). It is applying artificial intelligence and machine learning to better serve its customers, increase basket size, predict future orders, and reduce customer churn. We are impressed with the level of sophistication already achieved. MMM continues to invest in its software and other capabilities.

2. **MMM is one of only 2 multi-national players** operating this exciting business model – Marley Spoon and nearest-rival Hello Fresh (HF) are the only meal kit companies operating in multiple continents. MMM has been established 7 years, is already cashflow positive and is rapidly approaching profitability. HF has been established 10 years, has been cashflow positive for 2 years and was profitable for the first time in CY20 (NPAT EUR 369.0m (v EUR 10.2m loss in CY19). Both companies look to have established their brands, achieved critical mass, and are now consolidating and strengthening their market positions. HF has a 3-year head start on MMM, but has a market capitalisation 25x that of MMM. The advantages of being a multi-national player are: A global recipe database; international chefs and nutritionists to create the recipes; centralised administration and marketing; shared technology; shared experience in logistics and supplier relationships.

We compare MMM to Hello Fresh below.

Hellofresh (HFGG.F) - Basics & Countries of Operation				Marley Spoon (MMM) - Basics & Countries of Operation				MMM Vs HFGG
Company founded:	2011			Company founded:	2014			+ 3 yrs
Listed:	2/11/17 (Germany)			Listed:	2/7/18 (ASX)			+ 1 year
IPO price	€ 10.25			IPO price	A\$1.42			
Price (1/4/21) & change since IPO	€ 64.72 531%			Price (1/4/21) & change since IPO	\$ 2.63 85%			
Market cap (m)	€ 11,233			Market cap (m)	€ 438			-96%
Net cash (net debt)	€ 427			Net cash (net debt)	-€ 2			
Enterprise Value (€m)	€ 10,806			Enterprise Value (€m)	€ 436			-96%
Revenue - CY20 (€m)	€ 3,750			Revenue - CY20 (€m)	€ 254.0			-93%
Revenue - USA - CY20 (€m)	€ 2,073			Revenue - USA - CY20 (€m)	€ 127.2			-94%
Revenue - R.O.W. - CY20 (€m)	€ 1,677			Revenue - R.O.W. - CY20 (€m)	€ 126.8			-92%
Gross Profit - CY20 (€m)	€ 2,473.2			Gross Profit - CY20 (€m)	€ 120.7			-95%
Gross profit margin %	66.0%			Gross profit margin %	47.5%			-18%
Contribution Margin (€m)	€ 1,056.0			Contribution Margin (€m)	€ 74.1			-93%
Contribution margin %	28.2%			Contribution margin %	29.2%			1%
Ebitda - CY20 (€m)	€ 481.2			Ebitda - CY20 (€m)	-€ 0.9			nm
Ebitda margin %	12.8%			Ebitda margin %	-0.4%			-13.2%
Operating cashflow (€m)	€ 601.5			Operating cashflow (€m)	€ 4.4			-99%
EV / Sales (x)	2.9x			EV / Sales (x)	1.7x			-40%
EV / Ebitda	22.5x			EV / Ebitda	nm			nm
Countries	Year	Population (m)	Households (m)	Countries	Year	Population (m)	Households (m)	MMM Vs HFGG
Germany	2012	84.0	40.6	Germany (launched Aug 2014)	2014	84.0	40.6	+2 yrs
Austria	2012	9.0	3.9	The Netherlands (launched Dec 2014)	2014	17.2	7.9	+2 yrs
Australia	2012	25.7	10.2	Austria (acqd Kochabo Sep 2015)	2015	9.0	3.9	+3 yrs
The Netherlands	2012	17.2	7.9	USA (launched Apr 2015)	2015	332.4	132.7	+2 yrs
UK	2012	68.1	29.5	Australia (June 2015, WA Dec 2020)	2015	25.7	10.2	+3 yrs
USA	2013	332.4	132.7	Belgium (launched Apr 2016)	2016	11.6	4.9	+1 yr
Belgium	2015	11.6	4.9	Denmark (launched Oct 2019)	2019	5.8	2.8	-1 yr
Switzerland	2016	8.7	3.9	Sweden (launched Jan 2020)	2020	10.1	4.7	+1 yr
Canada	2016	38.0	15.6					
Luxembourg (and Western Australia)	2017	0.6	0.3					
New Zealand	2018	4.9	1.9					
France	2018	65.4	30.2					
Sweden	2019	10.1	4.7					
Denmark	2020	5.8	2.8					
Countries / Theoretical Addressable Market	14	681.5	289.1	Countries / Theoretical Addressable	8	495.8	207.7	
plus 2-3 new countries planned for 2021	2-3				N/a			
Other:								
Entered Pre-prepared meals segment	2020				N/a			Not yet

Source: Hellofresh & MMM 2020 Annual Reports, MMM Prospectus

Source: Population data per Worldometer; Households per Wikipedia; Denmark and Sweden per Statistica

3. **Permanent Covid Beneficiary** – The Covid pandemic created a step-change in the adoption of online shopping and ecommerce generally, and specifically for the food and grocery segments which had been lagging other segments. **MMM approximately doubled its business, with revenue +96% to EUR 254m and Q4 customer numbers up 80% from 182,000 to 327,000.** During CY20 MMM said it achieved “critical scale” with operating profits in the last 3 quarters of the year. With 92% of orders in CY20 from repeat customers, we believe this step-change in customer adoption will be sustained, although order size and frequency may decline slightly as customers gradually resume normal life post-Covid (eating out, taking holidays and week-end breaks etc. which tend to reduce meal kit ordering).

4. **High Brand Awareness should help sustain positive trends** – We believe there is currently a high level of consumer brand awareness of Marley Spoon, Dinnerly and Hello Fresh in Australia, and increased willingness by consumers to try something new. MMM spent EUR 39m worldwide in marketing in CY20 (15.5% of Sales), up 15% on CY19. Rival Hello Fresh spent EUR 470m worldwide (12.5% of Sales), up 16% worldwide. These are significant marketing budgets to drive the category, and the respective brands. We think that as the sector #2 in most markets MMM probably benefits from some of Hello Fresh's advertising, which increases consumer awareness of the meal kit concept and category generally.
5. **Low penetration currently** – MMM had 327,000 active customers in 4QCY20 compared to an estimated 177 million households in the regions it serves (refer Prospectus page 62). This represents a penetration rate of just 0.2%. MMM said in the Prospectus it can service nearly 100% of Germany and Austria, 90% of the Netherlands, 46% of Belgium (all except Wallonie, the self-governing southern part of Belgium), 92% of the USA and approximately 70% of Australia.

Hello Fresh estimates that its 5.29 million customers in Q4CY20 represented penetration of just 3.9% of its estimated addressable market of 137 million households (vs our theoretical figure of 289m households) across the 14 countries it operates in (penetration 3.2% in the US, and 4.2% in international geographies).

Using either MMM's 177m TAM figure, or Hello Fresh's 137m TAM figure, it is clear that the penetration of the meal kit companies is still extremely low, but growing fast.

6. **Improving Unit economics / Operational leverage** – MMM is demonstrating improving operational leverage and scale benefits in purchasing, fulfilment costs and marketing as demonstrated below. This is evident in the Cost of Goods Sold line (row B2), Fulfilment costs line (row D2) and Marketing costs line (row F2) below. Marketing costs for example have increased by 155% in absolute terms from EUR 15.7m in CY17 to EUR 39.3m in CY20, but have fallen as a percentage of sales from 29% to a much more sustainable 15.5% of sales. We don't forecast much of an improvement in fulfilment costs yet, as MMM has two large new fulfilment centre projects under fit out in California and Sydney, and Perth opened in December. Once operational, and ramped up, these should help drive further efficiencies as well as add capacity for significant volume growth.

Marley Spoon (MMM) - Sequoia Forecasts								
Ref	Years ended Dec (€m)	CY17A	CY18A	CY19A	CY20A	CY21e	CY22e	CY23e
A	Op. Revenue	53.2	92.0	129.6	254.0	322.5	383.6	441.2
A2	Revenue growth %	163.6%	72.8%	40.8%	96.1%	26.9%	19.0%	15.0%
B	Cost of Goods Sold	(34.5)	(54.2)	(71.8)	(133.3)	(167.7)	(195.6)	(220.6)
B2	Percentage of revenue	-64.8%	-58.9%	-55.4%	-52.5%	-52.0%	-51.0%	-50.0%
C	Gross Profit	18.7	37.8	57.8	120.7	154.8	188.0	220.6
C2	Gross profit margin %	35.2%	41.1%	44.6%	47.5%	48.0%	49.0%	50.0%
	Growth	n/a	101.7%	52.9%	108.9%	28.2%	21.4%	17.3%
D	Fulfilment costs	(9.9)	(18.5)	(25.5)	(46.6)	(57.1)	(68.2)	(79.1)
D2	Percentage of revenue	-18.6%	-20.1%	-19.7%	-18.3%	-17.7%	-17.8%	-17.9%
E	Contribution Margin	8.8	19.3	32.3	74.1	97.7	119.7	141.4
E2	Percentage of revenue	16.6%	21.0%	25.0%	29.2%	30.3%	31.2%	32.1%
F	Marketing costs	(15.7)	(30.0)	(34.2)	(39.3)	(48.4)	(57.5)	(66.2)
F2	Percentage of revenue	-29.6%	-32.6%	-26.4%	-15.5%	-15.0%	-15.0%	-15.0%
G	Cash Operating Expenses	(17.7)	(23.7)	(27.9)	(35.4)	(36.9)	(36.4)	(37.4)
G2	Percentage of revenue	-33.3%	-25.7%	-21.5%	-13.9%	-11.4%	-9.5%	-8.5%
H	Share based payments	(2.2)	(0.7)	(0.4)	(0.4)	(0.5)	(0.6)	(0.7)
I	EBITDA	(26.8)	(35.0)	(30.2)	(0.9)	11.9	25.2	37.1
I2	Ebitda margin	-50.4%	-38.1%	-23.3%	-0.4%	3.7%	6.6%	8.4%

Source: Company actuals; Sequoia forecasts

7. **Important Strategic Alliances** – MMM has struck two important strategic alliances – with Martha Stewart Living Omnimedia (MSLO) for the USA from April 2016, and with Woolworths (WOW) for Australia from June 2019. We believe that both alliances are important endorsements and value-adding deals by credible industry players.

The MSLO deal allows MMM to co-brand its meal kits in the US with “Martha Stewart” and to undertake various promotional and marketing activities. MMM pays royalties to MSLO based on a percentage of sales in the USA. Martha Stewart (now 79) is an Emmy award winning television show host, entrepreneur, best-selling author of 90 books, and a trusted “lifestyle expert” in America. She modelled for Chanel to support herself through college. Estimated net wealth US\$500m per www.wealthygenius.com. Originally a 5-year agreement to December 2020, this has been extended to December 2023 suggesting that it is working well for both companies.

For the WOW alliance, it is still early days, but from our enquiries of management, it is clearly developing and yielding benefits. E.g. WOW and MMM have each nominated a dedicated person focussed on achieving the benefits; WOW has marketed Marley Spoon and Dinnerly meal kits to its loyalty card customers (over 12 million members); WOW Connect for shipping has helped improve MMM’s contribution margin; WOW has provided support on the build-out of MMM’s new FC in Sydney; These are just some of the many initiatives that are helping MMM’s business. Based on this, we think there are more benefits to come.

8. **Capex and infrastructure benefits** - CY21 should benefit from EUR 8.6m capex in CY20 (expanded cool room capacity in Melbourne, New Jersey, Texas and the Netherlands, a new fulfilment centre in Perth opened in December, and EUR 3.2m invested to complete the global roll-out of a new ERP system and investment in digital capability). For CY21 we estimate a further investment of EUR 10m on new fulfilment centres for Sydney and California. We understand that MMM is also considering adding a second fulfilment centre in northern Europe, though this might be a CY22 project.
9. **Strong early guidance provided** – At the full-year result in February, MMM reiterated guidance given in the Q4 report (28 Jan) that it expects to grow revenue between 25-30% in CY21, and that it expects the Contribution Margin (CM) to improve further to between 30-31% (v 29.2% in CY20 and 25.0% in CY19). MMM also said it sees the US continuing to be its biggest growth opportunity. We note that MMM upgraded its guidance several times during CY20, so providing such guidance so early into the new financial year is a strong sign of confidence. Larger rival Hello Fresh has guided for >70% revenue growth in Q1 (March quarter) and constant currency revenue growth of 20-25% for CY21. It will have doubled its capacity by the end of 1QCY21 which demonstrates further confidence.

We are in line with MMM’s 25-30% revenue guidance number (Our detailed modelling assumptions result in our forecast of +27% revenue growth). We caution that our model is highly sensitive to our assumptions on net customer additions and order frequency. So we will be watching the quarterly data points carefully.

Risks / Negative Factors

- Heavy historical dilution from historical convertible bond financing and warrant issues.** In our opinion, CDI holders have been heavily impacted by dilution from very expensive convertible bond issuance and warrant issues. This was born out in CY20 by a massive EUR 71.4m non-cash abnormal expense being “derivative financial instrument changes in fair value” per note 4.2 of the accounts. We interpret this is a mark to market of MMM’s convertible bonds and warrants the market value of which have increased considerably with the increase in share price.

 - Pursuant to a pre-IPO loan in March 2016 of up to EUR 5.0m (repaid with IPO proceeds), Kreos Capital was also granted warrants equivalent to 0.840m CDIs. These were converted into ordinary shares / CDIs on 11/8/20 (Market value on that day at A\$3.18 per CDI was EUR 1.5m. So an EUR 1.5m difference which we believe went into the derivative fair value adjustment.
 - Convertible bond issued to Woolworths (WOW 1 bond, tranche 2) on 26/9/19 (face value A\$2.95m, EUR 1.8m) was converted into 5.9m CDIs on 11/8/20 with a market value at A\$3.18 of EUR 11.4m. Estimated difference between book value and market value on conversion EUR 9.6m. We believe this is part of EUR 71m derivative mark-to-market.
 - Convertible bonds issued to Union Square Ventures on 22/3/19 (face value USD 11.4m, EUR 10.1m), 29/2/20 (USD 2.8m EUR 2.5m) and 29/7/20 (USD 2.5, EUR 2.9m) totalling USD 16.7m (EUR 15.5m) were converted into 42.962m CDIs on 13/11/20 with a market value at A\$2.10 or EUR 55.4m. Estimated difference between book value and market value on conversion EUR 39.9m. We believe this is part of EUR 71m derivative mark-to-market.
 - Convertible bonds issued to Conifer Management / Acacia on 22/3/19 (face value USD 2.276m, EUR 2.0m) were converted into 6.414m CDIs on 13/11/20 with a market value at A\$2.10 of EUR 8.3m. Estimated difference between book value and market value on conversion EUR 6.3m. We believe this is part of EUR 71m derivative mark-to-market.

The good news is that apart from the 2 WOW bonds, the others have all been repaid, so we shouldn’t see any more large abnormal items like this again.
- Expensive effective interest rates on debt** – The Union Square Ventures and Acacia convertible bonds had stated interest rates of Libor plus 5% pa (current 12-month US Libor rate is just 0.28%), and the WOW 1 & 2 bonds were at 7.0% pa fixed. We don’t know the rate paid on leases, and we don’t have month by month data. Our analysis is done using half-year data. MMM’s CY20 gross interest expense of EUR 7.45m looks high to us at 9.3% for the year, and 10.3% in 2H20. We exclude cash balances on which interest income would be minimal. We suspect there would be facility fees, early termination fees and other finance costs pushing the charge up beyond what we would have expected to see. We believe that hidden charges are very common when finance is obtained from hedge funds and non-traditional sources. We are therefore pleased to see a significant reduction in non-traditional borrowings by MMM at the end of CY20.

MMM - Analysis of interest expense		Balance sheet items			P&L items		
Ref	Item	31/12/19	30/6/20	31/12/20	1H20	2H20	CY20
A	Cash	5.4	18.4	34.4			
B	Interest bearing Debt (including leases)	-53.1	-115.5	-36.2			
C	Net Debt	-47.6	-97.1	-1.8			
D	Average gross debt (row B)				-84.3	-75.8	-80.1
E	Interest income				0.369	-0.305	0.064
F	Interest expense				-3.559	-3.891	-7.450
G	Net interest						-7.386
H	Effective interest rate on average gross debt (F / D, annualised)				8.4%	10.3%	9.3%

Source: Company accounts; Sequoia calculations

- Covid benefits may normalise** – Healthy eating / meal kits delivered direct to home companies like MMM and Hello Fresh were huge beneficiaries of the Covid-19 pandemic, especially during lock-downs. Having achieved a step-change in active customers and consumer awareness of both the meal kit concept and

MMM's 2 brands, we expect to see some pull-back or normalisation as countries come out of Covid and normal activities resume such as eating out and taking holidays and weekend-breaks away from home. Also many consumers tried to avoid visiting supermarkets and shops as much as they could.

Australia will be one of earliest and best places to observe what happens in "normalisation", as Europe and the USA are still severely Covid-affected (so enhanced favourable market conditions are continuing for MMM and Hello Fresh there). Normalisation could include:

- Active customers - slower new subscriber additions (but given the strong momentum, continued high advertising, and the benefits to the consumer of the offering, we think unlikely to go backwards over the course of a full year) and increased churn.
- Order frequency - a reduction in the number of meals ordered per week.
- Order value – a possible reduction in the number of add-ons such as salads, desserts etc. reducing overall order value.
- Customer acquisition costs – may increase if MMM decides it needs to increase advertising and discount vouchers to maintain growth momentum, or market share.

4. **Australian Quarterly comps to get harder from 2Q21** – Australia commenced nationwide lock-down rules on Monday 23rd March 2020, so MMM's Australian segment will have to cycle tougher comps approximately from Q2 onwards. Australia was 34% of revenue and 82% of Ebitda (excluding Central costs) in CY20. We observe that MMM continues to advertise its two brands heavily on TV in Australia, promotions with Woolworths continue, and we think MMM continues to have a high brand awareness which should help mitigate a major pull-back. Meanwhile, Covid-enhanced operating conditions continue in Europe and the USA.
5. **Competition** – MMM operates in a competitive sector with competition from other subscription-based meal-kit companies (especially Hello Fresh in all MMM's markets), subscription based pre-prepared food companies (e.g. Youfoodz, Light & Easy, Weight Watchers in Australia), and broader competition from supermarkets, fast food / quick-service restaurants and take-aways, prepared food delivery services such as Deliveroo, UberEats etc.
6. **Possible losses / delayed profitability from entering new markets** – MMM was a fairly early mover in most of its initial European / US and Australian markets in 2014 and 2015. It entered Denmark (country #7) in October 2019 and Sweden (country #8) in January 2020 (fortuitous timing on both – just ahead of Covid). We expect further gradual market entries in other European countries over time, which could be serviced from the existing Netherlands facility (or a second northern European facility currently being considered). However entry into new countries might be more expensive and more competitive from here, and could entail significant start-up losses to establish positions in new countries. We note that competitor Hello Fresh also operates in the UK (since 2012), Switzerland and Canada (since 2016), Luxembourg (since 2017), France and New Zealand (since 2018), so Hello Fresh already has a 3 to 9 year start on MMM if MMM were to enter any of those markets.
7. **Food safety and perishable products** – Delivery of meal kits to customers is a significant part of MMM's business and perishable products constitute a significant proportion of MMM's meal kits. Errors, disruptions, or inaccurate temperature control along the supply chain including the "last mile" to customers, may lead to spoiled product or food safety concerns or incidences. This could have significant impact on the quality of MMM's kits, the health and well-being of customers, and harm MMM's reputation or financial performance.

8. **Supply chain disruptions** – MMM uses a fairly small number of ingredient suppliers including local growers in each country to maximise its buying power (Just 250 suppliers at IPO across 6 countries at that time). Any disputes, disruptions or quality control issues with these suppliers could adversely affect MMM's business model and reputation. We are somewhat astonished that MMM (and rivals) were able to operate so successfully in various countries during Covid despite transport, logistics and staffing disruptions (e.g. MMM's Melbourne fulfilment centre was closed for several weeks in August 2020 due to Covid), delivering an impressive 89% increase in orders and 108% in meals to customers. Being a provider of essential food items obviously helped, but we think MMM management and staff should be commended for this performance.
9. **Communications with customers** – MMM depends on email and social media messaging services to communicate with its customers and potential customers. It circulates emails and alerts to inform customers of its offerings and meal choices. In addition, MMM has developed sophisticated business intelligence systems and a comprehensive database of customer behaviour and preferences. If MMM is unable to communicate with its customers (because of operational, legal or other reasons), or if its customers do not engage with these messages, MMM's service, reputation or financial performance could be impacted.

Potential Share Price Catalysts

1. **March quarterly report (1Q) and Appendix 4C due by end April.** We note that rival Hello Fresh has already guided for 70% revenue growth in Q1.

Not a meal kit company, but ready-to-eat meal delivery company Deliveroo (ROO.L) said in its recent UK prospectus that its GTV (Gross Transaction Value of meals ordered) was up by 121% in Jan / Feb 2021 (UK up 130%, and International – 10 other countries being mainly Europe plus Australia, up 112%).

So we expect MMM's Q1 report to also be a cracker (expected 29/4/21).

We have modelled +68% revenue growth. We caution investors that quarterly figures for a high-growth company like MMM operating in 8 countries, can be quite volatile. We then expect a much lower growth numbers for Q2 onwards as MMM cycles the peak boost from Covid last year.

2. **Hello Fresh (HFGG.F) quarterly / half-yearly results**
 - Q1 4/5/21
 - 1HCY21 10/8/21
 - Q3 2/11/21
3. **MMM AGM – 28 May 2021.** We will look for continuing growth in subscribers, revenue and Ebitda per quarterly reports, half-yearly reports and the AGM update. We expect another very positive update. We will be watching for the latest comments on growth rates, operating statistics and any “normalisation trends”. Customer net additions, frequency (orders per customer), and value per order are the key revenue drivers. Contribution margin (gross margin less fulfilment costs) and marketing costs are the two main profit drivers.
4. **Milestone #3 – Milestone #1** was MMM Australia becoming profitable for the first time at the Ebitda level in 2QCY19. **Milestone #2** was the USA becoming profitable for the first time in 2Q20. **Milestone #3 will be Europe becoming clearly profitable at the Ebitda level** (MMM was at break-even in Q4, but recorded an Ebitda loss of EUR 0.4m in 2H20, so nearly there).
5. **Milestone #4 - MMM becoming profitable at the Group Ebitda level** for a full year (including covering head office / central costs and share-based payments). CY20 was a loss of EUR 0.9m with 2H20 already profitable at EUR 1.2m, so MMM is nearly there.
 Post script – MMM has pointed out to us that it could have easily surfaced a positive ebitda result already by simply reducing its discretionary marketing spend. But with very favourable customer acquisition conditions and customer unit economics (also echoed by Hello Fresh and Deliveroo) MMM management has kept up the discretionary spend / investment.
6. **Possible entry into new markets** - We note that MM's closet competitor Hello Fresh operates the following markets where MMM does not: France, UK, Switzerland, Luxembourg, Canada and New Zealand. We understand that Hello Fresh is also considering an entry into Italy and Japan, although it stated on its earnings call that Japan would be a higher risk proposition (presume because of cultural differences and menu selection). To date, MMM has followed Hello Fresh into various countries a few years later (except Denmark where it looks like MMM launched first).
7. **Possible horizontal expansion into pre-prepared foods and / or grocery items** - which would significantly expand MMM's total addressable market (TAM). Hello Fresh entered the pre-prepared meals segment last year with the acquisition of Factor75 for EUR 220m in November 2020. As Hello Fresh is the segment leader, we expect that MMM will be watching that closely.
8. **Increased analyst coverage** (currently just 3 brokers covering the stock per Refinitiv Vs 15 cover Hello Fresh); and increased market understanding.
9. **Increased institutional ownership** and / or substantial shareholders.

Valuation and Recommendation

We show relevant comparable company valuation data below.

Refinitiv Code	Company (in Market Cap order)	Market Cap \$m (or local currency)	Net Cash (Debt)	Price A\$	Revenue				Ebitda				Ebitda Margin			
					\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
MMM.AX	Marley Spoon AG (Sequoia est)	671	4	2.630	254.0	322.5	383.6	441.2	(0.9)	11.9	25.2	37.1	-0.4%	3.7%	6.6%	8.4%
Similar online subscription-based meal kit companies (consensus forecasts)																
MMM.AX	Marley Spoon AG (consensus)	671	4	2.630	254.0	322.6	386.9	454.0	(0.9)	4.0	9.2	17.2	-0.4%	1.2%	2.4%	3.8%
HFGG.F	Hellofresh SE	11,277	432	64.720	3,749.9	4,572.4	5,364.1	6,104.3	481.1	483.7	592.2	713.2	12.8%	10.6%	11.0%	11.7%
APRN.K	Blue Apron Holdings, Inc.	113	12	6.320	460.6	485.7	508.5	615.7	(5.0)	5.0	15.9	40.3	-1.1%	1.0%	3.1%	6.5%
FOOD.TO	Goodfood Market Corp	635	45	8.660	285.4	382.6	479.6	NA	2.8	4.1	14.7	NA	1.0%	1.1%	3.1%	NA
MFB.NZ	My Food Bag Group Ltd	386	-28	1.600	153.3	189.5	186.4	NA	16.3	28.5	34.2	NA	10.6%	15.0%	18.3%	NA
LMKG.ST	LMK Group AB (publ)	1,012	-21	80.000	1,217.0	NA	NA	NA	145.3	NA	NA	NA	11.9%	NA	NA	NA
Online pre-prepared food & groceries																
YFZ.AX	Youfoodz Holdings Ltd	82	31	0.615	127.3	150.0	169.2	189.7	(5.1)	3.5	3.1	7.9	-4.0%	2.3%	1.8%	4.2%
DHER.DE	Delivery Hero SE	28,461	622	114.750	1,237.6	2,577.6	4,859.2	6,942.1	(545.6)	(614.4)	(450.5)	(84.6)	-44.1%	-23.8%	-9.3%	-1.2%
TKWY.AS	Just Eat Takeaway.com NV	11,986	-41	80.870	2,042.0	3,367.9	4,469.8	5,348.6	57.0	70.7	201.9	410.9	2.8%	2.1%	4.5%	7.7%
OCDO.L	Ocado Group PLC	15,623	494	2092.000	2,331.8	2,673.8	3,122.1	3,677.0	81.4	83.4	172.5	264.5	3.5%	3.1%	5.5%	7.2%
ROO.L	Deliveroo Holdings PLC	5,488	1,436	282.000	1,189.6	1,546.5	1,855.8	2,226.9	(9.6)	NA	NA	NA	-0.8%	NA	NA	NA
Other online businesses (non-food)																
ZOIG.DE	Zooplus AG	1,789	21	251.200	1,801.5	2,070.6	2,362.5	2,724.8	86.4	58.6	73.6	92.9	4.8%	2.8%	3.1%	3.4%
KGN.AX	Kogan.com Ltd	1,323	144	12.470	497.9	784.1	896.6	1,038.3	48.5	88.0	102.2	116.7	9.7%	11.2%	11.4%	11.2%
MYD.AX	Mydeal.ComAu Pty Ltd	234	13	0.905	15.8	42.6	62.9	93.5	0.7	(3.8)	(3.2)	2.6	4.3%	-8.8%	-5.0%	2.7%
RBL.AX	Redbubble Ltd	1,449	49	5.310	416.3	576.0	636.0	761.9	9.8	69.0	73.4	94.7	2.3%	12.0%	11.5%	12.4%
TPW.AX	Temple & Webster Group Ltd	1,171	37	9.750	176.6	330.9	440.6	557.3	8.4	24.6	32.5	44.2	4.8%	7.4%	7.4%	7.9%
Takeaway food Comps																
CKF.AX	Collins Foods Ltd	1,200	-593	10.320	981.7	1,070.5	1,142.5	1,224.9	177.0	144.1	166.5	185.7	18.0%	13.5%	14.6%	15.2%
DMP.AX	Domino's Pizza Enterprises Ltd	8,465	-1230	98.100	1,905.3	2,191.2	2,403.7	2,666.8	334.1	430.9	485.4	547.8	17.5%	19.7%	20.2%	20.5%
MCD	Mcdonald's Corp	167,910	-33991	225.210	19,207.8	22,073.9	23,339.4	24,669.2	8,675.9	11,105.6	11,950.8	12,682.9	45.2%	50.3%	51.2%	51.4%
YUM	Yum! Brands Inc	32,946	-9995	109.800	5,652.0	6,303.1	6,691.3	7,134.9	1,931.0	2,172.3	2,356.9	2,532.3	34.2%	34.5%	35.2%	35.5%

Source: Sequoia estimates for MMM; Prospectus forecasts for MFB.NZ; Refinitiv consensus estimates for all other stocks; FY1 means forecast year 1 (FY21 in most cases)

Source: Deliveroo historical underlying revenue and adjusted Ebitda per Prospectus; Rev forecasts per Sequoia based on low end of GTV guidance

Source: Deliveroo Revenue forecasts per Sequoia based on low end of GTV guidance of +30-40% for CY21e and +20-25% for the medium term. No prospectus forecasts were given.

Refinitiv Code	Company (in Market Cap order)	Revenue Growth			EV/ Sales				EV/ Ebitda			P/E		
		FY1e	FY2e	FY3e	FY0	FY1e	FY2e	FY3e	FY1e	FY2e	FY3e	FY1e	FY2e	FY3e
MMM.AX	Marley Spoon AG (Sequoia est)	27.0%	18.9%	15.0%	1.77x	1.34x	1.09x	0.89x	34.9x	16.2x	10.4x	325.8x	32.3x	18.1x
Similar online subscription-based meal kit companies (consensus forecasts)														
MMM.AX	Marley Spoon AG (consensus)	27.0%	19.9%	17.3%	2.63x	1.34x	1.11x	0.95x	108.1x	46.9x	25.0x	NA	NA	280.6x
HFGG.F	Hellofresh SE	21.9%	17.3%	13.8%	2.89x	2.37x	2.02x	1.78x	22.4x	18.3x	15.2x	39.6x	32.5x	26.3x
APRN.K	Blue Apron Holdings, Inc.	5.4%	4.7%	21.1%	0.22x	0.21x	0.20x	0.16x	20.2x	6.4x	2.5x	NA	NA	NA
FOOD.TO	Goodfood Market Corp	34.1%	25.3%	NA	2.07x	1.54x	1.22x	NA	142.3x	39.9x	NA	NA	NA	NA
MFB.NZ	My Food Bag Group Ltd	23.6%	-1.6%	NA	2.70x	1.90x	2.03x	NA	12.6x	11.0x	NA	24.9x	19.3x	NA
LMKG.ST	LMK Group AB (publ)	12.1%	NA	NA	0.85x	NA	NA	NA	7.1x	NA	NA	NA	NA	NA
Online pre-prepared food & groceries														
YFZ.AX	Youfoodz Holdings Ltd	17.8%	12.8%	12.1%	0.40x	0.34x	0.30x	0.27x	14.9x	16.8x	6.5x	NA	NA	111.8x
DHER.DE	Delivery Hero SE	108.3%	88.5%	42.9%	22.49x	10.74x	5.70x	3.99x	NA	NA	NA	NA	NA	NA
TKWY.AS	Just Eat Takeaway.com NV	64.9%	32.7%	19.7%	5.89x	3.59x	2.70x	2.26x	170.8x	59.8x	29.4x	NA	NA	140.3x
OCDO.L	Ocado Group PLC	14.7%	16.8%	17.8%	6.49x	5.71x	4.89x	4.15x	183.0x	88.4x	57.7x	NA	NA	NA
ROO.L	Deliveroo Holdings PLC	30.0%	20.0%	20.0%	3.41x	2.62x	2.18x	1.82x	NA	NA	NA	NA	NA	NA
Other online businesses (non-food)														
ZOIG.DE	Zooplus AG	14.9%	14.1%	15.3%	0.98x	0.86x	0.75x	0.65x	30.3x	24.1x	19.1x	103.4x	70.8x	48.9x
KGN.AX	Kogan.com Ltd	57.5%	14.3%	15.8%	2.37x	1.61x	1.41x	1.21x	14.3x	12.3x	10.8x	25.9x	20.9x	17.5x
MYD.AX	Mydeal.ComAu Pty Ltd	169.9%	47.7%	48.8%	13.97x	4.38x	2.96x	1.99x	NA	NA	73.1x	NA	NA	2.0x
RBL.AX	Redbubble Ltd	38.4%	10.4%	19.8%	3.36x	2.31x	2.09x	1.75x	19.3x	18.1x	14.0x	29.8x	26.7x	23.2x
TPW.AX	Temple & Webster Group Ltd	87.4%	33.1%	26.5%	6.42x	3.29x	2.47x	1.96x	44.4x	33.5x	24.6x	53.1x	41.3x	34.8x
Takeaway food Comps														
CKF.AX	Collins Foods Ltd	9.0%	6.7%	7.2%	1.83x	1.64x	1.53x	1.43x	12.2x	10.5x	9.4x	21.2x	19.1x	16.7x
DMP.AX	Domino's Pizza Enterprises Ltd	15.0%	9.7%	10.9%	5.09x	4.40x	4.01x	3.61x	22.4x	19.9x	17.6x	45.1x	39.0x	33.5x
MCD	Mcdonald's Corp	14.9%	5.7%	5.7%	10.51x	9.15x	8.65x	8.18x	18.2x	16.9x	15.9x	26.8x	24.4x	22.3x
YUM	Yum! Brands Inc	11.5%	6.2%	6.6%	7.60x	6.81x	6.42x	6.02x	19.8x	18.2x	17.0x	27.5x	24.1x	21.5x

Source: Sequoia estimates for MMM; Prospectus forecasts for MFB.NZ; Refinitiv consensus estimates for all other stocks; FY1 means forecast year 1 (FY21 in most cases)

Source: Deliveroo historical underlying revenue and adjusted Eb 115820

Source: Deliveroo Revenue forecasts per Sequoia based on low end of GTV guidance of +30-40% for CY21e and +20-25% for the medium term. No prospectus forecasts were given.

Comments on Comparable Companies

Hello Fresh (HFGG.F) – Market cap EUR 11.3bn

Hello Fresh is MMM's closest competitor with a near-identical subscription-based meal kit business model operating in 14 countries. Two differences are that it also provides a limited range of grocery items, and in November 2020 it entered the pre-prepared meals segment via the acquisition of Factor. We review Hello Fresh in detail at Appendix 2.

Good Food Market Corp (FOOD.TO) – Market cap C\$635m

Goodfood is a leading online grocery company in Canada, delivering fresh meal solutions (ready-to-cook meal kits, and pre-prepared ready-to-eat meals) and grocery items that make it easy for members from across Canada to enjoy delicious meals at home every day. Goodfood's mission is to make the impossible come true, from farm to kitchen, by enabling members to complete their weekly meal planning and grocery shopping in minutes. Goodfood members have access to a unique selection of online products as well as exclusive pricing made possible by its direct-to-consumer fulfilment ecosystem that eliminates food waste and costly retail overhead.

The Company's main production facility and administrative offices are based in Montreal, Québec, with five additional production facilities located in the provinces of Québec, Ontario, Alberta, and British Columbia. A seventh production facility located in the province of Ontario is currently under construction. As at November 30, 2020 (Q1), Goodfood had 306,000 active subscribers (v 230,000 pcp) up 33%.

In October 2020, the Company announced the launch of its new unlimited same-day grocery delivery service, in the Greater Montreal Area. This new service is scheduled to expand to other major Canadian cities over the next year. The new service offers an even more flexible and convenient online grocery experience, allowing members to order any combination of meal kits, groceries, prepared meals and other products as frequently as needed during the week, with same-day delivery included for all orders over C\$35 – all for only C\$9.99 a month.

Revenue for the year-ended August 2020 was C\$285.4m (v C\$161.3) up 77%. Gross profit was C\$86.4m (v C\$40.3m) up 114%. Goodfood reported positive adjusted Ebitda of C\$4.7m (v C\$16.2m loss pcp). The positive ebitda margin for the year of 1.6% (Vs -10.0%) was the first positive result since inception in 2014. The overall result was a Net Loss of C\$4.1m (v C\$20.9m loss), but was profitable in the 2H. Operating cash flow was a positive C\$8.6m (v C\$0.9m pcp). Goodfood looks a reasonable comparable for MMM.

Blue Apron Holdings (APRN.K) – Market cap US\$113m

Blue Apron is a New York based company founded in 2012. It listed in June 2017 at US\$11.00 per share but performed below expectations (now US\$6.32, after a 15 for 1 share consolidation in 2019). Blue Apron offers three different weekly meal plans (2 person, 4 person and a "meal prep plan"). It also provides wines to order sized for dinner-for-two (500ml bottles instead of the usual 750ml; currently shipped to 31 States plus Washington DC) and a curated range of cooking utensils and pantry items. It currently has 3 FC's located in Linden New Jersey, Richmond California and in Jan 2021 re-opened the FC in Arlington Texas which had been closed in 1H20. The company has been loss making since inception, had 3 CEO's since 2017 and initiated significant downsizing in 2017 and 2018.

CY20 revenue was US\$460.6m (v US\$454.9m) up 1.3%. It was impacted by staff shortages and high absenteeism and capacity constraints. Adjusted Ebitda loss US\$1.0m (v US\$8.4m). Marketing costs were US\$49.9m (10.8% of revenue, v \$48.1m). Operating cash flow deficit – US\$5.4m (v -16.5m). Q4CY20 customers 353,000 (v 351,000 pcp) essentially unchanged. 2,045 full-time staff, 85% engaged in fulfilment. Blue Apron says it is seeing heightened demand and Q1 is normally its best quarter due to seasonality.

Blue Apron does not seem to be participating in the strong growth that Hello Fresh and MMM have been reporting, and appears to be capital constrained. As such, we do not regard it as a useful comparable.

My Food Bag Group (MFB.NZ) – market cap NZ\$ 386m

My Food Bag recently listed in New Zealand and on the ASX. It has a similar subscription-based model to MMM and Hello Fresh and so is a direct comparable. It is profitable and is enjoying strong growth, but only operates in its home country at this stage, so does not have the global potential we see in MMM or Hello Fresh. We review the company in more detail in Appendix 3.

LMK Group (Linas Matkasse) (LMKG.ST) – market cap 1.01bn SEK ~ 98.6m EUR

LMK was founded in Sweden in 2008 by siblings Carolina Geback and Niklas Aronsson as Carolinas Matkasse AB, and listed on Nasdaq on 29/3/21. The Group conducts its operations under four brands: Linas Matkasse (Sweden), Adams Matkasse (Norway, acquired 2014), Godtlevvert (Norway, acquired 2017) and RetNemt Måltidskasser (Denmark, acquired 2016). NB “Matkasse” means “lunch box” in Swedish. “Måltidskasser” means “meal boxes”.

Originally LMK was a world pioneer with fixed recipe, time saving, healthy meal kits where the customer did not have a much choice, but the initial strong growth waned and it lost customers due to lack of flexibility. In 2017 there was a management change and a new focus on flexible meal kits gradually restored the group to profitability and growth.

Today, LMK Group provides fresh, healthy, flexible and adaptable meal kit solutions to around 115,000 active and 405,000 registered customers in Sweden, Norway and Denmark. It has a market penetration of around 3.0% (refer Prospectus, page 48). LMK estimates it has a market share of up to 95% in Norway, 30% in Sweden and 20% in Denmark. The Group’s vision is that Scandinavian households should be able to take the time to prepare and eat good food together with their family and friends, without having to get stressed, plan, shop or carry home bags of groceries.

In CY20, net sales were SEK 1.217 billion (v 1.086bn in CY19 and 1.326bn in CY18). CY20 revenue growth was 12.1% (but +17.4% on a constant currency basis). Ebitda margin 11.9% (v 8.1% pcp). It delivered 1.74m orders in 2020. It has 282 full-time employees (Sweden 117, Norway 112 and Denmark with 53). No forecasts were given in the Prospectus.

LMK is a reasonable comparable for MMM, but it has had a checkered history, operates in a fairly small Scandinavian market, failed in Finland, and we think four local brands is too many to efficiently support and develop.

MMM Valuation discussion

We prefer to value MMM on an EV/ Sales and discounted cash flow (DCF) basis currently, as the company is only forecast to become Ebitda positive in CY21, and is still developing in its current markets (e.g. Perth / WA launched only 4 months ago and Sweden 15 months ago), so Ebitda multiples and P/E multiples are less useful at this stage in the company’s development.

MMM trades at a -43% / -46% and -50% discount to rival Hello Fresh for CY21e / CY22e and CY23e reflecting its smaller market cap (MMM is just 6% of the size of Hello Fresh) and lack of profitability to date. In theory, the growth opportunity for MMM is larger as it potentially catches up with its larger rival. Hello Fresh’s 12.8% Ebitda margin in FY20 points to the possible increase in profits that MMM might achieve in a few years. We forecast MMM’s ebitda margin to increase to over 8.0% in CY23e.

At just A\$671m market capitalisation (EUR 438m), with a its two brands established on 3 continents, and with similar global potential to Hello Fresh which is 25x larger, we think that MMM is also more likely to attract takeover attention, or even get re-privatised now that the loss-making, high risk establishment phase appears to be largely complete.

Valuation

Marley Spoon - Sequoia valuation				
	Weighting	CY21e	CY22e	CY23e
Hello Fresh EV / Revenue multiples (consensus, years ended Dec)		2.37x	2.02x	1.78x
Implied MMM share price assuming a 10% discount -10%	50%	\$ 3.91	\$ 3.85	\$ 3.73
DCF valuation	50%	\$ 4.01		
Blended valuation		\$ 3.96		

Source: Consensus estimates for Hello Fresh; Sequoia estimates for MMM

We have valued MMM CDIs on a blend of 50% EV / Sales (using a 10% discount to Hello Fresh), and 50% Discounted Cash Flow valuation (DCF).

We think a 10% discount to Hello Fresh will be more appropriate in the next 12-months, as we expect that MMM will then be Ebitda positive in all three regions, the Woolworths WOW 1 bond is likely to be converted (this can convert from two years after issue date, i.e. from 26/9/21) thereby reducing financial risk, the new Sydney and California fulfilment centres will be up and running, and the Dinnerly brand should be more established and visible in Germany and Western Australia.

Our DCF valuation is A\$4.01 per CDI (assumptions: 8.8% discount rate, 3.0% terminal growth rate, fully diluted for conversion of Woolworths WOW1 and WOW2 bonds with a face value of EUR 16.5m; 25% global tax rate from CY26 onwards).

We set our 12-month price target at \$3.96 per CDI, which implies +51% potential upside from the current price.

Risk Rating

We consider MMM a high risk investment, as it does not yet have an established track record of profitability, it has gross debt of EUR 36.2m (half of which is convertible bonds likely to convert into equity), and is much smaller than its main rival Hello Fresh (which is already profitable). In addition, the path to normalisation post Covid and how that could affect MMM are still unknown, and our forecasts are quite sensitive to changes in key assumptions (e.g. net customer additions and frequency of orders). However, we expect these risks to decline over the next year or two.

Recommendation

MMM's share price reached an all-time high of \$3.80 on 28/8/20, so has now pulled back -31% to the current \$2.63 CDI price. Larger rival Hello Fresh peaked at € 77.95 on 15/2/21 and has since pulled back -17% to EUR 64.72. A number of other e-commerce and Covid-beneficiary stocks have also pulled back recently.

We expect a very strong Q1 update next month, and think MMM's share price should respond positively. We think its recent pull-back is overdone. As discussed in this report, we think that the Covid benefits to MMM are permanent, not a pull-forward of demand.

We initiate coverage with a BUY recommendation.

CY20 Results

MMM approximately doubled revenue in 2020, reduced Ebitda losses to almost break-even, and reduced net debt to almost nil – A remarkable performance and year for the company.

MMM - CY20 Results Review Years ended Dec €m	1H19	2H19	CY19	1H20	2H20	CY20	Change	Comments
1. COMPANY PROFIT & LOSS								
Op. Revenue	61.4	68.2	129.6	116.2	137.9	254.0	96.1%	Strong growth in CY19 pre-Covid at 41%; Growth accelerated in CY20 to +96%
Revenue growth %	55.3%	30.0%	40.8%	89.2%	102.2%	96.1%	55.2%	Growth rate more than doubled in CY20
Cost of Goods Sold	(34.4)	(37.4)	(71.8)	(60.1)	(73.2)	(133.3)	85.7%	Variable cost increased slightly less than sales
Gross Profit	27.0	30.8	57.8	56.0	64.7	120.7	108.9%	Gross profit growing faster than Sales
Cost of Goods as % of Sales	-56.0%	-54.8%	-55.4%	-51.8%	-53.1%	-52.5%	2.9%	Cost of goods down 290bps
Gross Profit Margin %	44.0%	45.2%	44.6%	48.2%	46.9%	47.5%	2.9%	GP margin continues to improve due to scale, purchasing power & operating leverage
Fulfillment costs	(12.2)	(13.2)	(25.5)	(21.0)	(25.6)	(46.6)	83.0%	Variable cost - Fulfillment costs falling proportionately
% of Sales	-19.9%	-19.4%	-19.7%	-18.1%	-18.5%	-18.3%	1.3%	Fulfillment costs down 130bps
Contribution margin	14.7	17.6	32.3	35.0	39.2	74.1	129.3%	Contribution margin up due to scale and efficiency benefits
Contribution margin %	24.0%	25.8%	25.0%	30.1%	28.4%	29.2%	4.2%	Contribution margin up 420 bps
Other Income	0.0	0.0	0.0	0.0	0.0	0.0		
Marketing costs	(18.0)	(16.2)	(34.2)	(21.4)	(17.9)	(39.3)	14.8%	Marketing costs up 15% (Vs Sales +96%)
% of Sales	-29.4%	-23.8%	-26.4%	-18.4%	-13.0%	-15.5%	11.0%	Marketing costs now a more sustainable 15% of Sales
General & Admin expenses	(13.9)	(13.9)	(27.9)	(15.6)	(19.8)	(35.4)	26.8%	Other costs up 27% as largely fixed (Vs Revenue up 96%). (Excl D&A & SBPs)
% of Sales	-22.7%	-20.5%	-21.5%	-13.4%	-14.3%	-13.9%	7.6%	G&A costs down 760bps
EBITDA	-17.2	-12.6	-29.8	-2.0	1.5	-0.5	-98.3%	Ebitda loss improved a massive EUR 29m, now almost at break-even
Ebitda Margin %	-28.0%	-18.5%	-23.0%	-1.7%	1.1%	-0.2%	22.8%	
Share-based payments	(0.2)	(0.2)	(0.4)	(0.1)	(0.3)	(0.4)	16.5%	Modest increase
EBITDA	-17.4	-12.8	-30.2	-2.2	1.2	-0.9	-96.9%	
Depreciation & Amort	(2.2)	(2.4)	(4.6)	(3.1)	(3.4)	(6.5)	40.5%	D&A up EUR 1.9m or 41%.
EBIT	-19.6	-15.2	-34.8	-5.3	-2.2	-7.4	-78.6%	EBIT loss reduced by EUR 27.4m, or 79%
Ebit Margin %	-32.0%	-22.2%	-26.8%	-4.5%	-1.6%	-2.9%	23.9%	Significant improvement in margin, now only a small negative
Net Interest Income (Expense)	(2.1)	(3.5)	(5.6)	(3.2)	(4.2)	(7.4)	31.9%	Significant increase reflects repayments of expensive debt.
Share of Assoc NPAT (NLoss)	0.0	0.0	0.0	0.0	0.0	0.0		
Pre-tax profit	(21.7)	(18.7)	(40.4)	(8.5)	(6.4)	(14.8)	-63.3%	
Income Tax Credit (Expense)	(0.1)	0.0	(0.0)	(0.0)	(0.1)	(0.1)	351.6%	Tax rate approx nil due to EUR 226m of accumulated losses
Tax Rate %	0.2%	-0.1%	0.1%	0.1%	2.0%	0.9%	0.9%	
Non-recurring items (NRIs)	0.0	5.5	5.5	-59.0	-12.4	-71.4		Change in fair value of derivatives (re convertible debt)
NPAT (reported)	-21.6	-12.9	-34.5	-67.5	-18.8	-86.2	149.6%	Not very meaningful
Adjustments	0.0	-5.5	-5.5	59.0	12.4	71.4		Exclude NRIs
NPAT (normalised)	-21.6	-18.5	-40.1	-8.4	-6.4	-14.8	-63.0%	Adjusted NPAT Loss significantly improved
NPAT margin	-35.2%	-27.1%	-30.9%	-7.3%	-4.6%	-5.8%	25.1%	
EPS - Reported (cents)	-15.2	-8.5	-23.7	-41.4	-4.7	-46.1	94.8%	
EPS - Normalised (cents)	-15.2	-12.3	-27.4	-5.2	-2.7	-7.9	-71.1%	Adjusted EPS loss significantly improved
DPS (cents)	0.0	0.0	0.0	0.0	0.0	0.0		
Franking	n/a	0%	0%	0%	0%	0%		
Dividend payout rate (of norm. EPS)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
3. Cash Flow items:								
Change in Working Capital	-2.6	0.8	-1.8	6.4	-4.9	1.5	-183.9%	Positive EUR 1.5m change in working capital generated
Operating cashflow	-17.3	-13.0	-30.3	8.1	-3.7	4.4	-114.6%	Strength of business model starts to emerge
Investing cashflow	-3.1	-3.1	-6.3	-3.9	-4.7	-8.6	37.0%	Cool rooms; New F centre in Perth, commenced Syd & California; €3.3m on software
Financing cashflow	22.4	0.0	33.3	9.1	24.6	33.7	1.2%	Includes 2 capital raisings of A\$16.6m (EUR 10.9m) in May 2020 at A\$1.05 per CDI and A\$56m (EUR 33.8m) in Oct 2020 at \$3.22 per CDI
Change in cash	2.0	-5.2	-3.2	13.3	16.2	29.5	-1017.5%	
4. Balance Sheet items:								
Net Cash (Net debt)	-29.2		-47.6	-97.1		-1.8	-96.3%	Net debt EUR 46m lower
Property, Plant & Equipment	16.8		20.1	20.5		21.0	4.4%	
Intangibles	2.7		3.4	4.3		4.9	43.6%	Includes capitalised software development costs of EUR 1.0m
Working Capital analysis:								
Inventories	3.6		3.7	6.2		6.6	75.9%	Inventories up 76%, roughly in line with Sales up 96%
Debtors	0.5		0.5	0.5		0.7	33.5%	
Creditors	-12.0		-12.9	-21.8		-17.5	35.2%	Creditors up 35%, drive positive working capital & operating cashflow
Working capital	-7.9		-8.7	-15.1		-10.2	17.8%	EUR 1.5m positive working capital generated (34% of Operating cashflow)
Inventories as a % of Sales	2.9%	2.7%	2.9%	2.7%	2.4%	2.6%	-0.3%	Inventories are extremely low due to clever business model
Inventory days			11			9	-10.3%	Inventory days look very speedy as minimal inventories are held
Debtor days			1			1	-31.9%	Debtor days tiny - as Customers pay in advance of receiving orders
Creditor days			36			25	-31.0%	Creditor days OK. MMM appears to be paying creditors in reasonable time frame
Total Assets	37.5		37.0	53.2		73.1	97.6%	Total assets up 98%
Total Liabilities	-59.3		-72.7	-147.4		-65.0	-10.7%	Total Liabilities up 11%
Shareholders Funds	-21.9		-35.7	-94.2		8.1	-122.8%	2 capital raises in CY20 plus 4 convertible bonds & Kreos warrants converted

Source: MMM accounts; Sequoia forecasts & adjustments

Segmental / Geographic analysis

MMM - CY20 Results Review Years ended Dec €m	1H19	2H19	CY19	1H20	2H20	CY20	Change	Comments
1. SEGMENTAL								
Revenue								
USA	27.2	28.9	56.1	58.7	68.5	127.2	126.7%	US growth the star
Australia	21.3	27.6	48.8	38.8	47.2	86.0	76.1%	
Europe	12.9	11.7	24.6	18.6	22.2	40.8	66.0%	
Total Revenue	61.4	68.2	129.6	116.2	137.9	254.0	96.1%	Strong growth in all regions; USA the star
Revenue growth	55.3%	30.0%	40.8%	89.2%	102.2%	96.1%		Revenue growth was +101% on a constant currency basis
Revenue Growth								
USA - yoy	98%	24%	51%	116%	137%	127%	75.3%	51% growth in CY19 pre-Covid; 100% plus sales growth in both halves in CY20
Australia - yoy	41%	60%	51%	82%	71%	76%	24.8%	51% growth in CY19 pre-Covid; 70% plus sales growth in both halves in CY20
Europe - yoy	20%	-2%	9%	45%	89%	66%	57.4%	9% growth in CY19 pre-Covid; 45% plus sales growth in both halves in CY20
Total - yoy	55%	30%	41%	89%	102%	96%	55.2%	41% growth in CY19 pre-Covid; 89% plus sales growth in both halves in CY20
Ebitda (excl. Share-based payments)								
USA	(6.9)	(6.1)	(13.0)	1.7	2.4	4.1	nm	USA turned profitable in 1H20 (before corporate costs)
Australia	(1.8)	0.1	(1.7)	3.5	6.3	9.7	nm	Aust turned profitable in 2H19 (before corporate costs)
Europe	(4.1)	(3.5)	(7.7)	(1.5)	(0.4)	(1.9)	-75.2%	Europe still in loss, but loss is reducing
Corporate & Other	(4.4)	(3.0)	(7.4)	(5.7)	(6.7)	(12.4)	67.6%	Corporate costs up 68% as MMM invests for further growth
Ebitda - Group (excl SBPs)	(17.2)	(12.6)	(29.8)	(2.0)	1.5	(0.5)	nm	Small Ebitda loss of €0.5m / approximately at break-even now
Ebitda Margins (excl. SBPs)								
USA	-25.2%	-21.3%	-23.2%	2.9%	3.5%	3.2%	26.4%	USA now profitable before Corporate costs
Australia	-8.4%	0.4%	-3.5%	8.9%	13.3%	11.3%	14.8%	Aust now profitable before Corporate costs
Europe	-32.2%	-30.2%	-31.2%	-7.8%	-2.0%	-4.7%	26.6%	Europe losses narrowing
Total	-28.0%	-18.5%	-23.0%	-1.7%	1.1%	-0.2%	22.8%	MMM nearly profitable at the Ebitda line (excl Share-based payments)

Source: MMM reports

Key Features of Result

The key features of the CY20 result were as follows:

- Operating revenue EUR 254m (v 129.6m) up 96%, and up 101% on a constant currency basis.
- Within this, the US was up 127%, Australia was up 76% and Europe was up 66%.
- Ebitda losses (before share-based payments) were reduced almost to break-even at EUR -0.5m (v -29.8m pcp).
- Within this, the USA recorded an Ebitda profit of EUR 4.1m (v 13.0m loss), a EUR 17.1m improvement.
- Australia recorded an Ebitda profit of EUR 9.7m (v 1.7m loss), an EUR 11.4m improvement.
- Europe recorded an Ebitda loss of EUR -1.9m (v -7.7m), a EUR 5.8m improvement.
- Corporate / central costs were EUR 12.4m (v 7.4m) up EUR 5.0m (+68%) as MMM continued to invest in the management team, and IT systems to support the growth and a much bigger business.
- The Ebitda margin (before share-based payments) was barely negative, as -0.2% (v -23.0%) a massive improvement.

Profit & Loss

- Cost of Goods Sold was up 86% (v Sales +96%) due to improved purchasing power and scale benefits.
- Fulfilment costs were up 83% (v Sales +96%) due to scale efficiencies.
- The Contribution Margin was EUR 74.1m (v 32.3m) up a massive 129%.
- Contribution margin % was 29.2% (v 25.0%) up 420bps.
- Marketing costs were EUR 39.3m (v 34.2m) up 15%, but this represented a much more sustainable 15.5% of Sales (v 26.4% pcp). In the early part of the Covid pandemic, TV advertising costs were significantly lower. And given the step change in sales and orders, MMM did not need to be as generous with its introductory offers and other discounts.
- General & Administrative costs also fell as a percentage of sales.
- Depreciation & Amortisation was EUR 6.5m (v 4.6m) +40%. This includes amortisation of capitalised software development costs (ERP system).
- Normalised Net Loss After Tax (NLAT) was EUR 14.8m (v 40.1m).
- We have stripped out as an Abnormal item a EUR 71.4m fair value adjustment on derivatives, which is a non-cash item. This appears to be a mark to market of

MMM's convertible bonds the value of which significantly increased because of the large increase in the share price.

- The reported NLAT was EUR -86.2m (v -34.5m pcp).
- EPS loss per share (normalised) was -7.9 euro cents (v -27.04 c), an improvement of 71%.
- No dividend yet.

Cash Flow Statement

- Operating cash flow was a positive EUR 4.4m (v -30.3m pcp) for the year, a significant improvement, although 2H20 was a negative EUR 3.7m. We think the positive full year figure shows the strength of the business model starting to emerge.
- MMM benefitted from a positive EUR 1.5m movement in working capital (v -1.8m pcp), a EUR 3.3m improvement. Again we think this the positive aspects of the business model are starting to come through.
- Investing cash flow was EUR 8.6m (v 6.3m) up 37%. This included fitting out new fulfilment centres in Perth and Sydney, and the commencement of a new centre in the USA. It also included EUR 3.3m on software.
- Financing cash flow was EUR 33.7m (v 33.3m). This included a placement of EUR 10.9m (A\$16.6m) in May (at A\$1.05 per CDI) and a placement of EUR 33.8m (A\$56m) in October (at A\$3.22 per CDI) before costs. There was no retail participation in either deal.

Balance Sheet

The major Balance sheet items at December year-end were:

- Net debt EUR -1.8m (v -47.6m) a massive EUR +45.8m reduction. Four of MMM's six convertible bonds were converted to equity during the year (Union Square Ventures 3 bonds totalling EUR 12.2m, and Acacia EUR 1.8m, plus Woolworths bond reduced by EUR 1.4m). And two equity placements of EUR 33.2m as noted in the cashflow discussion above.
- Property plant and Equipment, and leased assets of EUR 21.0m (v 20.1m). We consider this relatively low amount of capital tied up in fixed assets, to be a key positive factor with MMM's capital-light business model.
- Inventories are remarkably low at just EUR 6.6m (v 3.7m), representing just 2.6% of sales (v 2.9% pcp). MMM's assembled-to-order and just-in-time business model and limited SKU's (just 150 items on the menus in any week) means that MMM does not need to hold large stocks of food items or ingredients.
- Intangibles of EUR 4.9m (v 3.4m) include capitalised software development costs including a new ERP system. There is no goodwill on the balance sheet.
- Total gross assets 73.1m (v 37.0m) up EUR 36.1m, largely reflected the increase in cash during the year.
- Liabilities EUR 65.0m (v 72.7m) up EUR 7.7m comprises mainly creditors EUR 17.5m, leases EUR 11.3m and debt (including derivatives) of EUR 24.9m.
- Shareholders Funds of EUR 8.1m (v -35.7m deficit) appear low. This is largely due to the EUR 71.4m non-cash mark to market of MM's current and previous convertible bonds, which we treated as an abnormal item in the profit & loss account. But it still unfortunately reduces the equity value shown in the balance sheet, for which we do not adjust.
- Accumulated losses for MMM to get the business into the current shape were EUR 226.5m, of which EUR 71.4m was a non-cash item in CY20, and +5.5m in CY19. So we believe the true operating losses to get MMM to this point are approximately EUR 160.6m.
- NTA per share was 1.2 euro cents at December 2020. MMM is not an asset intensive business.

Board & Management

Board Ownership

MMM has a German-style board with 2 executives on the management board, and 4 directors on the Supervisory Board.

Fabian Siegel, CEO and founder has 6.7% of the company (excluding shares held on trust for employees). Other directors have a further 0.9% making 6.9% in total for the two boards combined.

MMM - Directors Shareholdings	CDIs At IPO (July 2018)	CDIs 31-12-18	CDIs 31-12-19	CDIs 31-12-20	CDIs Latest	% of Coy (ordinary shares)	Options (CDI equivalents)	Salary Super & Other	Share-based Payments & LTIs
Management Board:									
Fabian Siegel - Personal holdings + held in trust for employees	38,263,127	27,969,451	27,524,451	24,613,433	26,774,451	10.5%		314,850	17,471
Fabian Siegel, CEO & co-founder (app 5/6/18) - Personal only	17,156,451	17,348,000	17,953,000	17,285,000	17,196,451	6.7%	753,000		
Jennifer Bernstein CFO (app 26/10/20)						0.0%	-	70,120	-
Supervisory Board (Non-executives):									
Ms Deena Shiff, Chair (appointed 5/6/18)	137,000	137,000	137,000	137,000	137,000	0.1%	-	40,454	40,640.74
Kim Anderson (app 5/6/18)	106,000	106,000	106,000	106,000	106,000	0.0%	-	31,119	31,262
Christoph Schuh (app 5/6/18)(to resign at the May 2021 AGM) (NB Christoph is a partner at Lakestar which has 3.5%)	-	-	-	-	-	0.0%	-	-	-
Robin Low (appointed: 29/1/20)				134,000	134,000	0.1%	-	53,288	53,532
Ex Directors:									
Patrick O'Sullivan ex NED (app 5/6/18; resigned 29/1/20)	106,000	106,000	106,000	106,000	n/a			4,579	4,601
Julian Lange, ex CFO (resigned 31/12/20)	618,000	850,000	1,088,000	1,755,000	n/a		2,454,000	110,067	1,239,956
Total - Directors and senior management (excl held in trust by Fabian Siegel for employees & others)	18,123,451	18,547,000	19,390,000	19,523,000	17,573,451	6.9%	3,207,000	624,477	1,387,463
MMM - Total CDIs on issue	140,000,000	140,470,000	158,520,000	256,025,000	256,025,000		7,417,000		
Directors % of Total	12.9%	13.2%	12.2%	7.6%	6.9%		43.2%		

Source: Company reports; ASX announcements; Refinitiv

Management Board

Fabian Siegel (Founder & CEO)

Fabian founded Marley Spoon in May 2014 with Till Neatby and is the current Chief Executive Officer (CEO) of the Company. Fabian has an entrepreneurial background, having co-founded global online restaurant food delivery service Delivery Hero in 2010 (it subsequently listed on the Frankfurt Stock Exchange in June 2017). He also co-founded Germany's first online auction business (Auktionet in 1996), served as CTO in Europe's online payments services brands (ClickandBuy in 2000), co-founded a financial services start-up (Strateer Inc. in 2008), and served as President & COO of a browser technology company (Klikin Inc. in 2009). Immediately prior to Marley Spoon, Fabian was a Partner at Global Founders Capital, part of the Rocket Internet group, a specialist investor in internet related companies. Global Founders Capital / Rocket was the biggest shareholder at IPO with a 17.4% stake.

Jennifer Bernstein (CFO)

Jennifer was appointed to the Management Board in October 2020 and serves as Marley Spoon's Chief Financial Officer (CFO). Jennifer's responsibilities as CFO at Marley Spoon include accounting, controllership, financial reporting and analysis and treasury. Prior to joining Marley Spoon, she spent nearly 13 years in consumer goods at PepsiCo in various senior finance leadership roles in the US and in Europe.

She replaced Julian Lange.

Supervisory Board

Deena Shiff (Chair, Sydney-based)

Deena was appointed Independent Chairman of the Supervisory Board of the Company in June 2018. Deena is currently a Non-Executive Director of Appen Ltd. (ASX: APX), Pro Medicus Ltd. (ASX: PME) and Infrastructure Australia (unlisted). She is also on the Boards of not-for-profit organizations including Opera Australia. Deena was until February 2018 on the board of the Citadel Group (ASX: CGL) where she chaired the Audit and Risk committee (ARC).

Deena was the first female Group Managing Director at Telstra, running Telstra Wholesale and then Telstra Business (2006-2011). In 2011, Deena established Telstra's corporate venture capital arm, Telstra Ventures (2011-2013). In the 1990s, Deena was a Partner at Mallesons Stephens Jaques (now King & Wood Mallesons)

and prior to that was an in-house counsel and regulatory advisor.

Deena received a B.Sc. (Econ) Hons from the London School of Economics and a BA (Law) Hons from the University of Cambridge. Deena was admitted as a barrister at the Inns of Court (Gray's Inn, UK) and as a solicitor in Australia. Deena is also a Fellow of the Australian Institute of Company Directors and is a graduate of the International Company Directors Course (A.I.C.D., Hong Kong).

Kim Anderson (NED, Sydney-based)

Kim was appointed to the Supervisory Board of the Company in June 2018. Kim chairs Marley Spoon's Nominations and Remuneration Committee (NRC). Kim is a Non-Executive Director of ASX listed companies Carsales.com Ltd (ASX: CAR), WPP AUNZ (ASX: WPP) and Infomedia Ltd (ASX: IFM). She is also a director of the Sax Institute (unlisted).

Kim has worked for a variety of book publishers and media proprietors, including John Fairfax and Sons (1984 – 1989), Publishing and Broadcasting Limited (1997 – 2000), HarperCollins New York (1995 - 1997) and the Nine Television Network (2000 – 2004), and has also played a key role in the online portal Ninemsn. In 2004, Kim joined Southern Star Entertainment as chief executive officer Entertainment division (2004 – 2007), before moving to the US as chief executive officer and founder of The Reading Room, Inc. (2009 – 2016).

Kim attended the University of Sydney (BA) and UTS (Postgraduate Diploma in Library and Information Science).

Christoph Schuh (NED, Lakestar representative, Berlin-based)

Christoph was appointed to the Supervisory Board of the Company in April 2018, having served as a member of the advisory board of the Company prior to its conversion to a German stock corporation. He has announced that he will retire from the board at MMM's AGM in May 2021.

Christoph has more than 20 years of experience investing in and operating digital companies. He is currently a Partner at Lakestar, a European Venture Capital firm, where he represents the company on multiple corporate boards, including Marley Spoon's.

Christoph has been a co-founder and previous Management Board member of Tomorrow Focus AG, an internet portfolio player listed on the Frankfurt Stock Exchange. Previously, he worked for the media conglomerates Bertelsmann and Burda in various management roles and acted as an advisor at different companies, such as the private equity firm BC Partners and the investment bank GC Altium.

Christoph received a diploma with distinction in Business Administration and Economics from the University of Cologne.

Robin Low (NED, Sydney-based)

Robin was appointed a member of the Supervisory Board, effective 29 January 2020, for the remainder of the Supervisory Board's Initial Term. Robin chairs Marley Spoon's Audit and Risk Committee.

She was with PricewaterhouseCoopers for over 28 years (1985 – 2013) where she was a partner specializing in audit and risk management. Robin is past deputy chairman of the Auditing and Assurance Standards board and has also been a member of the Australian Reinsurance Pool Corporation.

Robin currently holds ASX listed directorships with Appen Ltd (ASX: APX), AUB Group Limited (ASX: AUB) and IPH Limited (ASX: IPH). Until February 2020, Robin was on the board of CSG Limited (ASX: CSV) where she chaired the Audit and Risk Committee. Her not-for-profit directorships are Guide Dogs NSW/ACT, Primary Ethics and Public Education Foundation.

Proposed new Director (from the AGM on 28/5/21)

Following a global search, Mr Roy Perticucci has been identified as the suitable candidate to join and complement the MMM Supervisory Board. Roy has depth of experience in scaling high growth digital direct and stationary retail businesses. He led Amazon EU Operations (a network of 60 sites in 12 countries) 2013-2020 (7 years, 8 months per LinkedIn) and concurrently led North American operations (150 sites) in 2019. Roy has led two grocery home-shopping businesses, as Operations Director at Tesco.com (UK 7 years, 2000 – 2007), and as Managing Director of eCommerce at Ahold (Netherlands, 1 year 7 months). Earlier in his career, Roy was a software developer with Accenture in Milan and a consultant with Boston Consulting Group in Munich.

He earned his MBA from Darden Business School – University of Virginia, USA. Roy is currently based in Luxembourg. Languages: German, Italian and Spanish.

MMM Chairman, Ms Deena Shiff, on behalf of the Supervisory Board noted, “We are pleased to welcome Roy to the Supervisory Board. With his deep experience in scaling online businesses across multiple regions and driving efficiencies across grocery supply chains, he is ideally suited to assist Marley Spoon to realise its future growth potential.

Ex-Directors

Patrick O’Sullivan (NED, Jun 2018 to Jan 2020)

Pat O’Sullivan was appointed to the Supervisory Board of the Company in June 2018. He resigned from the Supervisory Board and been substituted by Ms. Robin Low effective as of 29 January 2020.

Pat has broad online digital experience across a number of businesses and industries in operating and finance leadership roles. His previous roles include chief operating officer and chief financial officer of PBL Media Pty Ltd/Nine Entertainment Co Pty Ltd, chief operating officer of Publishing & Broadcast Ltd. (PBL), and chief financial officer of Optus Pty Ltd.

Pat currently sits on the boards of Carsales.com Ltd, Healthengine and Little Company of Mary Healthcare. Prior to this, he served as a Director of iiNet, Lux Group, Local Agent Finder, iSelect, APN Outdoor and iSentia.

Pat is a qualified chartered accountant and is a Member of the Institute of Chartered Accountants (Ireland and Australia). He is a graduate of the Harvard Business School Advanced Management Program.

Julian Lange (CFO Nov 2014 to Oct 2020)

Julian joined MMM as CFO in November 2014. Prior to this, he spent 10 years at General Electric in various Finance roles across multiple industries in both the US and Europe, concluding with the CFO role at GE Gas Engine Services in Austria.

Capital Structure & Major Shareholders

MMM currently has 256.0m CDIs on issue (CHESS Depository Interests) equivalent to 256,025 underlying shares.

It also has 7.4m options on CDIs outstanding, and two convertible bonds issued to Woolworths which we estimate could convert into a further 7.7m CDIs (This is based on a formula including the revenue growth MMM achieves to the time of exercise).

Ref	MMM - Capital Structure	CDIs At IPO (July 2018)	CDIs 31/12/2018	CDIs 31/12/2019	CDIs 31/12/2020	CDIs Latest	% of Coy (ordinary shares)
A	MMM - Total CDIs on issue	140,000,000	140,470,000	158,520,000	256,025,000	256,025,000	
B	Warrants on issue (CDI equivalents) - Kreos Capital	834,000	834,000	834,000	-	-	
C	Options on issue (CDI equivalents)	7,775,000	6,666,900	8,070,000	7,417,000	7,417,000	2.9%
D	Convertible bonds (refer Directors report, item 3.3)			6	2	2	
	Con.Bonds - Potential CDIs to Union Square Ventures			32,127,000	-	-	
	Con.Bonds - Potential CDIs to Conifer Mgt			6,414,000	-	-	
	Con.Bonds - Potential CDIs to Woolworths WOW 1 (max)			59,895,833	59,895,833	6,000,000	2.3%
	Con.Bonds - Potential CDIs to Woolworths WOW 2 (max)			5,900,000	13,490,000	1,700,000	0.7%
E	Estimated Total (fully diluted)					271,142,000	
	Key Early Investors /Substantial:						
F	Fabian Siegel - Personal holdings + held in trust for employees & Fabian %	38,263,127 27.3%	27,969,451 19.9%	27,524,451 17.4%	24,613,433 9.6%	26,774,451 10.5%	10.5%
G	Rocket Internet / Global Founders Capital/ Moneda Rocket %	24,401,000 17.4%	18,253,000 13.0%	18,253,000 11.5%	Not visible 0.0%	Not visible 0.0%	0.0%
H	Conifer Capital Mgt / Acacia Partners (New York) Acacia %	14,329,704 10.2%	25,850,000 18.4%	25,850,000 16.3%	48,368,423 18.9%	48,368,423 18.9%	18.9%
I	Lakestar (Guernsey) Lakestar %	9,008,000 6.4%		9,008,000 5.7%	9,008,000 3.5%	9,008,000 3.5%	3.5%
J	QD Investments (Nicosia, Cyprus) QDI %	7,455,000 5.3%	7,455,000 5.3%	7,455,000 4.7%	7,455,000 2.9%	7,455,000 2.9%	2.9%
K	Woolworths (W23 Investments) - CDIs			8,200,000	Not visible	Not visible	
L	Woolworths - our estimate of potential shares if both WOW convertible bonds are converted				7,700,000	7,700,000	3.0%
	WOW - estimated % holding if bonds converted			5.2%	3.0%	3.0%	
M	Union Square Ventures (New York) Union Square Ventures %				42,962,000 16.8%	42,962,000 16.8%	16.8%

Source: Annual Reports; ASX announcements; Refinitiv

MMM has an interesting register, dominated by hedge funds which were early backers including Conifer Capital / Acacia Partners, Lakestar LP and QD Investments. Also, Union Square Ventures joined the register more recently.

Specialist internet investor Rocket Internet (Global Founders Capital) was the largest shareholder at IPO in July 2018 at 17.4% but appears to have departed completely.

Woolworths (WOW) was a substantial shareholder at 5.5% following a strategic alliance and placement in June 2019 but was diluted below 5% and appears to have subsequently sold out of the equity position. It remains a holder of two convertible bonds (book value €16.5m).

MMM has also attracted a few more traditional Australian fund managers including Challenger and Perennial.

Fabian Siegel, founder and CEO has 6.7% ownership personally.

Co-founder and MMM Head of Culture, Till Neatby has 1.2%.

Substantial Shareholdings / Top 10 Shareholders		Latest	% of Coy
Ref	Name		
1	Ruane, Cunniffe & Goldfarb LP (Conifer Capital Mgt/ Acacia Partners, New York)	48,368,423	18.9%
2	Union Square Ventures (New York)	42,962,000	16.8%
3A	Fabian Siegel (CEO) - personal + held in trust for employees & others	26,774,451	10.5%
3B	Fabian Siegel (CEO)/ AKW Capital - personal only	17,196,451	6.7%
4	Challenger	13,626,059	5.3%
5	Perennial Value Mgt	12,230,000	4.8%
6	Lakestar LP (Guernsey)	9,010,000	3.5%
7	Norges Bank Investment Mgt	7,700,000	3.0%
8	QD Investments (Cyprus)	7,460,000	2.9%
9	Marley Spoon Employee Trust UG	6,620,000	2.6%
10	Mexattax GmbH (Till Neatby, co-founder & family)	3,020,000	1.2%
Total Shares on Issue		256,025,000	100.0%

Source: ASX announcements; Refinitiv

Woolworths – Potential equity

Woolworths (WOW) is also noteworthy. MMM entered a 5-year strategic relationship with WOW on 7/6/19 which included an A\$30m investment by WOW in structured debt (\$25.95m) and equity (\$4.1m). The equity component was 8.2m CDIs issued at \$0.50 giving WOW a 5.52% equity stake at that time (since diluted, and no longer visible to us on the register). WOW was issued a further 5.9m CDIs on 11/8/20 on conversion of WOW 1 Tranche 2 convertible bonds). WOW is no longer a substantial shareholder, and we can't see the holding in the top 30 on Refinitiv, so we assume both CDI parcels have been sold.

According to the 2020 Annual Report (pages 54-57), WOW has two convertible bonds remaining as follows:

- WOW1 Convertible Bond (Tranche 1) EUR14.0m at 31/12/20 (v EUR 14.3m pcp). The original principal was A\$23.0m (refer page 56 of the CY2020 Annual Report). This has a term of 5 years from date of issue (26/9/19), but can be converted by WOW into a certain number of shares / CDIs after 2 years until the end of term. So WOW can convert these from 26/9/21. It bears interest at 7.0% pa payable at the end of the term unless WOW exercises its right to convert.

Using an assumed A\$2.90 CDI price (as 30-day VWAP), we estimate these bonds would currently convert into approximately 6.0m CDIs with a market value of approximately A\$17.4m. We allow for these potential shares in our fully diluted EPS forecasts and DCF valuation.

- WOW2 Convertible Bond EUR 2.512m at 31/12/20 (v EUR 2.3m pcp). The original principal was A\$4.047m (refer page 58 of the CY2020 Annual Report). This has a term of 5 years from date of issue (29/2/20), but can be converted by WOW into a certain number of shares / CDIs anytime until the end of term. It bears interest at 7.0% pa payable at the end of the term unless WOW exercises its right to convert.

Using an assumed A\$2.90 CDI price (as 30-day VWAP), we estimate these bonds would currently convert into approximately 1.7m CDIs with a market value of approximately A\$4.9m. We allow for these potential shares in our fully diluted EPS forecasts and DCF valuation.

We estimate that if both convertible notes are exercised, WOW would be issued with 7.7m CDIs, or approximately 3.0% of the current issued capital. We assume that WOW converts both bonds to equity during CY21, as it has converted early to lock in gains previously. We have added EUR 16.5m to equity, and taken that same amount off debt in our forecast December 2021 balance sheet.

Appendix 1 – MMM Major Announcements

- 2/7/18 - IPO at A\$1.42 per CDI, raised A\$70m before costs and valued the company at A\$199.5m at the offer price (Enterprise value A\$163.6m).
- 23/7/18 - Extends agreement with Martha Stewart Living Omnimedia by another 2 years (to 31/12/22). The initial agreement commenced June 2016.
- 29/8/18 - Dinnerly brand launches in Australia.
- 30/10/18 – Germany increased to 20 meal choices per week; Australia to follow from October (Netherlands and Belgium from Jan 2019; then USA).
- October 2018 – Moved from the Bronx New York to new larger US East Coast facility (New Jersey).
- 5/12/18 – Leases new fulfilment centre site in Dallas Texas (128,000 sq ft / 11,900 sqm), to commence operations 1Q2019. New centre increases capacity in Dallas three-fold.
- 29/1/19 – Finalised a EUR 22m finance package corner-stoned by US venture capital firm Union Square Ventures. EUR 2.5m term loan with Berliner Volksbank, Germany's second largest bank.
- 29/4/19 – Closed German centre and consolidated this into the Netherlands centre. Opened new shared services facility in Portugal to centralise customer communications and sales teams.
- Repaid EUR 2.0m loan from Moneda (Rocket Internet).
- **7/6/19 – Strategic alliance in Australia with Woolworths** (WOW, market cap \$49bn) announced. A\$ 30.05m investment in structured debt and equity (\$25.95m commercial loan at 7.0% and \$4.1m in CDIs ant \$0.50). Ability for MMM to engage with WOW's large customer base. Ability for MMM to work with WOW on sourcing and supply in Aust. WOW to promote MMM's meal kit business.
- 21/6/19 – WOW became a substantial shareholder with 8.2m CDIs (5.52%).
- 29/8/19 – Convertible bond issued to WOW, replaces Tranche 1 loan.
- 30/8/19 – MMM's US capacity has tripled from 8,000 sqm to 23,000 sqm.
- 31/10/19 – New A\$22m (US\$15m) senior secured debt facility from a Silicon Valley firm at 12% pa, plus a final one-off payment of 2.5%, plus US\$3.0m of warrants (Subsequently revealed to be from Western Technology Investment).
- 17/12/19 - A\$2.5m placement of CDIs at \$0.25 to Conifer Management LLC, to provide sufficient equity capital to support the new debt facility.
- 20/12/19 - Ms Robin Low joins as NED; Patrick O'Sullivan to retire from the Supervisory Board.
- 23/12/19 - Notice of EGM to approve (a) (b) & (c).
- 24/12/19 - Acacia Partners becomes substantial with a total holding of 18.0%.
- 30/1/20 - EGM resolutions all passed.
- 30/1/20 - US\$2.5m of new funding from Union Square Ventures announced (convertible at \$0.50 per CDI).
- 30/1/20 - New US CEO announced – Julie Marchant-Houle (ex Procter & Gamble, Hain Celestial and Revlon).
- 30/1/20 - Deliveries to Denmark (commenced Oct 2019) and Sweden (Jan 2020).
- 20/3/20 - Market update – Covid causing an unprecedented surge in demand for MMM's home-delivered meal kits in all regions.
- 24/3/20 - Rocket Internet sells 24.4m CDIs (17.4%) and ceases to be substantial. Perennial Value (7.8%), Industry Super Holdings (5.5%) and Pie Funds (5.05%) became substantial. Rocket appears to have sold at around \$0.40 per CDI but did not file the usual ASX change of substantial form.
- 28/4/20 - Quarterly report and trading update. MMM notes growth > 100% in April and revenue in weeks 14-17 was > double the pcp. Expects previous revenue growth guidance of +30% to be exceeded. Expects to turn Ebitda positive at the group level in Q2. MMM's CDI price surges from \$0.26 on 28/2/20 to \$0.80 on 31/3/20 to \$1.14 on 30/4/20.
- 28/4/20 - Extended exclusive licencing partnership with Martha Stewart by 1 year to end CY2023. Royalty restructured leading to a one-time EUR 1.0m gain in Q2.

- **5/5/20 - A\$16.6m placement at \$1.05 per CDI announced** (Issued capital increased by 12.1%, with 15.852m new CDI's issued). Approx value EUR 10.9m.
- 8/5/20 - Woolworths (WOW) ceases to be substantial due to dilution (and subsequently sold).
- 29/7/20 – AGM and market update. MMM reports a structural change in its markets. MMM predicts a sustained step up in offline to online purchasing of home necessities, likely more white collar workers working from home on an on-going basis, and greater awareness of MMM's brands and meal kits in general. US business achieved positive ebitda for the first time. Q2 revenue up 129% on pcp. Q2 active customers +104%. Q2 Total orders +114%.
- 29/7/20 - Key developments: Signed a pre-lease for 14,200 sqm purpose-built facility in Sydney; Doubled US capacity in Q2; Dinnerly brand launched in Germany.
- 31/7/20 - Woolworths (WOW) to convert A\$2.95m bond into equity (5.9m CDIs). Converted 11/8/20. Market value at A\$3.18 was \$18.8m.
- 14/8/20 - Kreos Capital converted its warrants (16/3/16 & 12/4/18) into 0.478m CDI's on 11/8/20. Market value at \$3.18 was \$1.52m.
- 26/10/20 – **Completes A\$56m placement (17.4m new CDIs) to domestic and international institutional investors at A\$3.22 per CDI**, to accelerate global growth. Approximate value EUR 33.8m. CEO and founder Fabian Siegel to sell 750,000 CDIs at the same price (value: A\$2.4m).
- 26/3/21 – New Supervisory board director announced - Roy Perticucci to join at the AGM in May. Roy led Amazon EU Operations 2013-2020 (7 years, 8 months) and concurrently led North American operations in 2019. Previously Operations Director at Tesco.com (UK, 7 years), and Managing Director of eCommerce at Ahold (Netherlands, 1 year, 7 months).

Appendix 2 – Hello Fresh review (closest competitor)

Hello Fresh SE (HFGG.F, Market cap €10.6bn) is MMM's closest meal kit competitor, currently operating in 14 countries (v MMM's 8). MMM competes with Hello Fresh in every one of its 8 markets.

Description

Hello Fresh SE is a Germany-based company that provides online food services. The Company offers pre-portioned meal ingredients that give subscribers the opportunity to prepare home-cooked meals each week using its recipes. The users have choice between different kinds of meals and recipes which are delivered on selected weekdays. The Company delivers its products to customers in different geographical regions. The business activities of the Company are divided into two operating segments: the USA segment, which comprises operations in the USA and International segment, which includes operations in Australia, New Zealand, Austria, Belgium, Canada, Denmark, France, Germany, the Netherlands, Switzerland and the United Kingdom.

History

Founded in 2011 in Berlin, Hello Fresh has become the world's leading meal kit company, providing 179 million meals to 5.3 million households worldwide in 14 countries across 3 continents in only Q4 2020 and 601m meals for CY20. Hello Fresh aims to enter a further 2-3 markets in CY2021.

Hellofresh (HFGG.F) - Basics & Countries of Operation				Marley Spoon (MMM) - Basics & Countries of Operation				MMM Vs HFGG
Company founded:	2011			Company founded:	2014			+ 3 yrs
Listed:	2/11/17 (Germany)			Listed:	2/7/18 (ASX)			+ 1 year
IPO price	€ 10.25			IPO price	AS\$1.42			
Price (1/4/21) & change since IPO	€ 64.72		531%	Price (1/4/21) & change since IPO	\$ 2.63		85%	
Market cap (m)	€ 11,233			Market cap (m)	\$ 673.3	€ 438		-96%
Net cash (net debt)	€ 427			Net cash (net debt)	-€ 2			
Enterprise Value (€m)	€ 10,806			Enterprise Value (€m)	€ 436			-96%
Revenue - CY20 (€m)	€ 3,750			Revenue - CY20 (€m)	€ 254.0			-93%
Revenue - USA - CY20 (€m)	€ 2,073			Revenue - USA - CY20 (€m)	€ 127.2			-94%
Revenue - R.O.W. - CY20 (€m)	€ 1,677			Revenue - R.O.W. - CY20 (€m)	€ 126.8			-92%
Gross Profit - CY20 (€m)	€ 2,473.2			Gross Profit - CY20 (€m)	€ 120.7			-95%
Gross profit margin %	66.0%			Gross profit margin %	47.5%			-18%
Contribution Margin (€m)	€ 1,056.0			Contribution Margin (€m)	€ 74.1			-93%
Contribution margin %	28.2%			Contribution margin %	29.2%			1%
Ebitda - CY20 (€m)	€ 481.2			Ebitda - CY20 (€m)	-€ 0.9			nm
Ebitda margin %	12.8%			Ebitda margin %	-0.4%			-13.2%
Operating cashflow (€m)	€ 601.5			Operating cashflow (€m)	€ 4.4			-99%
EV / Sales (x)	2.9x			EV / Sales (x)	1.7x			-40%
EV / Ebitda	22.5x			EV / Ebitda	nm			nm
Countries	Year	Population (m)	Households (m)	Countries	Year	Population (m)	Households (m)	MMM Vs HFGG
Germany	2012	84.0	40.6	Germany (launched Aug 2014)	2014	84.0	40.6	+2 yrs
Austria	2012	9.0	3.9	The Netherlands (launched Dec 2014)	2014	17.2	7.9	+2 yrs
Australia	2012	25.7	10.2	Austria (acqd Kochabo Sep 2015)	2015	9.0	3.9	+3 yrs
The Netherlands	2012	17.2	7.9	USA (launched Apr 2015)	2015	332.4	132.7	+2 yrs
UK	2012	68.1	29.5	Australia (June 2015, WA Dec 2020)	2015	25.7	10.2	+3 yrs
USA	2013	332.4	132.7	Belgium (launched Apr 2016)	2016	11.6	4.9	+1 yr
Belgium	2015	11.6	4.9	Denmark (launched Oct 2019)	2019	5.8	2.8	-1 yr
Switzerland	2016	8.7	3.9	Sweden (launched Jan 2020)	2020	10.1	4.7	+1 yr
Canada	2016	38.0	15.6					
Luxembourg (and Western Australia)	2017	0.6	0.3					
New Zealand	2018	4.9	1.9					
France	2018	65.4	30.2					
Sweden	2019	10.1	4.7					
Denmark	2020	5.8	2.8					
Countries / Theoretical Addressable Market	14	681.5	289.1	Countries / Theoretical Addressable	8	495.8	207.7	
plus 2-3 new countries planned for 2021	2-3				N/a			
Other:								
Entered Pre-prepared meals segment	2020				N/a			Not yet

Source: Hellofresh & MMM 2020 Annual Reports, MMM Prospectus

Source: Population data per Worldometer; Houseolds per Wikipedia; Denmark and Sweden per Statistica

Hello Fresh says it is disrupting the food supply chain and the multi-trillion-dollar food tech industry. It supplies everything customers need to prepare quality, delicious, home-cooked meals that require no planning, no shopping and no hassle. Every ingredient needed for its thousands of exclusive recipes is carefully planned, responsibly sourced and delivered to customers' door when it's most convenient for them.

Hello Fresh estimates that its 5.29 million customers in Q4CY20 represents penetration of just 3.9% of its estimated addressable market of 137 million households (vs our theoretical figure of 289m households above) across the 14 countries it operates in (penetration 3.2% in the US, and 4.2% in international geographies).

Brands

The company operates primarily under the Hello Fresh brand. It also operates a value brand EveryPlate in the US and Australia only.

In late 2020 Hello Fresh acquired US ready-made meal company Factor75, and commented that the direct-to-consumer ready-made meal market was a significant opportunity to expand outside its meal kit offering using the “Factor” brand.

In Benelux countries, Hello Fresh has also started to offer customers more than 100 grocery or “market” items.

- USA: Hello Fresh, EveryPlate and Green Chef. Factor (ready-made meals).
- Europe: Hello Fresh.
- Canada: Hello Fresh, Chefs Plate.
- Australia: Hello Fresh, EveryPlate.

Headquarters / Other

- Headquarters: Berlin; Over 7,000 staff (4,598 employees on LinkedIn). 200,802 followers.
- Hello Fresh is the first carbon neutral meals kit company globally.

Management

- Dominik Richter, Founder & CEO (2011-present per LinkedIn). Based Berlin.
- Thomas Griesel, Co-founder & CEO International (2011-present). Based Berlin. Also CEO TWG Ventures (April 2011 – present).
- Christian Gaertner, CFO (Oct 2015 – present). Based Berlin.
- Edward Boyes, Chief Commercial Officer (April 2012- present with company). Formerly US CEO (Mar 2016 – Jan 2020), formerly UK CEO and co-founder (Apr 2012 – May 2016). Based London.

Latest Results

- Revenue €3.750bn (v €1.809bn) +107% (up 111% on a constant currency basis). Revenue could have been higher still as management had to temporarily reduce the level of marketing in a number of markets given capacity constraints, to avoid generating more demand than it could actually fill.
- US Revenue €2.07bn (v €1.02bn) up 102%. International revenue €1.68bn (v €0.78bn) up 114%.
- Contribution margin 30.7% in Q4, the highest in the company’s 9-year history.
- Ebitda €481.2m (v €27.8m) excluding abnormal items (legal fees) up 1631%.
- Ebitda margin 12.8% (v 1.5%).
- EBIT €425.9m (v €25.8m loss pcp).
- Pre-tax profit €395.8m (v €5.3m loss pcp).
- NPAT €369.0 (v €10.2m net loss pcp).
- EPS € 2.09 (v 0.06 loss per share).
- DPS nil (v nil).
- Cash Flow – Cash from operations €601.5m (v €42.2m) +1,325%.
- Free cashflow ~€500m, so Hello Fresh is now self-sustaining after 9 years, and still with strong growth.
- Investing cashflow €210.5m. This includes €128.3 on the acquisition of ready-made meals business Factor75 (Total consideration €219.8m), €74.4m on property plant and equipment (capacity expansion and productivity improvements), and €10.1m of capitalised IT development / software.
- Balance Sheet – Net cash €436.6m (v €65.2m).
- Goodwill of €206.6m includes acquisitions – (2018: Green Chef €4.7m in the USA, Cool Delivery €4.6m in Benelux and Chefs Plate €37.2m in Canada; and in 2020: Factor75 €160.1m in the USA).
- Accumulated losses down to €57.0m (v €426m pcp). Hello Fresh has almost recouped its establishment losses.

Hellofresh SE Years ended Dec (€ m)	CY19A €m	CY20A €m	Change
1. Profit & Loss			
Operating Revenue	1,809.0	3,749.9	107%
Ebitda (before SBPs)	46.6	505.2	984%
Share-based payments	-18.8	-24.0	28%
Ebitda (incl SBPs)	27.8	481.2	1631%
Ebitda margin	1.5%	12.8%	
EBIT	-25.8	425.9	1751%
Associates	-1.5	-13.1	
Interest income (expense)	-5.6	-9.0	
FX income (loss)	27.6	-8.0	
Pre-tax profit (Loss)	-5.3	395.8	7568%
Tax credit (expense)	-4.8	-26.7	
NPAT	-10.1	369.1	3754%
EPS (€)	-0.06	2.09	3583%
DPS (€)	0.00	0.00	n/a
2. Segmental			
Revenue - USA	1024.8	2073.3	102%
Revenue - International	784.2	1,676.6	114%
Revenue- Total	1,809.0	3,749.9	107%
3. Contribution margin			
Contribution margin - USA (ex SBPs)	302.4	572.1	89%
Contribution margin - International (ex SBPs)	218.6	496.5	127%
Contribution margin - central (ex SBPs)	-2.5	-12.6	404%
Contribution margin - Total (ex SBPs) €	518.5	1,056.0	104%
Contribution margin - USA (ex SBPs) %	29.5%	27.6%	-1.9%
Contribution margin - International (ex SBPs) %	27.9%	29.6%	1.7%
Contribution margin - Total (ex SBPs) %	28.7%	28.2%	-0.5%
3. Ebitda			
Ebitda - USA	5.3	272.9	5049%
Ebitda - International	80.9	272.4	237%
Central costs	-58.4	-64.1	10%
Ebitda (incl. SBPs) - Total €	27.8	481.2	1631%
Ebitda margin - USA %	0.5%	13.2%	12.6%
Ebitda margin - International %	10.3%	16.2%	5.9%
Ebitda margin - Total %	1.5%	12.8%	11.3%
4. Cash Flow items			
Change in working capital		-66.0	
Operating cashflow	42.2	601.5	1325%
Investing cashflow			
Acquisitions	0.0	-128.3	
Purchase of property, plant & equipment (net)	-28.9	-74.4	
Purchase of intangibles	-7.3	-10.1	
Other	7.2	2.3	
Investing cashflow	-29.0	-210.5	626%
Cashflow from financing			
Change in equity	0.2	9.9	
Change in debt (decrease)	-15.0	153.5	
Cashflow from financing	-14.8	163.4	-1204%
FX movements	1.3	-19.0	-1562%
Change in cash	-0.3	535.4	-178567%
5. Balance Sheet items			
Cash	193.6	729.0	277%
Debtors	8.6	28.8	235%
Inventories	44.1	113.7	158%
Property, plant & equipment	179.6	263.1	46%
Investments in associates	9.0	22.1	146%
Intangibles	15.2	58.3	284%
Goodwill	49.6	206.6	317%
Deferred tax asset	1.8	45.2	2411%
Other	68.7	58.8	-14%
Total Assets	570.2	1525.6	168%
Trade creditors	-135.9	-291.7	115%
Debt & leases	-128.4	-292.4	128%
Deferred consideration	0	-10.7	
Other liabilities	-60.6	-285.5	371%
Total Liabilities	-324.9	-869.6	168%
Net Assets	245.3	656.0	167%
Net cash (debt)	65.2	436.6	570%
Working capital	-83.2	-149.2	79%
Shares on issue (m)	164.622	173.864	5.6%

Source: Hellofresh Annual report

Guidance for CY2021

Hello Fresh provided guidance for further strong growth in CY21:

- **Constant currency revenue growth of 20-25%** (v 111% in CY20).
- **1Q revenue growth > 70%** (need to cycle very strong revenue growth in Q2, Q3 and Q4).
- Contribution margin of 28% to 29% (v 28.2% in CY20). This allows for higher packaging/ cooling costs and a ramp up of new fulfilment centres.
- **Ebitda margin of 9% to 12%** (v 12.8% achieved in CY20 and 1.5% achieved in CY19). **So this seems to suggest to us a possible moderation in Ebitda margin after the large improvement in CY20.**
- Further investments in new fulfilment centres, automation, and the ramp-up in the USA, the launch of at least 2 new geographies (towards the end of CY21) and the expansion of Hello Fresh Markets (grocery items) and other add-on offerings. Italy and possibly Japan mentioned.
- **Capacity effectively doubles from 3Q20 by 1Q22 (theoretical capacity > €7.0bn, approximately double the €3.75bn achieved in CY20).**
- Marketing costs likely to increase.
- Expect a return to normal seasonality by quarter in most of our markets.
- Expect a normalisation of average order rate in 2H21.
- We see very high conviction, high ROI ways to deploy our cash. Have an ambitious investment program (automation, general infrastructure, data techniques etc.).
- Maintain a health cash balance for possible add-on M&A, or to buy back stock if there was further market volatility.
- Markets coming out of Covid like Australia – seeing customer retention keeping up above trend, but some normalisation in order patterns (e.g. Customers taking vacations and eating out more again usually means slightly lower order rates).
- Brand awareness continues to be at really, really high levels in Australia. This has allowed us to continue to acquire a lot of new customers and re-activations even though the pandemic has ended.
- Online penetration has increased massively, including in countries that were behind in online adoption.

Pricing

Hello Fresh has a higher delivery charge than MMM in Australia, but overall the prices are pretty similar.

Hello Fresh: Example Meal kit prices in Australia (A\$)			
Meat & Veggies plan (same as Family Friendly plan)	3 meals per week	4 meals per week	5 meals per week
2 person box			
Price per meal	\$ 10.99	\$ 10.69	\$ 9.99
Shipping	9.99	9.99	9.99
Price per week	\$ 75.93	\$ 95.51	\$ 109.89
Marley Spoon	\$ 76.45	\$ 96.55	\$ 113.95
Difference to Marley Spoon	-0.7%	-1.1%	-3.6%
4 person box			
Price per meal	\$ 9.99	\$ 8.99	\$ 7.99
Shipping	9.99	9.99	9.99
Price per week	\$ 129.87	\$ 153.83	\$ 169.79
Marley Spoon	\$ 121.15	\$ 150.55	\$ 178.95
Difference to Marley Spoon	7.2%	2.2%	-5.1%

Source: Hello Fresh website (March 2021)

Appendix 3 – Peer Comparisons

We show below a comparison of MMM against Hello Fresh, its closest but much larger competitor, and also the recently listed My Food Bag Ltd (MFB.NZ) in New Zealand based on data in its recent Prospectus.

MMM - Peer Comparisons										
Ref	Item	Marley Spoon MMM.AX			Hello Fresh HFGG.F			My Food Bag MFB.NZ		
		CY19A €m	CY20A €m	Change	CY19A €m	CY20A €m	Change	03/20A NZ\$	03/21e NZ\$	Change
A	Operating revenue	129.6	254.0	96%	1,809.0	3,749.9	107%	153.3	189.5	24%
	growth %	41%	96%		41%	107%		0%	24%	
B	Cost of goods sold	-71.8	-133.3	86%	-640.5	-1,276.7	99%	-119.4		
	% of revenue	-55.4%	-52.5%		-35.4%	-34.0%		-77.9%		
C	Gross Profit	57.8	120.7	109%	1,168.5	2,473.2	112%	33.9		
	% of revenue	44.6%	47.5%		64.6%	66.0%		22.1%		
D	Fulfillment expenses	-25.5	-46.6	83%	-652.0	-1,422.1	118%			
	% of revenue	-19.7%	-18.3%		-36.0%	-37.9%				
E	Contribution margin (ex SBPs)	32.3	74.1	129%	518.5	1,056.0	104%			
	% of revenue	25.0%	29.2%		28.7%	28.2%				
F	Marketing expenses	-34.2	-39.3	15%	-404.0	-466.8	16%			
	% of revenue	-26.4%	-15.5%		-22.3%	-12.4%				
G	General & admin expenses (ex SBPs)	-32.5	-41.8	29%	-121.4	-139.3	15%			
	% of revenue	-25.1%	-16.5%		-6.7%	-3.7%				
H	Add back: Depreciation & Amort'n	4.6	6.5	40%	41.5	47.1	13%	4.3		
	% of revenue	3.6%	2.6%		2.3%	1.3%		2.8%		
I	Add back: Special items (legals etc)				12.0	8.2				
J	EBITDA (ex SBPs)	-29.8	-0.5	-98%	46.6	505.2	984%	16.6	28.5	72%
	% of revenue	-23.0%	-0.2%		2.6%	13.5%		10.8%	15.0%	
K	Share-based payments (SBPs)	-0.4	-0.4	17%	-18.8	-24.0	28%	-0.3		
	% of revenue	-0.3%	-0.2%		-1.0%	-0.6%		-0.2%		
L	EBITDA	-30.2	-0.9	-97%	27.8	481.2	1631%	16.3		
	% of revenue	-23.3%	-0.4%		1.5%	12.8%		10.6%		
M	Software development costs capitalised	-1.8	-3.3	80%	7.2	9.9	38%	3.2		
	% of revenue				0.4%	0.3%		2.1%		
	CASH FLOW ITEMS									
N	Change in Working Capital	-1.8	1.5	-184%	46.5	110.3	137%	0.1		
O	Operating cashflow	-30.3	4.4	-115%	42.2	601.5	1325%	19.2	22.7	18%
	% of revenue	-23.4%	1.7%		2.3%	16.0%		12.5%	12.0%	
P	Investment Cashflow (net)	-6.3	-8.6	37%	-29.0	-210.5	626%	-3.6		
	% of revenue	-4.8%	-3.4%		-1.6%	-5.6%		-2.3%		
	OPERATING STATISTICS									
Q	Commenced operations	Aug 2014				2011		March 2013		
R	Countries	8 (Aust, US, 6 Europe)				14		1 (NZ)		
S	Active customers (millions)	0.182	0.327	80%	3.0	5.3	78%	0.3		
T	No. of orders (millions) (CY)	3.0	5.6	89%	37.5	74.3	98%	Sequoia est: 1.5		+28% YTD
U	Orders per customer (Q4)	4.4	4.7	7%	3.6	4.2	17%	5.5		
V	Meals (millions)(CY)	22.4	46.7	108%	79.6	179.0	125%	7 year avge: 11.4		
W	Average order value (€) (CY)	43.6	45.2	4%	48.2	50.4	5%	\$ 125		
X	Employees (FTEs)		1,500		4,477	6,432	44%	200		

Sources: MMM and HFGG Annual Reports; My Food Bag Prospectus

Marley Spoon AG (MMM) \$ 2.63 € equivalent: 1.71

Profit & Loss

Year end Dec (€m)	FY19	FY20	FY21e	FY22e	FY23e
	€ m	€ m	€ m	€ m	€ m
Op. Revenue	129.6	254.0	322.5	383.6	441.2
Revenue growth %	40.8%	96.1%	26.9%	19.0%	15.0%
Cost of Goods Sold	(71.8)	(133.3)	(167.7)	(195.6)	(220.6)
Gross Profit	57.8	120.7	154.8	188.0	220.6
Gross Profit Margin	44.6%	47.5%	48.0%	49.0%	50.0%
Fulfillment costs	(25.5)	(46.6)	(57.1)	(68.2)	(79.1)
Contribution Margin	32.3	74.1	97.7	119.7	141.4
Contribution Margin %	25.0%	29.2%	30.3%	31.2%	32.1%
Other Income	0.0	0.0	0.0	0.0	0.0
Cash Operating Expenses	(62.1)	(74.7)	(85.3)	(94.0)	(103.6)
Share based payments	(0.4)	(0.4)	(0.5)	(0.6)	(0.7)
EBITDA	(30.2)	(0.9)	11.9	25.2	37.1
Ebitda Margin	-23.3%	-0.4%	3.7%	6.6%	8.4%
Depreciation & Amort	(4.6)	(6.5)	(8.0)	(8.8)	(9.5)
EBIT	-34.8	-7.4	3.9	16.4	27.7
Ebit Margin	-26.8%	-2.9%	1.2%	4.3%	6.3%
Net Interest Income (Expense)	(5.6)	(7.4)	(2.5)	(2.0)	(2.0)
Share of Assoc NPAT	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	(40.4)	(14.8)	1.4	14.4	25.7
Income Tax Credit (Expense)	(0.0)	(0.1)	0.0	0.0	0.0
Tax Rate	0.1%	0.9%	0.0%	0.0%	0.0%
Minorities (share of loss)	0.3	0.1	0.0	0.0	0.0
Abnormals	5.5	-59.0	0.0	0.0	0.0
NPAT (reported)	-34.5	-86.2	1.4	14.4	25.7
Adjustments (Abnormals)	-5.5	71.4	0.0	0.0	0.0
NPAT (normalised)	-40.1	-14.8	1.4	14.4	25.7

Balance Sheet

Cash	5.4	34.4	38.0	56.7	87.1
Receivables	0.5	0.7	0.8	0.8	0.9
Inventories & contract assets	3.7	6.6	7.1	7.7	8.3
Other	2.4	2.4	2.4	2.4	2.4
Total current assets	12.0	44.1	48.2	67.6	98.6
PP&E	20.1	21.0	27.5	32.5	37.5
Investments	0.0	0.0	0.0	0.0	0.0
Intangibles	3.4	4.9	4.9	4.9	4.9
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
Other	1.4	3.0	3.0	3.0	3.0
Total non-current assets	24.9	29.0	35.5	40.5	45.5
Total Assets	37.0	73.1	83.7	108.1	144.2
Payables	-12.9	-17.5	-22.2	-26.4	-30.3
Interest bearing liabilities - C	-6.0	-8.2	-8.2	-8.2	-8.2
Provisions	-5.3	-7.9	-7.9	-7.9	-7.9
Other	-1.4	-3.4	-3.4	-3.4	-3.4
Total Current Liabilities	-25.6	-37.0	-41.7	-45.9	-49.9
Interest-bearing liabilities - N	-47.1	-28.0	-11.5	-11.5	-11.5
Provisions	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	-4.5	-10.3	-15.8
Total Non-current Liabilities	-47.1	-28.0	-16.0	-21.8	-27.3
Total Liabilities	-72.7	-65.0	-57.7	-67.7	-77.2
Total Shareholders' Equity	-35.7	8.1	26.1	40.4	67.0

Interims

Year end June	1H20	2H20	1H21e	2H21e
Sales	116.2	137.9	151.7	170.8
Sales Growth (g)	89.2%	102.2%	30.6%	23.9%
EBITDA	-2.0	1.5	3.7	8.7
EBITDA Margin	-1.7%	1.1%	2.5%	5.1%
EBIT	-5.3	-2.2	-0.3	4.2
Equity Share of Assocs NPAT	0.0	0.0	0.0	0.0
NPAT (Reported)	-67.5	-18.8	-1.5	2.9
NPAT (Adjusted)	-8.4	-6.4	-1.5	2.9
EPS (adjusted)(cents)	-5.2	-2.7	-0.6	1.1
EPS Growth	-65.9%	-77.6%	-89.1%	-139.5%

Source: Sequoia estimates

Per share & Ratio data

Year end Dec	FY19	FY20	FY21e	FY22e	FY23e
CDIs on Issue - Wavge (f/d)	146.1	187.2	271.1	271.1	271.1
CDIs on Issue - at year-end	158.5	256.0	263.7	263.7	263.7
Reported EPS (cents)	(23.7)	(46.1)	0.52	5.30	9.46
Growth	-33.7%	94.8%	Large +ve	Large +ve	78.6%
P/E ratio (x)	-7.2x	-3.7x	325.8x	32.3x	18.1x
EPS (normalised)(cents)	(27.4)	(7.9)	0.52	5.30	9.46
Growth	-22.9%	-71.1%	Large +ve	Large +ve	78.6%
P/E ratio (x)	-6.2x	-21.6x	325.8x	32.3x	18.1x
DPS (cents)	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%
Yield	0.0%	0.0%	0.0%	0.0%	0.0%
OCF per share (cents)	-20.7	2.4	5.0	9.9	14.2
Price/OCF (x)	-8.2x	72.6x	34.2x	17.3x	12.1x
Enterprise Value \$m	494.0	449.6	433.7	418.5	391.4
EV/Sales	3.81x	1.77x	1.34x	1.09x	0.89x
EV/EBITDA	-16.4x	-479.9x	36.4x	16.6x	10.5x
EV/EBIT	-14.2x	-60.5x	110.6x	25.6x	14.2x
Liquidity & Leverage					
Net Cash (Debt) \$m	(47.6)	(1.8)	18.3	37.0	67.4
Net Debt / Equity %	n/a	22%	n/a	n/a	n/a
Net Debt / EBITDA	n/a	n/a	n/a	n/a	n/a
ROA (EBIT / T.Assets) %	-94.0%	-10.2%	4.7%	15.1%	19.2%
ROE (NPAT / T.Equity) %	112.2%	-182.4%	5.5%	35.5%	38.3%
Interest Cover (EBIT)	-6.2x	-1.0x	1.6x	8.2x	13.8x
Dividend Payout % (of adj EPS)	n/a	n/a	n/a	n/a	n/a

Cash Flow

EBITDA	-30.2	-0.9	11.9	25.2	37.1
Chge in Working Capital	-1.8	1.5	4.1	3.6	3.3
Interest Received (Paid)	-1.0	-0.3	-2.5	-2.0	-2.0
Income taxes paid	0.0	0.0	0.0	0.0	0.0
Other	2.7	4.1	0.0	0.0	0.0
Operating cash flows	-30.3	4.4	13.5	26.7	38.4
Capex	-4.4	-5.2	-6.5	-5.0	-5.0
Acqns & Investments	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Capitalised IP expenditure	-1.8	-3.3	-3.5	-3.0	-3.0
Net investing cash flows	-6.3	-8.6	-10.0	-8.0	-8.0
Equity raised (bought back)	4.0	43.7	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Change in Debt	29.3	-10.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Financing cash flow	33.3	33.7	0.0	0.0	0.0
Change in Cash	-3.2	29.5	3.5	18.7	30.4

Operating Stats & Segmental

	FY19	FY20	FY21e	FY22e	FY23e
Active customers Worldwide ('000€)	182	327	433	498	573
Active subscribers Worldwide ('00€)	131	233	293	360	413

Revenue by Segment

USA	56.1	127.2	166.9	197.0	226.5
Australia	48.8	86.0	95.5	116.3	133.7
Europe	24.6	40.8	60.1	70.4	80.9
Operating revenue	129.6	254.0	322.5	383.6	441.2

Ebitda by Segment

USA	-13.0	4.1	15.3	22.5	29.9
Australia	-1.7	9.7	10.4	16.9	22.1
Europe	-7.7	-1.9	2.7	4.8	7.0
Global head office costs	-7.4	-12.4	-16.0	-18.4	-21.2
Ebitda (ex share-based paymts)	-29.8	-0.5	12.4	25.8	37.8

Operating Ebitda Margins

USA	-23.2%	3.2%	9.1%	11.4%	13.2%
Australia	-3.5%	11.3%	10.9%	14.5%	16.5%
Europe	-31.2%	-4.7%	4.5%	6.8%	8.7%
Ebitda margin %- Total	-23.0%	-0.2%	3.9%	6.7%	8.6%

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Recommendation Criteria

Investment View

The Sequoia Wealth Management (SWM) Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Accumulate	Hold	Reduce	Sell
>20%	10% – 20%	0% – 10%	0% to -10%	>-10%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

Risk Rating

SWM has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

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