

# Marley Spoon AG (MMM) – Q1 Report

Revenue growth 81%; Subscriber growth 85%; Guidance upgraded

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## Recommendation

Buy PT \$3.86

<b>Risk Rating</b>	<b>High</b>
<b>12-mth Target Price (AUD)</b>	<b>\$3.86 (was \$3.96)</b>
Share Price (AUD)	\$2.65
12-mth Price Range	\$0.21 - \$3.80
Forecast 12-mth Capital Growth	45.7%
Forecast 12-mth Dividend Yield	0.0%
<b>12-mth Total Shareholder Return</b>	<b>45.7%</b>
Market cap (\$m)	678.5 (EUR 441.0m)
Net debt (net cash) (\$m)(Dec 20)	(2.7) (EUR 1.8m)
Enterprise Value (\$m)	681.2 (EUR 442.8m)
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	337.7	406.1	467.0
Sales growth	41%	96%	33%	20%	15%
EBITDA	-30.2	-0.9	3.7	21.5	33.7
NPAT (reported)	-34.5	-86.2	-5.3	11.7	23.2
NPAT (adjusted)	-40.1	-14.8	-5.3	11.7	23.2
EPS (adjusted)	-27.4	-7.9	-2.0	4.3	8.6
EPS growth	-23%	-71%	Large +ve	Large +ve	99%
DPS	0.0	0.0	0.0	0.0	0.0
OCF / share	-20.7	2.4	2.9	9.1	13.4
Valuation					
P/E	-6.3x	-21.7x	-88.0x	40.0x	20.1x
P / OCF	-8.3x	73.2x	59.4x	19.0x	12.9x
EV / Sales	3.8x	1.8x	1.3x	1.1x	0.9x
EV / Ebitda	-16.5x	-483.4x	120.2x	20.1x	12.1x
Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Cash from Operations	-30.3	4.4	7.9	24.5	36.2
Net cash (net debt)	-47.6	-1.8	12.6	29.2	57.4
Enterprise Value	497.3	453.0	443.8	431.3	406.6

## 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). 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 2018.

### Record Q1 Revenue – Guidance raised

MMM delivered impressive growth in a record quarter:

- Revenue of EUR 77.4m up 81% on pcp with strong growth in all regions: Europe +108%, USA +82% (+98% constant currency), Australia +65% (+50% cc).
- 412,000 Active customers in Q1, up 85,000 (26%) on Q4, and up 171,000 (+71%) yoy. MMM clearly benefitting from increased customer adoption and awareness post Covid.
- FY21 Revenue guidance raised to 30-35% (from 25-30%).
- Record EUR 15.5m (v 11.6m pcp) marketing spend, up 34% yoy as MMM took advantage of favourable new customer acquisition metrics (~5 months payback on ~40 EUR customer acquisition costs, 45% IRR) and a consumer receptive to change to online grocery / meal kit shopping.
- **No pull back in Australia**, the first region out of Covid: Active customers up 24,000 (+24%) on Q4 including WA launch (Dinnerly only). Minor dip in orders per customer.
- Operating Ebitda loss -5.7m v (-\$6.4m).
- Operating cash flow EUR 5.0m (v -0.5m) as customers pay in advance. Closing cash EUR 38.5m (v 34.4m Dec 2020).

### Our Forecasts

We upgrade our revenue forecasts by 5% & 6% for CY21e & CY22e. However we also factor in higher costs as MMM looks to maximise its customer growth opportunity.

We expect ~14% revenue growth in Q2 as 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 ~ 190m households for MMM's existing countries.

We reiterate our Buy (High Risk) recommendation. Our 12-mth price target is \$3.86 (based on our DCF and EV/ Sales comparables) which implies +46% potential upside.

## Q1 Cash Flow Report (Appendix 4C)

MMM: Analysis of Quarterly Cash Flows Year ended Dec (EUR m)	1QFY20	2QFY20	3QFY20	4QFY20	Adjs	CY20 Year	CY20 Change %	1Q21e	Q1 Change YoY
<b>1. Receipts from customers</b>	<b>43.0</b>	<b>73.8</b>	<b>70.3</b>	<b>67.4</b>	<b>0.0</b>	<b>254.6</b>	<b>96%</b>	<b>78.7</b>	<b>83%</b>
<b>1a. Other Revenue</b>						0.0			
<i>1b. Revenue per P&amp;L released subsequently</i>						254.0			
<i>1c. Cash receipts as a % of revenue</i>						100%			
<b>2. Cash Payments</b>									
Product manufacturing & operating costs	(26.0)	(47.0)	(47.8)	(51.2)	0.0	(172.0)	87%	(47.4)	83%
Advertising & marketing	(7.6)	(10.8)	(12.9)	(7.8)	(0.0)	(39.0)	5%	(12.8)	69%
Administration and corporate	(8.7)	(8.1)	(10.4)	(11.5)	(0.1)	(38.8)	30%	(13.0)	49%
Interest received	0.0	0.0	0.0	0.0	0.0	0.0	-34%	0.0	300%
Interest paid	(0.3)	(0.3)	(0.4)	(0.6)	0.0	(1.5)	85%		-100%
Tax & Other	(0.0)	(0.0)	(0.1)	(0.0)	0.0	(0.1)	5%	(0.3)	3471%
<b>Cash expenses</b>	<b>(42.5)</b>	<b>(66.2)</b>	<b>(71.6)</b>	<b>(71.0)</b>	<b>0.0</b>	<b>(251.4)</b>	<b>57%</b>	<b>(73.4)</b>	<b>73%</b>
<b>3. Operating Cash flow</b>	<b>0.5</b>	<b>7.6</b>	<b>(1.3)</b>	<b>(3.6)</b>	<b>0.0</b>	<b>3.1</b>	<b>-110%</b>	<b>5.3</b>	<b>986%</b>
<b>4. Investing Cash Flow</b>									
Property Plant & Equipment	(0.5)	(1.7)	(1.3)	(1.8)	0.0	(5.2)	19%	(2.3)	399%
Acquisition of Businesses	0.0	0.0	0.0		0.0	0.0			
Intellectual Property (capitalised R&D)	(0.8)	(1.0)	(0.9)	(0.7)	0.1	(3.3)	80%	(0.8)	-1%
Other	0.0	0.0			0.0	0.0			
<b>Total Investing Cash Flow</b>	<b>(1.3)</b>	<b>(2.7)</b>	<b>(2.2)</b>	<b>(2.5)</b>	<b>0.1</b>	<b>(8.6)</b>	<b>37%</b>	<b>(3.1)</b>	<b>141%</b>
<b>5. Financing Cash Flow</b>									
Equity issues (incl options exercise)		10.0	2.0	34.0	0.0	46.0	1030%	0.001	nm
Convertible debt issues	2.3			0.0	0.0	2.3	-92%		
Transaction costs on equity & convertible issues	(0.0)	(0.7)	0.0	(1.5)	0.0	(2.3)	586%	(0.039)	nm
Debt issued (repaid)	0.3	(0.3)	0.6	(6.9)	(0.0)	(6.4)	-219%	2.8	1032%
Other financing changes	(1.1)	<b>(1.2)</b>	(1.2)	(1.2)	0.0	(4.7)	<b>27%</b>	(1.3)	19%
<b>Cash from Financing</b>	<b>1.4</b>	<b>7.7</b>	<b>1.5</b>	<b>24.3</b>	<b>(0.0)</b>	<b>35.0</b>	<b>5%</b>	<b>1.5</b>	<b>8%</b>
6. Opening Cash	5.4	5.9	18.4	16.5		5.4	nm	34.4	
<b>7. Net increase (decrease) in cash</b>	<b>0.6</b>	<b>12.7</b>	<b>(2.0)</b>	<b>18.2</b>	<b>0.0</b>	<b>29.5</b>	<b>nm</b>	<b>3.6</b>	
8. FX movements	(0.2)	(0.2)	0.2	(0.3)	(0.0)	(0.5)	nm	0.4	
<b>9. Cash at end of period</b>	<b>5.9</b>	<b>18.4</b>	<b>16.5</b>	<b>34.4</b>	<b>0.0</b>	<b>34.4</b>	<b>534%</b>	<b>38.5</b>	<b>555%</b>
<b>ANALYSIS</b>									
Cash Receipts - Trailing 4 qtrs	<b>142.0</b>	<b>184.1</b>	<b>221.9</b>	<b>254.6</b>		<b>254.6</b>		<b>290.2</b>	<b>104%</b>
Other Revenue - Trailing 4 qtrs	0.0	0.0	0.0	0.0		0.0		<b>0.0</b>	
Cash Payments - Trailing 4 qtrs	(165.3)	(188.9)	(222.4)	(251.4)		(251.4)		(282.3)	71%
<b>10. Operating Cash Flow - Trailing 4 qtrs</b>	<b>(23.3)</b>	<b>(4.9)</b>	<b>(0.6)</b>	<b>3.2</b>		<b>3.1</b>		<b>8.0</b>	<b>-134%</b>
11. Capitalised R&D - Trailing 4 qtrs	<b>(2.2)</b>	<b>(2.8)</b>	<b>(3.5)</b>	<b>(3.4)</b>		<b>(3.3)</b>		<b>(3.4)</b>	<b>57%</b>

Source: Company quarterly reports; Annual Reports; Sequoia annualisation calculations

### Key points from MMM's Q1 cash flow report:

- Cash receipts EUR 78.7m (v 43.0m pcp) +83% YOY. This was a record quarter in the company's history, surpassing the previous Covid enhanced peak of EUR 73.8m in 2Q20 by 34%.
- Cash payments EUR 73.4m (v 42.5m pcp) up 73% YOY.
- Positive operating cash flow of EUR 5.3m (v 0.5m pcp) up 10-fold. MMM has an excellent business model whereby customers pay for their meal kit boxes in advance, with MMM paying its trade suppliers after 25 days (CY20 average creditor days). So MMM has an on-going positive working capital benefit every week it operates.
- Closing cash was EUR 38.5m (v 34.4m at December 2020).
- Trailing 4 quarter cash receipts were EUR 290m (v 142m pcp) up 104%.
- Trailing 4 quarter cash expenses were EUR 282m (v 165m) up 71%.
- Trailing 4 quarter operating cash-flow EUR 8.0m (v -23.3m).

## P&amp;L Summary – Q1

Marley Spoon (MMM) - 1Q21 Review										
Year ended Dec (EUR m)	1Q20	2Q20	3Q20	4Q20	1Q21	Change QoQ	Change YoY	Sequoia Est.	Diff %	Our Comments
<b>Revenue</b>										
USA	20.4	38.3	34.2	34.3	37.1	8%	82%	36.9	1%	Impressive 82% growth (+98% at constant currency).
Australia	14.8	24.0	25.3	21.8	24.4	12%	65%	21.5	13%	No pull back; +50% constant currency. New WA helped.
Europe	7.6	11.0	9.8	12.5	15.8	26%	108%	13.7	16%	Impressive 108% growth. 16% better than we expected.
Difference to reconcile	0.0	0.0	0.0	0.0	0.0			0.0		
<b>Group Total</b>	<b>42.8</b>	<b>73.3</b>	<b>69.3</b>	<b>68.6</b>	<b>77.4</b>	<b>13%</b>	<b>81%</b>	<b>72.2</b>	<b>7%</b>	Impressive 81% growth; All regions contributing to this
<b>Contribution Margin (Gross Profit less Fulfilment costs)</b>										
USA	5.3	10.7	7.9	8.9	10.4	17%	96%	10.0	4%	Impressive growth.
Australia	5.6	8.9	9.1	7.8	8.1	3%	43%	8.0	1%	
Europe	1.6	2.8	2.5	3.1	3.2	1%	98%	3.6	-11%	Impressive growth.
Difference to reconcile	0.0	0.0	-0.1	0.0	0.1			0.0		
<b>Group Total</b>	<b>12.5</b>	<b>22.4</b>	<b>19.4</b>	<b>19.9</b>	<b>21.7</b>	<b>9%</b>	<b>73%</b>	<b>21.5</b>	<b>1%</b>	Impressive growth.
<b>Contribution Margin %</b>										
USA	26%	28%	23%	26%	28%	2%	2%	27%	1%	
Australia	38%	37%	36%	36%	33%	-3%	-5%	37%	-4%	Minor dip due to WA start up & NSW floods impact
Europe	21%	25%	26%	25%	20%	-5%	-1%	26%	-6%	Dip due to aggressive use of discount vouchers
Difference to reconcile										
<b>Group Total</b>	<b>29%</b>	<b>31%</b>	<b>28%</b>	<b>29%</b>	<b>28%</b>	<b>-1%</b>	<b>-1%</b>	<b>30%</b>	<b>-2%</b>	
<b>Operating contribution margin</b>	<b>38%</b>	<b>37%</b>	<b>37%</b>	<b>37%</b>	<b>38%</b>	<b>1%</b>	<b>0%</b>			Implies equal record high in meal vouchers
Impact of vouchers and rent (€m)	-12.1	-22.0	-19.0	-19.5	-21.3	9%	75%	n/a	n/a	75% increase in meal vouchers and rent
<b>Marketing costs (not split out)</b>	<b>-11.6</b>	<b>-9.5</b>	<b>-9.7</b>	<b>-8.2</b>	<b>-15.5</b>	<b>88%</b>	<b>34%</b>	<b>-10.8</b>	<b>43%</b>	Marketing spend huge in Q1, taking the advantage
% of revenue	27%	13%	14%	12%	20%	8%	-7%	15%	5%	Marketing costs 20% of revenue. MMM pushing hard.
<b>General &amp; Admin costs</b>	<b>-7.4</b>	<b>-8.3</b>	<b>-9.3</b>	<b>-10.5</b>	<b>-11.9</b>	<b>14%</b>	<b>62%</b>	<b>-10.2</b>	<b>17%</b>	Other Costs higher than we expected
% of revenue	17%	11%	13%	15%	15%	0%	-2%	14%	1%	
<b>Operating Ebitda</b>										
USA	-2.9	4.6	0.7	2.0	-0.1	-105%	-96%	2.2	-105%	USA down QoQ due to severe storm disruptions
Australia	-0.1	3.6	3.4	2.8	-0.3	-111%	nm	2.0	-115%	Minor dip due to WA start up & NSW floods impact
Europe	-0.8	-0.6	-0.6	0.0	-1.1	nm	38%	0.4	-409%	Minor dip due to aggressive use of discount vouchers
Central costs	-2.6	-3.1	-3.1	-3.6	-4.2	16%	59%	-4.0		MMM investing strongly in IT, people & capability
<b>Group Total</b>	<b>-6.4</b>	<b>4.5</b>	<b>0.4</b>	<b>1.2</b>	<b>-5.7</b>	<b>-575%</b>	<b>-11%</b>	<b>0.5</b>	<b>-1247%</b>	Minor improvement; MMM is investing hard for growth
<b>Operating ebitda margin</b>	<b>-15%</b>	<b>6%</b>	<b>1%</b>	<b>2%</b>	<b>-7%</b>	<b>-9%</b>	<b>8%</b>	<b>1%</b>	<b>-8%</b>	Still in loss; We expected a small profit
<b>Operating cash flow</b>	<b>0.5</b>	<b>7.6</b>	<b>-1.3</b>	<b>-3.6</b>	<b>5.3</b>	<b>-247%</b>	<b>986%</b>	<b>3.0</b>	<b>76%</b>	Positive cash flow as customers pay in advance

Source: Company; Sequoia estimates

MMM delivered an impressive result in for the March quarter (Q1). Key points were as follows:

- Revenue up 81% - Europe was the star up 108% followed by USA up 82% YOY (+98% constant currency) despite severe storms resulting in cancelled orders as delivery drivers simply could not get through) and Australia up 65% (+50% constant currency). All regions showed growth on the prior quarter. Overall, this was 7% better than our Q1 forecast.
- The Contribution margin was EUR 21.7m (v 12.5m pcp) up 73% YOY with impressive growth in all 3 regions. This figure is effectively gross profit less transportation / fulfilment costs.
- Contribution margin as a percentage of sales declined slightly overall to 28% (v 29% pcp) due to several factors. Severe storms in the USA resulted in the Texas fulfilment centre being closed for 5 days. In addition, there were cancelled / lost orders as delivery drivers simply could not get through. MMM also noted difficulty in getting staff due to the US jobs boom particularly in e-commerce.
- Operating contribution margin was an equal record 38%. This measure excludes the impact of marketing meal vouchers and fixed costs such as rent. This implies that voucher costs and rent increased by 75% to EUR 21.3m (v 12.1m pcp).
- Australia also had severe floods in NSW. It also saw a change in sales mix as Dinnerly was launched in Perth in the quarter, being at a lower price point. The Marley Spoon brand will be launched there at some time in the future.
- Europe also had some storm interruptions, and had some minor disruption and ramp up costs from switching on new automated picking equipment, which will soon be rolled out to the 3 US fulfilment centres.
- Marketing costs were EUR 15.5m (v 11.6m pcp) up 34%. This is a huge spend on marketing as MMM seeks to take advantage of continuing favourable new customer acquisition metrics. Customer acquisition costs continue to trend down as MMM increases its scale, and were last reported at EUR 40 per new customer in CY20 (v EUR 60 at the time of IPO in July 2018). MMM says it derives a 4 month payback (budget is 6 months) on this investment and a 3x return overall

over the subsequent 36 months (45% IRR)(refer CY21 results presentation, page 12). Anecdotally, one only needs to watch Aussie TV for 30 minutes and you are bound to see at least one Marley Spoon or Dinnerly commercial (and probably a competing Hello Fresh one as well). MMM believes that customers are very receptive to change and that Covid has permanently accelerated the switch to online grocery shopping including home-delivered meal kits.

- Marketing costs as a percentage of sales were 20% (v 27% pcp) showing MMM is deriving operational leverage as it scales bigger.
- General & Administrative costs were EUR 11.9m (v 7.4m) up 62% being Head office costs and the centralised customer care team based in Portugal. MMM continues to invest in its support capability, including software development. As a percentage of sales, this fell to 15% (v 17%) due to scale benefits.
- Operating Ebitda (before share-based payments) was an EUR 5.7m loss (v 6.4m loss pcp).
- But Operating cash-flow was a positive EUR 5.3m (v 0.5m) as MMM has now reached critical mass, and MMM has a very attractive business model whereby customers pay in advance (and suppliers in arrears) generating positive working capital every week.
- MMM is focussed on maximising its business and customer growth, whilst keeping losses relatively modest for a high-growth business, and positive operating cash flow is a welcome positive achievement.

### Operating Metrics

We show the key operating metrics and our line by line comments below.

Marley Spoon (MMM) - 1Q21 Review - Operating Metrics										
Year ended Dec (EUR m)	1Q20	2Q20	3Q20	4Q20	1Q21	Change QoQ	Change YoY	Sequoia Est.	Diff %	Our Comments
<b>Group</b>										
Active customers (k)	241	350	362	327	412	26%	71%	368	12%	Very impressive growth; Better than we expected
Active subscribers (k)	136			233	252	8%	85%	262	-4%	Very impressive growth
No. of orders (k)	972	1551	1563	1536	1,749	14%	80%	1,596	10%	Very impressive growth; Better than we expected
Orders per customer	4.0	4.4	4.3	4.7	4.2	-11%	5%	4.3	-3%	Minor -11% pull back on Q4, incl weather disruptions
Orders per subscriber	7.2			6.6	6.9	5%	-4%	6.1	13%	
Meals (m)	7.7	13.2	13.1	12.8	14.5	13%	88%	13.3	9%	Very impressive growth; Better than we expected
Avg. Order value (EUR)	44.0	47.1	44.4	44.6	44.3	-1%	1%	45.2	-2%	Stable
<b>Australia</b>										
Active customers (k)	81	114	123	99	123	24%	52%	106	16%	Australia did not pull back post re-opening (WA helped)
Active subscribers (k)	43			69	70	1%	63%	74	-5%	Australia did not pull back post re-opening (WA helped)
No. of orders (k)	334	502	545	466	526	13%	57%	461	14%	Australia did not pull back post re-opening (WA helped)
Orders per customer	4.1	4.4	4.4	4.7	4.3	-9%	4%	4.5	-5%	Minor -9% pull back on Q4, incl NSW weather disruption
Orders per subscriber	7.8			6.8	7.5	11%	-3%	6.2	20%	Australia did not pull back post re-opening (WA helped)
Meals (m)	2.8	4.5	4.8	4.1	4.6	12%	64%	4.1	13%	Australia did not pull back post re-opening (WA helped)
Avg. Order value (EUR)	44.3	47.8	46.4	46.8	46.4	-1%	5%	46.7	-1%	Stable
<b>USA</b>										
Active customers (k)	117	176	180	161	196	22%	68%	185	6%	Very impressive growth
Active subscribers (k)	62			114	120	5%	94%	131	-8%	Very impressive growth
No. of orders (k)	449	780	772	760	813	7%	81%	796	2%	Very impressive growth
Orders per customer	3.8	4.4	4.3	4.7	4.1	-12%	8%	4.6	-10%	Pull back due to severe adverse weather impact
Orders per subscriber	7.2			6.7	6.8	2%	-6%	6.1	12%	
Meals (m)	3.5	6.6	6.4	6.3	6.7	6%	91%	6.6	1%	Very impressive growth
Avg. Order value (EUR)	45.4	49.1	44.3	45.1	45.7	1%	1%	46.4	-2%	Includes 1st price increase in nearly 5 years
<b>Europe (6 countries)</b>										
Active customers (k)	42	60	60	67	93	39%	121%	77	21%	Very impressive growth
Active subscribers (k)	30			50	62	24%	107%	58	8%	Very impressive growth
No. of orders (k)	190	269	245	310	410	32%	116%	339	21%	Very impressive growth
Orders per customer	4.5	4.5	4.1	4.6	4.4	-5%	-3%	4.7	-6%	Minor pull back
Orders per subscriber	6.3			6.2	6.6	7%	4%	5.9	12%	
Meals (m)	2.8	2.1	1.9	2.4	3.2	33%	14%	2.6	23%	
Avg. Order value (EUR)	40.0	40.9	40.0	40.3	38.6	-4%	-4%	40.4	-5%	Minor decline in order value more than offset by strong gr

Source: Company; Sequoia estimates

### Australia – sets a positive precedent for the post-Covid recovery

We highlight that there was no pull-back in Australia, which is important as Australia is the first major economy to reopen after Covid, and should be a useful precedent for what will happen as the US and Europe also come out of Covid.

- Australia – active customers up 24,000 (+24%) on Q4 to 123,000 and up 42,000 (+52%) YOY.
- Similarly, the new measure “active weekly subscribers” was also up 1% on Q4.
- Both measures would have some benefit from the launch of Dinnerly in WA in the

quarter, but the key point is there does not appear to have been any significant pull back post re-opening.

- The number of orders was 526,000, up 13% for quarter and +57% YOY.
- Orders per customer did dip by -12% from 4.7 orders to 4.1, but some of this may have been NSW flood impact. MMM's heavy advertising was also aimed at maintaining existing customers.
- Orders per weekly subscriber was up 11% QoQ but down -3% YoY (immaterial).
- Average order value was down 1% to EUR 46.40 which we think is immaterial.

### Revenue Guidance upgraded

- MMM has increased its guidance for revenue growth from 25-30% to 30-35% for CY21. Coming so early in the year after just one quarter, we take this as a strong sign of confidence by management.
- MMM has also previously guided for the contribution margin to improve to 30-31% in CY21 (v 29.2% in CY20).
- MMM will also hold an Investor Strategy day on 11 May 2021 (3:00 to 6:00pm, online).

### Changes in Estimates

We have increased our revenue forecasts for CY21e and CY22e by 5% and 6% respectively.

However, we have also increased our cost assumptions significantly, which results in a -69% downgrade to our CY21e Ebitda forecast, and -15% to CY22e. We note that a large part of our cost increase is marketing, which is effectively a discretionary item for MMM to control. We think the market will look through this Ebitda downgrade, to focus on MMM's success at building its customer and revenue base.

Our forecast changes push MMM back into a forecast NPAT loss for CY21 but a profit for CY22e. Our DCF valuation is reduced by 5.0% to A\$3.81 per CDI (was \$4.01).

Changes in Estimates Years ending Dec EUR m	FY20A	FY21e			FY22e		
		Old	New	Change	Old	New	Change
<b>Sales revenue</b>	<b>254.0</b>	<b>322.5</b>	<b>337.7</b>	<b>4.7%</b>	<b>383.6</b>	<b>406.1</b>	<b>5.9%</b>
Sales growth	96.1%	26.9%	32.9%	6.0%	19.0%	20.2%	1.3%
<b>Costs</b>	<b>-255.0</b>	<b>-310.5</b>	<b>-334.0</b>	<b>7.6%</b>	<b>-358.5</b>	<b>-384.6</b>	<b>7.3%</b>
Cost growth	60%	22%	31%	9.2%	15%	15%	-0.3%
<b>EBITDA</b>	<b>-0.9</b>	<b>11.9</b>	<b>3.7</b>	<b>-69.0%</b>	<b>25.2</b>	<b>21.5</b>	<b>-14.7%</b>
Ebitda Margin %	-0.4%	3.7%	1.1%	-2.6%	6.6%	5.3%	-1.3%
Depreciation & Amortisation	-6.5	-8.0	-8.0	0.0%	-8.8	-8.8	0.0%
<b>EBIT</b>	<b>-7.4</b>	<b>3.9</b>	<b>-4.3</b>	<b>-209.8%</b>	<b>16.4</b>	<b>12.7</b>	<b>-22.5%</b>
Ebit Margin %	-2.9%	1.2%	-1.3%	-204.9%	4.3%	3.1%	-26.8%
Interest expense	-7.4	-2.5	-1.0	-60.0%	-2.0	-1.0	-50.0%
<b>Pre-Tax Profit (Loss)</b>	<b>-14.8</b>	<b>1.4</b>	<b>-5.3</b>	<b>-473.1%</b>	<b>14.4</b>	<b>11.7</b>	<b>-18.7%</b>
Abnormal items	-71.4						
<b>Discontinued Operations</b>	<b>0.0</b>						
NPAT (reported including Abnormals)	-86.2	1.4	-5.3	-473.1%	14.4	11.7	-18.7%
<b>NPAT (normalised)</b>	<b>-14.8</b>	<b>1.4</b>	<b>-5.3</b>	<b>-473.1%</b>	<b>14.4</b>	<b>11.7</b>	<b>-18.7%</b>
<b>EPS (normalised)</b>	<b>-7.9</b>	<b>0.5</b>	<b>-2.0</b>	<b>-473.1%</b>	<b>5.3</b>	<b>4.3</b>	<b>-18.7%</b>
EPS growth %	-71%	-107%	-75%	31.3%	910%	-320%	-1229.5%
<b>Cash Flow per share</b>	<b>2.4</b>	<b>5.0</b>	<b>2.9</b>	<b>-41.9%</b>	<b>9.9</b>	<b>9.1</b>	<b>-8.2%</b>
<b>DPS</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>		<b>0.0</b>	<b>0.0</b>	
Payout rate (of normalised EPS)	0%	0%	0%	0.0%	0%	0%	0.0%
Shares on issue (F/D; weighted average)	187.2	271.1	271.1	0.0%	271.1	271.1	0.0%
<b>Balance Sheet:</b>							
Net Cash (Net Debt)	-1.8	18.3	12.6	-31.1%	37.0	29.2	-21.3%

Source: Sequoia estimates

## Reasons to Buy (per our 6/4/21 Initiation report)

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 on 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 cash-flow 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 27x 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
<b>Company founded:</b>	2011			<b>Company founded:</b>	2014			+ 3 yrs
Listed:	2/11/17 (Germany)			Listed:	2/7/18 (ASX)			+ 1 year
IPO price	€ 10.25			IPO price	A\$1.42			
<b>Price (1/4/21) &amp; change since IPO</b>	<b>€ 64.72</b>	531%		<b>Price (1/4/21) &amp; change since IPO</b>	<b>\$ 2.63</b>	85%		
<b>Market cap (m)</b>	<b>€ 11,233</b>			<b>Market cap (m)</b>	<b>\$ 673.3</b>	€ 438		-96%
Net cash (net debt)	€ 427			Net cash (net debt)	-€ 2			
<b>Enterprise Value (€m)</b>	<b>€ 10,806</b>			<b>Enterprise Value (€m)</b>	<b>€ 436</b>			-96%
<b>Revenue - CY20 (€m)</b>	<b>€ 3,750</b>			<b>Revenue - CY20 (€m)</b>	<b>€ 254.0</b>			-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%
<b>Gross Profit - CY20 (€m)</b>	<b>€ 2,473.2</b>			<b>Gross Profit - CY20 (€m)</b>	<b>€ 120.7</b>			-95%
Gross profit margin %	66.0%			Gross profit margin %	47.5%			-18%
<b>Contribution Margin (€m)</b>	<b>€ 1,056.0</b>			<b>Contribution Margin (€m)</b>	<b>€ 74.1</b>			-93%
Contribution margin %	28.2%			Contribution margin %	29.2%			1%
<b>Ebitda - CY20 (€m)</b>	<b>€ 481.2</b>			<b>Ebitda - CY20 (€m)</b>	<b>-€ 0.9</b>			nm
Ebitda margin %	12.8%			Ebitda margin %	-0.4%			-13.2%
<b>Operating cashflow (€m)</b>	<b>€ 601.5</b>			<b>Operating cashflow (€m)</b>	<b>€ 4.4</b>			-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					
<b>Countries / Theoretical Addressable Market</b>	<b>14</b>	<b>681.5</b>	<b>289.1</b>	<b>Countries / Theoretical Addressable</b>	<b>8</b>	<b>495.8</b>	<b>207.7</b>	
plus 2-3 new countries planned for 2021	2-3				N/a			
<b>Other:</b>								
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, Fulfilment costs line and Marketing costs line 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							
Years ended Dec (€m)	CY17A	CY18A	CY19A	CY20A	CY21e	CY22e	CY23e
<b>Op. Revenue</b>	53.2	92.0	129.6	254.0	337.7	406.1	467.0
Revenue growth %	163.6%	72.8%	40.8%	96.1%	32.9%	20.2%	15.0%
Cost of Goods Sold	(34.5)	(54.2)	(71.8)	(133.3)	(175.6)	(207.1)	(233.5)
Percentage of revenue	-64.8%	-58.9%	-55.4%	-52.5%	-52.0%	-51.0%	-50.0%
<b>Gross Profit</b>	<b>18.7</b>	<b>37.8</b>	<b>57.8</b>	<b>120.7</b>	<b>162.1</b>	<b>199.0</b>	<b>233.5</b>
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%	34.3%	22.7%	17.3%
Fulfillment costs	(9.9)	(18.5)	(25.5)	(46.6)	(63.5)	(72.9)	(84.6)
Percentage of revenue	-18.6%	-20.1%	-19.7%	-18.3%	-18.8%	-18.0%	-18.1%
<b>Contribution Margin</b>	<b>8.8</b>	<b>19.3</b>	<b>32.3</b>	<b>74.1</b>	<b>98.6</b>	<b>126.0</b>	<b>148.9</b>
Percentage of revenue	16.6%	21.0%	25.0%	29.2%	29.2%	31.0%	31.9%
Marketing costs	(15.7)	(30.0)	(34.2)	(39.3)	(67.5)	(71.1)	(70.0)
Percentage of revenue	-29.6%	-32.6%	-26.4%	-15.5%	-20.0%	-17.5%	-15.0%
Cash Operating Expenses	(17.7)	(23.7)	(27.9)	(35.4)	(26.9)	(32.9)	(44.5)
Percentage of revenue	-33.3%	-25.7%	-21.5%	-13.9%	-8.0%	-8.1%	-9.5%
Share based payments	(2.2)	(0.7)	(0.4)	(0.4)	(0.5)	(0.6)	(0.7)
<b>EBITDA</b>	<b>(26.8)</b>	<b>(35.0)</b>	<b>(30.2)</b>	<b>(0.9)</b>	<b>3.7</b>	<b>21.5</b>	<b>33.7</b>
Ebitda margin	-50.4%	-38.1%	-23.3%	-0.4%	1.1%	5.3%	7.2%
Depreciation & Amortisation	(0.4)	(0.8)	(4.6)	(6.5)	(8.0)	(8.8)	(9.5)
<b>EBIT</b>	<b>(27.2)</b>	<b>(35.9)</b>	<b>(34.8)</b>	<b>(7.4)</b>	<b>(4.3)</b>	<b>12.7</b>	<b>24.2</b>
Ebit margin	-51.2%	-39.0%	-26.8%	-2.9%	-1.3%	3.1%	5.2%
Net Interest income (expense)	(1.3)	(5.2)	(5.6)	(7.4)	(1.0)	(1.0)	(1.0)
<b>Pre-tax Profit (Loss)</b>	<b>(28.5)</b>	<b>(41.1)</b>	<b>(40.4)</b>	<b>(14.8)</b>	<b>(5.3)</b>	<b>11.7</b>	<b>23.2</b>
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
<b>Reported NPAT (ex NRI's)</b>	<b>(28.0)</b>	<b>(40.9)</b>	<b>(40.1)</b>	<b>(14.8)</b>	<b>(5.3)</b>	<b>11.7</b>	<b>23.2</b>
Abnormals	0.0	(0.1)	5.5	(71.4)	0.0	0.0	0.0
<b>Reported NPAT (incl NRI's)</b>	<b>(28.0)</b>	<b>(41.0)</b>	<b>(34.5)</b>	<b>(86.2)</b>	<b>(5.3)</b>	<b>11.7</b>	<b>23.2</b>
Adjustments	0.0	0.1	(5.5)	71.4	0.0	0.0	0.0
<b>Normalised NPAT</b>	<b>(28.0)</b>	<b>(40.9)</b>	<b>(40.1)</b>	<b>(14.8)</b>	<b>(5.3)</b>	<b>11.7</b>	<b>23.2</b>
EPS (reported)(incl NRIs) € cents	(24.4)	(35.7)	(23.7)	(46.1)	(2.0)	4.3	8.6
<b>EPS (normalised) € cents</b>	<b>(24.4)</b>	<b>(35.6)</b>	<b>(27.4)</b>	<b>(7.9)</b>	<b>(2.0)</b>	<b>4.3</b>	<b>8.6</b>
Weighted Avge CDIs on Issue (F/D)	114.8 (Note 1)	114.8	146.1	187.2	271.1	271.1	271.1
Change in working capital	n/a	6.3	(1.8)	1.5	5.2	4.1	3.5
<b>Cash from Operations</b>	<b>(20.9)</b>	<b>(4.8)</b>	<b>(6.2)</b>	<b>(21.6)</b>	<b>(87.3)</b>	<b>39.7</b>	<b>19.9</b>
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 &amp; EPS - We notionally use the FY18 share count for illustrative purposes

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.wealthgenius.com](http://www.wealthgenius.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.

MMM: Fulfilment Centres Capacity Expansion							
Years ended Dec (sqm)	2015	2016	2017	2018	2019	2020	2021
Capacity (square metres)	3,550	10,643	21,300	27,040	40,300	44,000	60,400
Change		200%	100%	27%	49%	9%	37%

Source: FY20 results presentation

9. **Strong early guidance provided** – MMM has upgraded its revenue guidance from 25-30% revenue growth to 30-35% for CY21. 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 new 30-35% revenue guidance number (Our detailed modelling assumptions result in our forecast of +32.9% 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 (per our 6/4/21 Initiation report)

1. **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.
2. **Australian Quarterly comps to get harder from 2Q21** – Australia commenced nationwide lock-down rules on Monday 23<sup>rd</sup> 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.
3. **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.
4. **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.
5. **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.

6. **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.
7. **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. **Hello Fresh (HFGG.F) quarterly / half-yearly results (MMM's most direct comparable company) due tomorrow (Q1, 4/5/21).** Hello Fresh has previously 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).
2. **MMM Investor Strategy Day – 11 May** – A 3-hour on line has been announced.
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. **June quarterly report (2Q) and Appendix 4C due by end July.** – As we expected, MMM's Q1 report was a cracker. The next quarter cycles Q2 last year which was the peak of the Covid disruption which massively benefitted meal kit companies like MMM and Hello Fresh. We have modelled +14% revenue growth for Q2, followed by 25% in Q3 and 30% in Q4. We caution investors that quarterly figures for a high-growth company like MMM operating in 8 countries, can be quite volatile.
5. **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).
6. **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.
7. **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).
8. **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.
9. **Increased analyst coverage and increased institutional ownership.**

## 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 AS	Revenue				Ebitda				Ebitda Margin			
					\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
					FY0	FY1e	FY2e	FY3e	FY0	FY1e	FY2e	FY3e	FY0	FY1e	FY2e	FY3e
MMM.AX	Marley Spoon AG (Sequoia est)	678	4	2.650	254.0	337.7	406.1	467.0	(0.9)	3.7	21.5	33.7	-0.4%	1.1%	5.3%	7.2%
<b>Similar online subscription-based meal kit companies (consensus forecasts)</b>																
MMM.AX	Marley Spoon AG (consensus)	678	4	2.650	254.0	331.4	394.6	460.9	(0.9)	5.5	12.1	21.3	-0.4%	1.7%	3.1%	4.6%
HFGG.F	Hellofresh SE	11,997	432	69.020	3,749.9	5,131.8	5,918.3	6,785.9	481.1	546.9	654.3	805.6	12.8%	10.7%	11.1%	11.9%
APRN.K	Blue Apron Holdings Inc	107	12	5.930	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	578	45	7.860	285.4	382.1	451.7	NaN	2.8	3.5	11.2	NaN	1.0%	0.9%	2.5%	NaN
MFB.NZ	My Food Bag Group Ltd	383	-28	1.560	153.3	189.5	186.4	NaN	16.3	28.5	34.2	NaN	10.6%	15.0%	18.3%	NaN
LMKG.ST	LMK Group AB (publ)	1,026	-21	80.000	1,217.0	NaN	NaN	NaN	145.3	NaN	NaN	NaN	11.9%	NaN	NaN	NaN
<b>Online pre-prepared food &amp; groceries</b>																
YFZ.AX	Youfoodz Holdings Ltd	65	31	0.480	127.3	146.6	158.4	173.5	(5.1)	1.3	2.1	6.5	-4.0%	0.9%	1.3%	3.8%
DMR.DE	Delivery Hero SE	32,883	-186	132.050	2,471.9	4,945.7	7,126.6	9,722.1	(714.5)	(471.2)	(100.2)	432.0	-28.9%	-9.5%	-1.4%	4.4%
TKWY.AS	Just Eat Takeaway.com NV	12,905	-41	86.000	2,042.0	3,512.1	4,601.4	5,742.1	57.0	(42.7)	173.9	427.1	2.8%	-1.2%	3.8%	7.4%
OCDO.L	Ocado Group PLC	15,861	494	2097.000	2,331.8	2,701.7	3,139.2	3,677.0	81.4	88.3	172.7	264.5	3.5%	3.3%	5.5%	7.2%
ROO.L	Deliveroo PLC	5,216	1,436	268.000	1,189.6	1,546.5	1,855.8	2,226.9	(9.6)	NaN	NaN	NaN	-0.8%	NaN	NaN	NaN
<b>Other online businesses (non-food)</b>																
ZO1G.DE	Zooplus AG	1,880	21	263.000	1,801.5	2,070.6	2,369.8	2,735.8	86.4	58.6	73.8	95.6	4.8%	2.8%	3.1%	3.5%
KG.N.AX	Kogan.com Ltd	1,186	144	11.080	497.9	778.3	820.6	937.0	48.5	69.7	86.7	95.4	9.7%	9.0%	10.6%	10.2%
MYD.AX	Mydeal.ComAu Pty Ltd	189	13	0.725	15.8	39.5	57.3	83.9	0.7	(4.7)	(4.5)	1.2	4.3%	-11.9%	-7.9%	1.4%
RBL.AX	Redbubble Ltd	1,129	49	4.100	416.3	559.2	612.3	763.6	9.8	59.6	47.8	71.3	2.3%	10.6%	7.8%	9.3%
TPW.AX	Temple & Webster Group Ltd	1,297	37	10.700	176.6	329.5	438.8	556.2	8.4	19.4	16.8	26.1	4.8%	5.9%	3.8%	4.7%
<b>Takeaway food Comps</b>																
CKF.AX	Collins Foods Ltd	1,334	-593	11.370	981.7	1,070.5	1,142.5	1,224.9	177.0	150.5	171.7	185.7	18.0%	14.1%	15.0%	15.2%
DMP.AX	Domino's Pizza Enterprises Ltd	9,285	-1230	106.650	1,905.3	2,190.0	2,403.3	2,665.3	334.1	429.8	482.9	547.4	17.5%	19.6%	20.1%	20.5%
MCD	Mcdonald's Corp	176,139	-33991	236.080	19,207.8	22,327.3	23,652.3	24,994.4	8,675.9	11,294.3	12,184.7	12,964.7	45.2%	50.6%	51.5%	51.9%
YUM	Yum! Brands Inc	35,689	-9995	119.520	5,652.0	6,361.7	6,762.0	7,269.8	1,931.0	2,250.8	2,418.8	2,628.2	34.2%	35.4%	35.8%	36.2%

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)	32.9%	20.3%	15.0%	1.78x	1.31x	1.06x	0.87x	120.2x	20.1x	12.1x	-88.0x	40.0x	20.1x
<b>Similar online subscription-based meal kit companies (consensus forecasts)</b>														
MMM.AX	Marley Spoon AG (consensus)	30.5%	19.1%	16.8%	2.65x	1.30x	1.09x	0.93x	78.2x	35.5x	20.2x	NaN	228.9x	44.4x
HFGG.F	Hellofresh SE	36.9%	15.3%	14.7%	3.08x	2.25x	1.95x	1.70x	21.1x	17.7x	14.4x	37.1x	31.8x	25.0x
APRN.K	Blue Apron Holdings Inc	5.4%	4.7%	21.1%	0.21x	0.20x	0.19x	0.15x	19.0x	6.0x	2.4x	NaN	NaN	NaN
FOOD.TO	Goodfood Market Corp	33.9%	18.2%	NaN	1.87x	1.23x	1.04x	1.00x	133.4x	41.9x	35.8x	NaN	NaN	NaN
MFB.NZ	My Food Bag Group Ltd	23.6%	-1.6%	NaN	2.68x	1.88x	2.01x	2.09x	12.5x	10.9x	11.2x	24.3x	18.8x	17.0x
LMKG.ST	LMK Group AB (publ)	12.1%	NaN	NaN	0.86x	NaN	NaN	NaN	7.2x	NaN	NaN	NaN	NaN	NaN
<b>Online pre-prepared food &amp; groceries</b>														
YFZ.AX	Youfoodz Holdings Ltd	15.1%	8.0%	9.5%	0.27x	0.23x	0.21x	0.19x	26.4x	15.9x	5.1x	NaN	NaN	NaN
DMR.DE	Delivery Hero SE	100.1%	44.1%	36.4%	13.38x	6.69x	4.64x	3.40x	NaN	NaN	76.6x	NaN	NaN	282.2x
TKWY.AS	Just Eat Takeaway.com NV	72.0%	31.0%	24.8%	6.34x	3.66x	2.79x	2.24x	NaN	73.9x	30.1x	NaN	NaN	123.4x
OCDO.L	Ocado Group PLC	15.9%	16.2%	17.1%	6.59x	5.66x	4.87x	4.16x	173.2x	88.6x	57.8x	NaN	NaN	NaN
ROO.L	Deliveroo PLC	30.0%	20.0%	20.0%	3.18x	2.44x	2.04x	1.70x	NaN	NaN	NaN	NaN	NaN	NaN
<b>Other online businesses (non-food)</b>														
ZO1G.DE	Zooplus AG	14.9%	14.4%	15.4%	1.03x	0.90x	0.78x	0.68x	31.7x	25.2x	19.4x	110.0x	75.5x	49.2x
KG.N.AX	Kogan.com Ltd	56.3%	5.4%	14.2%	2.09x	1.43x	1.36x	1.19x	16.0x	12.8x	11.7x	26.2x	21.8x	19.0x
MYD.AX	Mydeal.ComAu Pty Ltd	150.3%	45.2%	46.4%	11.13x	3.54x	2.44x	1.67x	NaN	NaN	116.4x	NaN	NaN	1.6x
RBL.AX	Redbubble Ltd	34.3%	9.5%	24.7%	2.59x	1.80x	1.64x	1.32x	16.9x	21.0x	14.1x	28.5x	42.3x	26.1x
TPW.AX	Temple & Webster Group Ltd	86.6%	33.2%	26.8%	7.14x	3.66x	2.74x	2.17x	62.1x	71.7x	46.2x	75.3x	76.4x	64.5x
<b>Takeaway food Comps</b>														
CKF.AX	Collins Foods Ltd	9.0%	6.7%	7.2%	1.96x	1.75x	1.64x	1.53x	12.5x	10.9x	10.1x	23.4x	21.1x	18.4x
DMP.AX	Domino's Pizza Enterprises Ltd	14.9%	9.7%	10.9%	5.52x	4.74x	4.32x	3.89x	24.2x	21.5x	19.0x	49.2x	42.6x	36.4x
MCD	Mcdonald's Corp	16.2%	5.9%	5.7%	10.94x	9.41x	8.88x	8.41x	18.6x	17.2x	16.2x	27.6x	25.0x	22.8x
YUM	Yum! Brands Inc	12.6%	6.3%	7.5%	8.08x	7.19x	6.77x	6.29x	20.3x	18.9x	17.4x	28.4x	25.4x	22.9x

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 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.

### 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 -42% / -46% and -49% discount to rival Hello Fresh for CY21e / CY22e and CY23e EV / Sales reflecting its smaller market cap (MMM is just 4% 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 7.0% in CY23e.

At just A\$678m market capitalisation (EUR 441m), with a its two brands established on 3 continents, and with similar global potential to Hello Fresh which is 27x 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)		2.25x	1.95x	1.70x
Implied MMM share price assuming a 10% discount -10%	50%	\$ 3.92	\$ 3.99	\$ 3.83
DCF valuation	50%	\$ 3.81		
<b>Blended valuation</b>		<b>\$ 3.86</b>		

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\$3.81 (was \$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).

**Our 12-month price target is \$3.86 (was \$3.96) per CDI, which implies +46% 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 -30% to the current \$2.65 CDI price. Larger rival Hello Fresh peaked at € 77.95 on 15/2/21 and has since pulled back -11% to EUR 69.02. A number of other e-commerce and Covid-beneficiary stocks have also pulled back recently. 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 re-iterate our BUY (high risk) recommendation.

## 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	<b>Estimated Total (fully diluted)</b>					<b>271,142,000</b>	
	<b>Key Early Investors /Substantial:</b>						
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	<b>Fabian Siegel (CEO)/ AKW Capital - personal only</b>	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%
<b>Total Shares on Issue</b>		<b>256,025,000</b>	<b>100.0%</b>

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 – 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		Marley Spoon MMM.AX			Hello Fresh HFGG.F			My Food Bag MFB.NZ		
Ref	Item	CY19A €m	CY20A €m	Change	CY19A €m	CY20A €m	Change	03/20A NZ\$	03/21e NZ\$	Change
A	<b>Operating revenue</b>	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	<b>Gross Profit</b>	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	<b>Contribution margin (ex SBPs)</b>	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	<b>EBITDA (ex SBPs)</b>	-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	<b>EBITDA</b>	-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%		0.4%	0.3%		2.1%		
<b>CASH FLOW ITEMS</b>										
N	Change in Working Capital	-1.8	1.5	-184%	46.5	110.3	137%	0.1		
O	<b>Operating cashflow</b>	-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%		
<b>OPERATING STATISTICS</b>										
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 avg: 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) \$ 2.65 € equivalent: 1.72

## Profit &amp; Loss

Year end Dec (€m)	FY19	FY20	FY21e	FY22e	FY23e
	€ m	€ m	€ m	€ m	€ m
Op. Revenue	129.6	254.0	337.7	406.1	467.0
<b>Revenue growth %</b>	<b>40.8%</b>	<b>96.1%</b>	<b>32.9%</b>	<b>20.2%</b>	<b>15.0%</b>
Cost of Goods Sold	(71.8)	(133.3)	(175.6)	(207.1)	(233.5)
<b>Gross Profit</b>	<b>57.8</b>	<b>120.7</b>	<b>162.1</b>	<b>199.0</b>	<b>233.5</b>
<b>Gross Profit Margin</b>	<b>44.6%</b>	<b>47.5%</b>	<b>48.0%</b>	<b>49.0%</b>	<b>50.0%</b>
Fulfillment costs	(25.5)	(46.6)	(63.5)	(72.9)	(84.6)
<b>Contribution Margin</b>	<b>32.3</b>	<b>74.1</b>	<b>98.6</b>	<b>126.0</b>	<b>148.9</b>
<b>Contribution Margin %</b>	<b>25.0%</b>	<b>29.2%</b>	<b>29.2%</b>	<b>31.0%</b>	<b>31.9%</b>
Other Income	0.0	0.0	0.0	0.0	0.0
Cash Operating Expenses	(62.1)	(74.7)	(94.4)	(104.0)	(114.5)
Share based payments	(0.4)	(0.4)	(0.5)	(0.6)	(0.7)
<b>EBITDA</b>	<b>(30.2)</b>	<b>(0.9)</b>	<b>3.7</b>	<b>21.5</b>	<b>33.7</b>
<b>Ebitda Margin</b>	<b>-23.3%</b>	<b>-0.4%</b>	<b>1.1%</b>	<b>5.3%</b>	<b>7.2%</b>
Depreciation & Amort	(4.6)	(6.5)	(8.0)	(8.8)	(9.5)
<b>EBIT</b>	<b>-34.8</b>	<b>-7.4</b>	<b>-4.3</b>	<b>12.7</b>	<b>24.2</b>
<b>Ebit Margin</b>	<b>-26.8%</b>	<b>-2.9%</b>	<b>-1.3%</b>	<b>3.1%</b>	<b>5.2%</b>
Net Interest Income (Expense)	(5.6)	(7.4)	(1.0)	(1.0)	(1.0)
Share of Assoc NPAT	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax profit</b>	<b>(40.4)</b>	<b>(14.8)</b>	<b>(5.3)</b>	<b>11.7</b>	<b>23.2</b>
Income Tax Credit (Expense)	(0.0)	(0.1)	0.0	0.0	0.0
<b>Tax Rate</b>	<b>0.1%</b>	<b>0.9%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
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
<b>NPAT (reported)</b>	<b>-34.5</b>	<b>-86.2</b>	<b>-5.3</b>	<b>11.7</b>	<b>23.2</b>
Adjustments (Abnormals)	-5.5	71.4	0.0	0.0	0.0
<b>NPAT (normalised)</b>	<b>-40.1</b>	<b>-14.8</b>	<b>-5.3</b>	<b>11.7</b>	<b>23.2</b>
<b>Balance Sheet</b>					
Cash	5.4	34.4	32.3	48.9	77.1
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
<b>Total current assets</b>	<b>12.0</b>	<b>44.1</b>	<b>42.5</b>	<b>59.7</b>	<b>88.6</b>
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
<b>Total non-current assets</b>	<b>24.9</b>	<b>29.0</b>	<b>35.5</b>	<b>40.5</b>	<b>45.5</b>
<b>Total Assets</b>	<b>37.0</b>	<b>73.1</b>	<b>78.0</b>	<b>100.2</b>	<b>134.1</b>
Payables	-12.9	-17.5	-23.2	-27.9	-32.1
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
<b>Total Current Liabilities</b>	<b>-25.6</b>	<b>-37.0</b>	<b>-42.8</b>	<b>-47.5</b>	<b>-51.7</b>
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
<b>Total Non-current Liabilities</b>	<b>-47.1</b>	<b>-28.0</b>	<b>-16.0</b>	<b>-21.8</b>	<b>-27.3</b>
<b>Total Liabilities</b>	<b>-72.7</b>	<b>-65.0</b>	<b>-58.7</b>	<b>-69.2</b>	<b>-78.9</b>
<b>Total Shareholders' Equity</b>	<b>-35.7</b>	<b>8.1</b>	<b>19.3</b>	<b>31.0</b>	<b>55.2</b>

## Interims

Year end June	1H20	2H20	1H21e	2H21e
<b>Sales</b>	<b>116.2</b>	<b>137.9</b>	<b>160.9</b>	<b>176.8</b>
<b>Sales Growth (g)</b>	<b>89.2%</b>	<b>102.2%</b>	<b>38.5%</b>	<b>28.2%</b>
<b>EBITDA</b>	<b>-2.0</b>	<b>1.5</b>	<b>-3.7</b>	<b>7.9</b>
<b>EBITDA Margin</b>	<b>-1.7%</b>	<b>1.1%</b>	<b>-2.3%</b>	<b>4.4%</b>
EBIT	-5.3	-2.2	-7.7	3.4
Equity Share of Assocs NPAT	0.0	0.0	0.0	0.0
NPAT (Reported)	-67.5	-18.8	-8.2	2.9
<b>NPAT (Adjusted)</b>	<b>-8.4</b>	<b>-6.4</b>	<b>-8.2</b>	<b>2.9</b>
<b>EPS (adjusted)(cents)</b>	<b>-5.2</b>	<b>-2.7</b>	<b>-3.0</b>	<b>1.1</b>
<b>EPS Growth</b>	<b>-65.9%</b>	<b>-77.6%</b>	<b>-41.7%</b>	<b>-138.4%</b>

Source: Sequoia estimates

## Per share &amp; 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)	(1.96)	4.31	8.57
<b>Growth</b>	<b>-33.7%</b>	<b>94.8%</b>	<b>Large +ve</b>	<b>Large +ve</b>	<b>99.1%</b>
P/E ratio (x)	-7.3x	-3.7x	-88.0x	40.0x	20.1x
<b>EPS (normalised)(cents)</b>	<b>(27.4)</b>	<b>(7.9)</b>	<b>(1.96)</b>	<b>4.31</b>	<b>8.57</b>
<b>Growth</b>	<b>-22.9%</b>	<b>-71.1%</b>	<b>Large +ve</b>	<b>Large +ve</b>	<b>99.1%</b>
P/E ratio (x)	-6.3x	-21.7x	-88.0x	40.0x	20.1x
DPS (cents)	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%
<b>Yield</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
OCF per share (cents)	-20.7	2.4	2.9	9.1	13.4
Price/OCF (x)	-8.3x	73.2x	59.4x	19.0x	12.9x
Enterprise Value \$m	497.3	453.0	443.8	431.3	406.6
EV/ Sales	3.84x	1.78x	1.31x	1.06x	0.87x
<b>EV/EBITDA</b>	<b>-16.5x</b>	<b>-483.4x</b>	<b>120.2x</b>	<b>20.1x</b>	<b>12.1x</b>
EV/EBIT	-14.3x	-61.0x	-103.0x	34.0x	16.8x
<b>Liquidity &amp; Leverage</b>					
Net Cash (Debt) \$m	(47.6)	(1.8)	12.6	29.2	57.4
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%	-5.5%	12.6%	18.1%
ROE (NPAT / T.Equity) %	112.2%	-182.4%	-27.5%	37.7%	42.1%
Interest Cover (EBIT)	-6.2x	-1.0x	-4.3x	12.7x	24.2x
Dividend Payout % (of adj EPS)	n/a	n/a	n/a	n/a	n/a

## Cash Flow

EBITDA	-30.2	-0.9	3.7	21.5	33.7
Chge in Working Capital	-1.8	1.5	5.2	4.1	3.5
Interest Received (Paid)	-1.0	-0.3	-1.0	-1.0	-1.0
Income taxes paid	0.0	0.0	0.0	0.0	0.0
Other	2.7	4.1	0.0	0.0	0.0
<b>Operating cash flows</b>	<b>-30.3</b>	<b>4.4</b>	<b>7.9</b>	<b>24.5</b>	<b>36.2</b>
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
<b>Net investing cash flows</b>	<b>-6.3</b>	<b>-8.6</b>	<b>-10.0</b>	<b>-8.0</b>	<b>-8.0</b>
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
<b>Financing cash flow</b>	<b>33.3</b>	<b>33.7</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Change in Cash</b>	<b>-3.2</b>	<b>29.5</b>	<b>-2.1</b>	<b>16.5</b>	<b>28.2</b>

Operating Stats & Segmental	FY19	FY20	FY21e	FY22e	FY23e
Active customers Worldwide ('000s)	182	327	466	536	617
Active subscribers Worldwide ('000)	131	233	306	387	445
<b>Revenue by Segment</b>					
USA	56.1	127.2	168.0	203.8	234.4
Australia	48.8	86.0	100.3	117.3	134.9
Europe	24.6	40.8	69.4	85.0	97.7
<b>Operating revenue</b>	<b>129.6</b>	<b>254.0</b>	<b>337.7</b>	<b>406.1</b>	<b>467.0</b>
<b>Ebitda by Segment</b>					
USA	-13.0	4.1	13.0	19.8	27.0
Australia	-1.7	9.7	7.0	14.3	19.3
Europe	-7.7	-1.9	0.3	6.5	9.2
Global head office costs	-7.4	-12.4	-16.0	-18.4	-21.2
<b>Ebitda (ex share-based paymts)</b>	<b>-29.8</b>	<b>-0.5</b>	<b>4.2</b>	<b>22.1</b>	<b>34.4</b>
<b>Operating Ebitda Margins</b>					
USA	-23.2%	3.2%	7.7%	9.7%	11.5%
Australia	-3.5%	11.3%	6.9%	12.2%	14.3%
Europe	-31.2%	-4.7%	0.4%	7.6%	9.4%
<b>Ebitda margin %- Total</b>	<b>-23.0%</b>	<b>-0.2%</b>	<b>1.2%</b>	<b>5.4%</b>	<b>7.4%</b>

## SEQUOIA FINANCIAL GROUP (ASX: SEQ) - About Us

Sequoia Financial Group is a boutique investment house known for the quality of its advice, the strength of its relationships and depth of expertise across financial markets. The Group has also expanded into corporate advisory, equity capital markets, institutional dealing and financial planning.

Sequoia Financial Group is listed on the Australian Securities Exchange and trades under the stock code SEQ. We provide:

- Investment and superannuation products
- Wealth management and advisory services
- Corporate advisory and capital markets expertise
- Retail, wholesale and institutional trading platforms
- Market data and financial news services.

With offices in Melbourne, Sydney and Gold Coast, Sequoia Financial Group provides products and services to self-directed retail and wholesale clients and those of third-party professional service firms. Our group includes:

- **Sequoia Wealth Management** - is a holder of an Australian Financial Services License (AFSL). Our aim is to provide exceptional unbiased advice to high net wealth individuals, families and institutional investors.

Our team of diverse experts provide strategic and tailored investment advice to our clients. We specialise in advising our clients on portfolio management, SMSFs, direct shares, superannuation, structured products, option trading, personal insurance, margin lending, cash solutions and much more.

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- **Sequoia Corporate Finance** - is a leading Australian small and mid-market corporate adviser. We apply our knowledge, extensive contacts, expertise and professionalism to deliver best-practice, objective advice in the following disciplines: Public market M&A; Private treaty M&A; Equity capital markets; Capital management and restructuring; Corporate and strategic advice.

- **InterPrac Financial Planning** - The easy choice for client-focussed and accountant-aligned financial planners to deliver superior integrated and practical solutions.

- **Sequoia Asset Management Pty Ltd** - is an investment services firm and holder of an Australian Financial Services License. Our team of experts provide general advice on portfolio management, SMSFs, direct shares, superannuation, structured products, option trading, personal insurance, margin lending and cash solutions.

- **Sequoia Superannuation Pty Ltd (SS)** - provides a complete solution to the SMSF market, designed specifically for anyone that has or wants a SMSF. SS also provides SMSF solutions to financial planners, stock brokers, mortgage brokers and accountants Australia wide.

- **Sequoia Specialist Investments Pty Ltd (SSI)** - Since 2010 SSI has been building innovative investment solutions for Australian investors. SSI works with investors, financial advisers and stockbrokers to develop and deliver investment solutions that meet the needs and objectives of their clients.

Over the years we have developed numerous investment opportunities that give investors access to both local and foreign shares and indices that offer income and capital growth potential.

SSI can also offer a variety of solutions for professional advisers where we can provide white-label solutions for groups that want to retain their own branding.

- **Bourse Data** – is one of Australia's most trusted and leading suppliers of stock market analysis software and financial market data for private and professional investors and traders.

- **Finance News Network (FNN)** is an independent news organisation, specialising in the production and distribution of online finance news, digital communications and production services for ASX-listed companies and managed funds. Annually FNN produces over 3,000 video news items and it's one of the largest suppliers of wholesale online finance video in Australia.

- **Morrison Securities** - provides seamless and cost effective third party stock broking execution solutions to AFSL holders such as financial planners, financial advisors, banks, building societies and trading educators.

Morrison Securities has been providing white labelled trading solutions to Broker Dealers (Shadow Broker) since 2007. We assist broker dealer groups in providing a superior product to their clients by offering a wholesale broking solution and a comprehensive range of white-label products.

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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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