



## Marley Spoon Ltd (MMM.ASX)

### Unprecedented Demand Lights Profitability Path

#### Event:

- We initiate research on Marley Spoon Limited (MMM).

#### Investment Highlights:

- Marley Spoon (MMM)** offers consumers a subscription service to weekly home delivered fresh food meal kits. Its international network includes operations in Australia, US, and Europe. MMM's asset light business delivered 22M meals to 180k customers in CY19a.
- 'Unprecedented surge' in demand to compress adoption with upside risk from COVID-19 isolation:** we view 40% YoY as the new baseline FY20e growth, and eclipses the company's prior guidance for 30% growth. The company recently noted Q1 growth to be 40%+ vs pcp, *before* the global isolation restrictions. Lockdowns extending beyond Q2 could provide further upside.
- Identifiable path to profitability:** we think profitability in FY20e is a distinct possibility; the company had previously expected positive operating EBITDA by CY20e end prior to COVID-19. We think increased growth and contribution margin, decreased marketing, and scale benefits to fulfilment expenses could help MMM achieve FY20e profitability in a high growth scenario.
- Existing infrastructure has sufficient capacity to handle near term demand increase:** increased labour and doubling shifts across six manufacturing sites could accommodate doubled demand in the coming quarters.
- Shift to online food purchasing remains low in a large addressable market.** Behavioural changes triggered by COVID-19 isolation, including increased online adoption of grocery shopping and avoidance of public spaces, should address the low 2% online penetration of the global food market, with 180M households in lockdown in MMM's service geographies.
- Heightened brand awareness.** MMM's growth trajectory and its market awareness have been fast tracked by the virus concerns; the company hasn't needed to make a corresponding marketing spend for increased exposure.
- Cash of €5.4M and debt of €27.7M (excluding USV, Acacia convertible debt) at 31 December 2019:** the business model is capex light and working capital generative; we believe the business is well placed to meet increased near term demand and continue growth.

#### Earnings and Valuation:

- We expect positive FY20e EBITDA of €3M, assuming 40% sales growth over FY20e. We do not provide earnings forecasts at this stage.
- We derive a valuation range for MMM of \$1.81-2.38/CDI using a multiples approach. We applied a 1.5x EV/S multiple to a FY20e revenue range of €181-233M, representing 40%-80% growth in FY20e. The stock trades at an undemanding 0.7x EV/S in our view.

#### Recommendation:

- We initiate coverage on MMM with a Buy recommendation and 12-month price target range of \$1.80-2.40/CDI, broadly in line with our valuation range.
- Catalysts for the share price include: 1) updates on growth in customers, orders, and meals; 2) improving unit economics and contribution margins; and 3) group positive operating EBITDA and profitability.

#### Disclosure

The analyst does not own MMM securities. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 100,000 MMM CDIs. Cranport Pty Ltd owns 950,000 MMM CDIs. Refer to end of report for details.

Recommendation	Buy
Previous	N/A
Risk	High
Price Target Range (A\$/CDI)	\$1.80-2.40
Previous	N/A
CDI Price (A\$)	\$1.21
ASX Code	MMM
52 week low - high (A\$)	0.20-1.21
Capital structure	
CDIs on Issue (M)	158.5
Market Cap, undil. (A\$M)	192
Net Cash/(Debt) (A\$M)	-55
EV (A\$M)	246
12mth Av Daily Volume ('000)	367

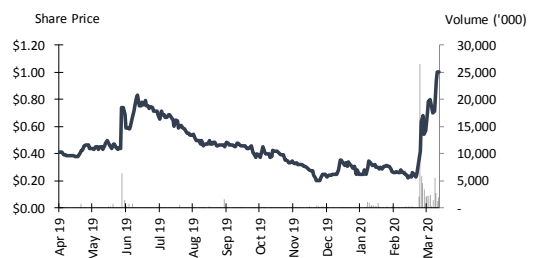
#### Board

Deena Shiff	Non-Executive Chairman
Christoph Schuh	Deputy Chairman
Patrick O'Sullivan	Director
Kim Anderson	Director
Fabian Siegel	CEO
Julian Lange	CFO

#### Major Shareholders

AKW Capital GmbH	10.8%
Perennial Value Management	7.8%
Acacia Partners LP	6.2%
Pie Funds Management	5.9%
Lakestar	5.7%
Industry Super Holdings	5.5%
W23 Investments	5.2%

#### Share Price Graph



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