



## Marley Spoon AG (MMM.ASX)

### Outstanding Quarter Surpasses Expectations

#### Event:

- FY20Q2 report.

#### Investment Highlights:

- Marley Spoon (MMM)** delivered an outstanding FY20Q2 report, surpassing even our lofty expectations on almost every metric, and improving on its 'unprecedented' April surge.
- Operating metrics have stepped up again from the April trading update:** FY20Q2 operational highlights included Q2 revenue of €73M (FSBe €66M), maiden positive operating EBITDA quarter of €4.5M, and global contribution margin of 30.5%, up 6 pts YoY. Subscribers more than doubled (+104% vs pcp) to 350k while Q2 customer orders were +114% to 1.55M.
- All jurisdictions performing:** US in particular was a standout, with Q2 revenue growing 171% vs pcp, while Australia reported 103% growth, and even Europe performed strongly, up 83%. Contribution margin expanded in all regions, and pleasingly global contribution margin was 30.5%, up 6pts YoY.
- FY20e guidance finally upgraded, still looks conservative in our view:** the company has upgraded FY20e revenue growth guidance to 70% from at least 30%, which we viewed as conservative. We had previously assumed 40% growth as a baseline, and provided 60-80% FY20e revenue growth scenarios.
- Strong cash flow performance:** strong operational result drove the positive operating cash flow of €7.6M, the second consecutive quarter of positive operating cash flow; costs appeared in line with our expectations.
- Cash of €18.8M and debt of €46M (including convertible debt) at 30 June 2020.** The company is well funded in our view to execute on its strategy to take advantage of online penetration into the grocery channel.

#### Earnings and Valuation:

- We now assume 102% sales growth over FY20e, and looking further ahead, we forecast FY21e revenue range of 30-50% growth, or €340-393M FY21e revenue.** We continue to expect positive FY20e EBITDA (FSBe €8M), although the final quantum will be dictated by the company's ongoing opportunism around attractive customer acquisition costs. We hold the view that both the COVID-19 consumer behaviour catalyst and customer persistence will continue into FY21e.
- We increase our valuation range for MMM to \$3.57-4.11/CDI (prior \$1.81-2.38/CDI).** We apply a 1.5x EV/S multiple to a FY21e revenue range of €340-393M representing 30-50% growth on FY20e revenue forecast of €262M (102% FY20e revenue growth).

#### Recommendation:

- We maintain a Buy recommendation on MMM and an increased price target range of \$3.60-4.10/CDI (prior \$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 110,000 MMM CDIs. Cranport Pty Ltd owns 899,944 MMM CDIs.

Refer to end of report for details.

**Foster Stockbroking acted as co-manager to the \$16.6M placement of 15.9M MMM CDIs at \$1.05/CDI in May 2020. Foster Stockbroking received fees for this service.**

Recommendation	Buy
Previous	Buy
Risk	High
<b>Price Target Range (A\$/CDI)</b>	<b>\$3.60-4.10</b>
Previous	\$1.80-2.40
<b>CDI Price (A\$)</b>	<b>\$2.40</b>
ASX Code	MMM
52 week low - high (A\$)	0.20-2.40
<b>Capital structure</b>	
CDIs on Issue (M)	174.8
<b>Market Cap, undil. (A\$M)</b>	<b>420</b>
Net Cash/(Debt) (A\$M)	18
<b>EV (A\$M)</b>	<b>401</b>
12mth Av Daily Volume ('000)	593
<b>Board</b>	
Deena Shiff	Non-Executive Chairman
Christoph Schuh	Deputy Chairman
Patrick O'Sullivan	Director
Kim Anderson	Director
Fabian Siegel	CEO
Julian Lange	CFO
<b>Major Shareholders</b>	
Perennial Value Management	11.5%
AKW Capital GmbH	9.8%
Lakestar	5.2%
Pie Funds Management	5.0%
W23 Investments	4.7%
<b>Share Price Graph</b>	



Matthew Chen, CFA  
matthew.chen@fostock.com.au

+61 2 9993 8130