EDISON

ADR research

Yowie Group

Initiation of coverage

Confectionery with a conscience

Food & beverages

Yowie Group has a clear brand vision rooted in the natural world and an exciting near-term strategy, based on legally protected US barriers to entry. We forecast rapid sales growth as the company executes on the opportunity led by its product rollout to over 4,300 Walmart stores in the US. Although that growth is being recognized in the share price, upside remains, and we suggest neither international expansion nor significant wider product and licensing activities are yet reflected by the market.

Year end	Revenue (US$m)	PTP* (US$m)	EPADR* (US$)	DPADR (US$)	P/E (x)	Gross yield (%)
06/13	0.0	(0.8)	(0.19)	0.0	N/A	N/A
06/14	0.0	(3.2)	(0.35)	0.0	N/A	N/A
06/15e	1.9	(2.4)	(0.19)	0.0	N/A	N/A
06/16e	15.5	(0.7)	(0.04)	0.0	N/A	N/A
06/17e	33.5	4.1	0.28	0.0	29.5	N/A

Note: *PTP and EPADR are normalised, excluding intangible amortization, exceptional items and share-based payments. Converted at A$/US$1.39. Investors should consult their tax advisor regarding the application of any domestic and foreign tax laws.

Little buddies with big aspirations

Yowie is a confectionery/toy combination, similar to a Kinder Surprise egg. Yowies are based on animal characters linked to the natural world and were the basis of a highly successful children's brand of confectionery and other products sold in Australia, Asia and New Zealand from 1997-2005. Regulations have prevented the sale of confectionery/toy products such as Kinder Surprise in the US; however, Yowie acquired exclusive rights for a confectionery/toy design that is legal there.

Yowie's experienced management aims for global rollout of its confectionery and seeks to leverage the brand into licensing deals for other merchandise. The initial focus is the US market, where Yowies are being rolled out to a number of retailers including all Walmart stores.

Short-term growth opportunity

Management has a short-term window to maximise penetration by 2018, when its patent expires, and is pushing the pedal hard. The Walmart rollout provides tremendous visibility and the opportunity to grow both the brand, and shareholder returns dramatically. We forecast revenue to grow at a compound 186% between FY15 and FY18, by which time we expect post-tax profits of US$7.6m.

Valuation: Growth recognised but upside remains

Our projections see rapid US revenue growth peaking in FY18. A reverse DCF at the current price with a WACC of 10% implies compound average revenue growth from FY16 to FY18 of 70% fading to terminal growth of 2%, and a terminal EBIT margin of 22%. There is nothing in our forecasts for rollout to other geographies, which would present upside. We believe that there is a real opportunity for investors as Yowie demonstrates it can move beyond confectionery into licensing the brand for other products.

21 September 2015

Price	**US$8.27***
Market cap	**US$123m**

*Calculated, ADR/Ord conversion ratio: 1:10

U$0.719/A$

Net cash (US$m) at June 2015	8.0
ADRs in issue	14.8m
ADR Code	YWRPY
ADR exchange	OTC
Underlying exchange	ASX
Depository	BNY

Business description

Yowie Group, listed in Australia, is engaged in brand development of the Yowie chocolate confectionery product, digital platform, and licensed consumer products. The company's brand vision includes distribution in North America, with further expansion planned into Australia, New Zealand and Asia, where the Yowie brand's equity remains strong. Expansions into Europe and the Middle East are key strategic priorities for a second-stage brand rollout.

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Investment summary

Company description: Upstart brand, deep industry experience

Yowie is a confectionery/toy combination, similar to a Kinder Surprise egg. Yowies are based on animal characters linked to the natural world and were the basis of a successful children's brand of confectionery and other products in Australasia from 1997-2005. Regulation prevents the sale of products such as Kinder Surprise in the US; however, Yowie Group acquired exclusive rights for a design that is legal in the country. As a result, the Yowie product is not threatened by competition from similar offerings anywhere in the US market. The product features characters linked to the values of the natural world and provides online opportunities for learning, collecting and games through the Yowie World website. Yowie Group is headed by an experienced team, and the initial strategy is to focus on the US market. The company recently achieved agreement from Walmart to launch nationally across the US into approximately 4,300 stores from August 2015.

Financials: Ready for the rollout

Historic results largely reflect startup investment and only recently sales. Following a A$10m capital raise in January 2015, Yowie Group is well capitalised to invest in the US rollout as well as any plant expansion. Net cash at June 2015 was US$8.0m. Assuming substantial success of the US rollout, led by strong uptake in Walmart stores, we forecast revenue of US$15.5m in FY16 rising to US$33.5m in FY17, when we expect breakeven and a pretax profit of US$4.1m. We forecast earnings/ADR of US$0.48 by FY18.

Valuation: Valued for rapid short-term growth

We value the ADR primarily using DCF techniques. Our projection sees rapid short-term US revenue growth peaking in FY18 and slowing thereafter, as a result of expected competition. A reverse DCF at the current price of $8.27 with a WACC of 10% implies compound average revenue growth from FY16 to FY18 of 70% fading to terminal growth of 2%, and requires a terminal EBIT margin of 22%. Our forecasts are based purely on the US rollout and have modest licensing expectations (c 9% of terminal DCF sales). We estimate that each incremental A$1 million of licensing revenue could add at least $0.03 in after-tax profit per ADR. Therefore, we believe that there is a real opportunity for investors as Yowie demonstrates it can move beyond confectionery into licensing the brand for other products. For reference, a peer group of major confectionery manufacturers trades on an average year one consensus P/E of 25.9x, compared with Yowie's 2018 EPADR which trades on 17.2x.

Sensitivities: Management experience mitigates startup risks

It is still early to know whether consumers will consistently flock to a premium-priced novelty candy based on little-known characters. However, the company has made many smart decisions to mitigate downside risks.

- Dependence on Walmart as key customer – we estimate that sales to Walmart will constitute 80% of total sales for the foreseeable future.
- Commodity exposure – cocoa and sugar prices.
- Foreign exchange – primarily A$ to US$.
- Single source manufacturer supply – Yowie is contracted to a sole manufacturer, the Atlantic Candy Company owned by Hank Whetstone, owner of the capsule patent.
- Regulatory and legal issues – we expect competition, once the patent expires in 2018. There could be a toy recall and there is continuing pressure to limit marketing of candy to children.

Company description: Building a children's brand beginning with confectionery

Yowie Group is an emerging growth, brand development and marketing company. It is launching a unique and patented chocolate/toy novelty to the US market as the first step in reviving a highly successful Australian children's brand that teaches environmental awareness and conservation through whimsical cartoon characters and stories.

In many ways, Yowie Group has achieved the Holy Grail for new consumer products. Without any real sales track record in the US, Walmart came on as a beachhead customer in 2014, based on what Walmart's buyers see as strong potential for Yowie's chocolate encapsulated/toy product in their stores. Due to a successful trial in 50 stores in fall 2014, followed by a preliminary rollout to 1,500 stores in early 2015, Yowies will be available in all 4,300 Walmart outlets by late fall 2015.

Yowie Group presents a unique opportunity for investors with high tolerance for risk and interest in what may become a highly profitable brand, with multiple opportunities for tie-ins and product extensions.

Bringing back a successful brand

Yowies were introduced in Australia in the late 1990s and became a successful children's brand, encompassing chocolate/toy novelties, books, stuffed animals, apparel and other products. Yowies are fantasy characters based on indigenous Australian animals that act as 'guardians of the natural world' and teach children about endangered species, conservation and the environment.

In 1997, Yowie's creator, Geoffrey Pike, worked with confectionery company, Cadbury to design and launch a chocolate/toy novelty based on the Yowie characters. The collaboration became one of Cadbury's strongest product launches globally, selling approximately 65 million units in Australia in its first 12 months. Over time, Cadbury began selling Yowies across Asia and in the UK.

In 2005, Cadbury discontinued the Yowie product line after it was unable to secure the right to sell Yowie's products in more countries. In 2010, Cadbury was acquired by Kraft Foods and then spun-off with other brands into Kraft's new entity, Mondelez.

Under the Mondelez umbrella, the Yowie line continued to lie dormant. As Mondelez rationalized its portfolio, it opened up the opportunity for the Yowie brand to be revitalized under new ownership.

A new company was formed to attempt to revitalize the Yowie. YOW and Kidcorp (owner of the worldwide Yowie franchise) acquired the confectionery rights back from Mondelez. Kidcorp became capital constrained, ultimately enabling Yowie to buy the global license.

Introducing Yowie to a new audience

Yowie's management opted to focus the brand relaunch initially in the US. The US is one of the largest markets in terms of potential sales, and it is the only market where Yowie's chocolate/toy novelty could have several years without direct competition because of a 1938 regulation, the Food, Drug, and Cosmetic Act, banning the sale, on safety grounds, of confections containing toys. This long-standing regulation has kept Ferrero's Kinder Surprise, the world's best-selling chocolate/toy combination, out of the US, thus creating an opportunity for a company that could find a way to work within the law.

Patent exclusivity is key competitive advantage

Ferrero introduced its Kinder Surprise eggs in 1974. Kinder Surprise is an egg-shaped chocolate shell around a small toy that sells for $1.50-1.75. Kinder Surprise has been the gold standard in novelty candy for many years and worldwide sales are believed to be 2bn units annually. Despite its success, Kinder Surprise cannot be sold in the US as authorities have consistently ruled that the design presents a potential choking hazard. Yowie Group identified and obtained an exclusive license to use a chocolate/capsule design that is approved for sale in the US from Hank Whetstone of Atlantic Candy Company. Whetstone's patented capsule has a lip that shows through the chocolate and the chocolate halves fall away from the capsule when it is unwrapped. This differs from the Kinder Surprise design where the capsule is completely enclosed by the chocolate. Yowie pays for both use of the patent and for exclusivity. As a result, Yowie's product will be the only chocolate/toy combination legally available in the US until the patent expires in April 2018. Exclusivity gives Yowie nearly three years to establish itself as the market leader in the US without competition.

Exhibit 1: Yowie patented design

Source: Yowie

Moving ahead after initial delays

Yowie's initial launch plans in 2012-13 were delayed by logistic and management issues. In March 2013, Wayne Loxton, a Yowie investor and former mining executive, took over the CEO role. He moved quickly to assemble a new team, renegotiate uneconomic contracts and push the process forward. Within six months, the company had finalized its manufacturing and supply chain and within the year, production was up and running. By June 2014, the company had its first US order followed by its first large customer, Valero Corner Store, a 1,100-unit US chain in July.

In September 2014, Yowie began testing in 50 Walmart stores, and the company expects to be in all 4,300 Walmart stores by late fall 2015. The product is also being rolled out into 1,300 Safeway grocery stores and is in various states of testing at several other major drug and convenience retailers including CVS, Walgreens, and 7-11 stores.

Manufacturing agreement designed for lean-capital use

Under its manufacturing agreement with Atlantic Candy Company, Yowie provides all raw materials (capsules, toy inserts, chocolate etc) and purchases manufacturing equipment to be used at Atlantic's production facility. Yowie pays Atlantic to use the patent and to maintain exclusivity and also pays a manufacturing charge consisting of Atlantic's fixed costs and variable costs plus an undisclosed profit markup. The patent fees are subject to annual minimums and vary somewhat by volume. Manufacturing variable costs are closely tied to the number of shifts needed. The plant is currently running one shift a day, making 6m units pa. Each additional shift will add approximately US$500,000 to variable costs. This manufacturing model reduces some of Yowie's risks in terms of the time and complexity of building and managing a production infrastructure, and we believe it is appropriate for a company where management's background is primarily in marketing and not in production operations.

Once the candies are produced, Yowie is responsible for warehousing and inventory management, sales, distribution, marketing and any additional corporate overhead.

Competitive advantages and target market

The confectionery industry is highly competitive, with hundreds of new products seeking to establish a foothold in the market each year. The most successful new products tend to come from the large confectionery companies – Hershey, Mars, Nestle and Lindt – where established brand loyalty, strong shelf positioning and large marketing budgets provide a competitive edge.

However, smaller brands are taking share away from the larger brands. A June 2015 article in Confectionery News cites data from IRI Worldwide noting that in 2014, sales by the top four confectionery manufacturers grew 1.9%, while sales outside the top four grew 5.7%. We believe that while the large brands have a number of financial advantages over smaller manufacturers, potential new products have to hit a much higher hurdle rate to move into production – a disadvantage in terms of innovation and the ability to change with the market.

That said, a new product has to have several characteristics to be successful and we believe that Yowies are well positioned to do so.

- Unique product – Yowies are the only chocolate/toy combination that can be legally sold in the US.
- Prominent placement at dominant US retailer – getting placement at Walmart is no small feat and while Yowie's long-term success depends on customer reception, other niche brands, such as Stonyfield Yogurt, have seen their brand awareness and sales skyrocket as a result of Walmart store placement.
- High-ticket/high-margin product in a key selling zone – retailers are looking for ways to strengthen impulse sales at the checkout. With a US$2.75-3.00 price point, Yowies sell at a multiple to traditional candy bars and yield a margin of 30%+ to the retailer on that higher price.
- Hitting on consumer trends – eco-friendly; fair trade; green; and organic – each of these terms resonates with current consumer tastes. Yowies are made from ethically sourced and traded chocolate (Rainforest Alliance Certified) and the capsules are both reusable and recyclable. In addition, these traits support Walmart's long-standing campaign to be environmentally responsible and to support businesses that promote those values.
- Reaching today's kids – Yowie has designed its product and brand with today's young consumers in mind. The foil packaging is colorful and stands out next to traditional candy offerings. The brand is educational and interactive and encourages buyers not only to collect

the toys but also to participate in online games and stories. Yowie's online platform is certified by COPPA, the Children's Online Protection Privacy Act.

Target market potential

Management sees Yowie as more than a confectionery play. We believe that management's primary goal is to re-establish Yowie as a brand and then grow revenues through licensing opportunities.

To size the potential market, management has pointed to sales of Ferrero's Kinder Surprise and Yowie confectionery sales in the late 1990s. As mentioned earlier in the report, approximately 2bn Kinder Surprises are sold annually, of which 1.2bn are sold in Europe, or roughly 2.4 units per capita. In the first full year of operations, Cadbury sold 65 million units of Yowie chocolates in the Australian market, which equates to a per-capita rate of 3.6 units per head of population.

Using past sales as a target range, management believes that annual sales in the US market could potentially reach 700-800m units, approximately 2.1-2.5 units per capita, or somewhat greater than US$2bn.

Management

Wayne Loxton, a former mining executive and investor heads Yowie Group. The senior team is made up of executives with deep experience in the confectionery business, including several former Cadbury executives. Please refer to page 12 for a more complete management listing.

Sensitivities

In many ways, Yowie Group is a high-risk startup venture. It is still early to know whether consumers will consistently flock to a premium-priced, novelty candy based on little-known characters. However, the company has made many smart decisions to mitigate downside risks.

Dependence on Walmart as key sales outlet

Success at Walmart is crucial to our sales forecasts. Walmart not only has 4,300 outlets in the US, but it also tends to have more points of sale (POS) in each store and higher sales per POS than Yowie's other outlets. While management will not break out sales to Walmart specifically (citing confidentiality agreements), we believe that sales from Walmart could drive more than 80% of Yowie's total sales in the next 12-18 months.

Commodity pricing

We estimate that raw materials including chocolate, foils, toys and capsules account for 85% of cost of goods sold. Of this amount, we believe that cocoa and sugar make up at least a third or 30% of total costs. Like many confectionery companies, Yowie does not make its own chocolate, buying it instead from one of several bulk chocolate wholesalers in the US. In this way, Yowie is somewhat insulated from short-term volatility in the cocoa and sugar markets; however, it does mean that the company could see rising costs when wholesalers are forced to pass on higher costs, as occurred in 2014.

Foreign exchange

Yowie reports results in Australian dollars and with the bulk of its business based in the US, results can be helped by a strengthening of the US dollar. The company currently contracts large transactions in US dollars when possible, and plans to move to reporting in US dollars in the near future.

Single-source manufacturing

As part of the agreement for Whetstone's FDA-approved capsule/chocolate patent, Yowie manufactures exclusively through Hank Whetstone's Atlantic Candy Company. Yowies are currently made in a single facility on a single production line, creating the potential for some business disruption. At this point, we believe that Yowie has well over A$6m in finished inventory and intends to have at least three months of finished inventory as a buffer to any business disruption, which should reduce any risk of not being able to meet customer demand.

Regulatory and legal issues

Whetstone has successfully defended its patent design several times in recent years, and we believe that the approval process for a competing design would be lengthy, so we see low risk from new competition before the patent expires in 2018. However, once the patent expires, we expect significant competition, some of which could come at lower price points.

Another concern is the potential of a toy recall. Yowie sources its capsules and toys from China and the products are safety tested once they arrive in the US. The manufacturing process is designed to make it relatively simple to remove any problematic toys before they are put into capsules and covered in chocolate, but there is a risk that a problematic toy could not be found easily once the products have made it to market.

Finally, there are grassroots efforts to regulate and limit marketing of candy and other items directly to children. These efforts have been around for at least a decade and are particularly strong outside the US, but to date, the impact on the candy industry has been limited.

Valuation

Management has set its sights high, with a fairly aggressive peak sales target based on Yowie's success in Australia in the late 1990s (where annual sales were an estimated 3.6 units per capita) as well as Kinder Surprise which average 1-2 units per capita each year. At a penetration of two units per head of population, the 320m US market would represent a sales volume of some 750m units, around 30 times higher than our 2018 forecast volumes in Exhibit 3 below.

While these targets may be achievable over the long term, we believe that the real opportunity for investors will be as Yowie moves beyond confectionery into other products and licensing. Merchandise and other licensing agreements would likely be structured as royalty revenues to the company, with some level of guarantee. Licensing revenue would likely be highly profitable and drop almost entirely to the operating line, after some level of administrative costs. However, we have not built this into our earnings model for 2016-17 and we have a modest assumption of A$1.0m for 2018.

There is a further opportunity as Yowie renews its existing brand franchise in Australia, New Zealand and Asia, and extends into Europe and the Middle East, none of which we have attempted to value in this note.

Our primary valuation metric for Yowie is DCF, since the full value of the current opportunity is likely to become apparent over a number of years rather than in near-term results. However, a comparison with the branded confectionery peers gives reassurance on the significant earnings multiple available in the sector.

Peer group comparison

We review market valuations for major branded confectionery enterprises based in the US and Switzerland (including some like General Mills, which have a significant confectionery presence as part of a wider brand portfolio). They indicate that average prospective P/E valuations for the sector are in the low twenties.

Exhibit 2: Confectionery peer group valuations

Company	Exchange	Year end	Share price	Market cap (m)	P/E		EV/EBITDA	
					Year 1	Year 2	Year 1	Year 2
Hershey (HSY)	NYSE	Mar	92.5	20,284	22.4	20.5	13.2	12.5
Mondelez International (MDLZ)	NYSE	Dec	42.9	69,045	24.1	20.8	17.5	15.9
General Mills (GIS)	NYSE	May	56.6	33,871	19.1	17.7	12.5	11.9
Nestle (NESN)	SIX	Dec	73.5	234,188	21.9	20.5	14.6	13.8
Lindt & Sprüngli (LISN)	SIX	Dec	68,770	14,992	42.1	38.1	24.3	22.1
Average					**25.9**	**23.5**	**16.4**	**15.2**

Source: Bloomberg. Note: Bloomberg EV/EBITDA estimates are based on last reported net cash or debt. NYSE-listed stocks priced in US$, SIX-listed stocks priced in CHF. Priced at 18 September 2015.

A comparison has to allow for the following:

- Yowie does not approach these valuations until our forecast year FY18, when the P/E would be 17.2x;
- the company is currently of smaller size and lower liquidity than the peer group; and
- it is currently a single product emerging growth venture, rather than a multi-brand undertaking, with a limited marketing budget (c US$12m over the next three years), and a lean-capital approach to manufacturing. The lower marketing budget and single-product dependence increase the risk relative to the larger confectionery companies, while the lean-capital approach to manufacturing reduces risk somewhat. However, unlike its confectionery peers, Yowie has the long-term strategic goal to be a brand marketing/licensing company and not a pure confectionery company, which would imply substantially higher margins than those in our three-year forecast period (2016-2018).

Sales ramp-up scenarios are key

The biggest sensitivity we see with the Yowie story is how customer demand evolves as the product is rolled out broadly to stores in the US. Reported results cover only a small sample of outlets over a short period of time, leaving a lot of uncertainty about exactly how sales will evolve.

To illustrate the effect of this, we have modelled three sales scenarios – our base case, a moderately higher-growth case and a moderately lower-growth scenario.

For our explicit forecast timeframe, our base case model relies primarily on the full rollout to Walmart stores and moderate expansion in the grocery and drugstore markets as the key sales drivers. We believe that there is upside room for sales per store, however we believe that store expansion will be the primary driver of sales growth through 2018. In our base case we assume that store rollout is to over 4,300 Walmart stores by January 2016, with 10 points of sale per store and the weekly number of units per POS rising to 10 by July 2017.

Our moderately higher-growth scenario raises both the number of stores and units sold per store by 10%, for a ~30% increase in sales over the 2016-18 timeframe. Our moderately lower growth scenario reflects a 10% lower annual increase in both the number of stores and units sold per store off our base case, resulting in a 33% decrease compared with our base-case scenario.

Exhibit 3: Store and volume penetration scenarios	FY16e	FY17e	FY18e
Base case			
Store penetration at year end	12,281	18,481	20,481
Total units (m)	9.5	20.7	26.2
Product sales (US$000)	15,208	33,128	41,956
Moderately higher growth (15% in stores and volume)			
Store penetration at year end	13,509	20,329	22,529
Total units (m)	11.5	25.1	31.7
Product sales (US$000)	18,401	40,085	50,767
Moderately lower growth (10% in stores and volume)			
Store penetration at year end	11,053	16,633	18,433
Total units (m)	7.7	16.8	21.2
Product sales (US$000s)	12,318	26,834	33,985

Source: Edison Investment Research

Discounted cash flow valuation

In the short term, we see the Yowie story as somewhat binary – either US customers will love the brand or they will not. We believe that the sales trajectory will be quite evident in the next six to 12 months. As a result, we believe that if the brand proves itself in the next year, the WACC and relative risks to the story will more closely reflect a consumer goods story – albeit one with very high growth.

Our 10-year reverse DCF model builds to sales of approximately US$120m by 2025. There is nothing in our forecast for rollout to other geographies, which thus represents pure upside. We also believe that there is a real opportunity for investors should Yowie move significantly beyond confectionery into other products and licensing. Evidence of success here would lead us to adjust our forecasts to more accurately reflect the impact of the increased license income.

We assume a terminal growth rate of 2% and use a WACC of 10.0% (reflecting 10% market gearing), an equity risk premium of 5.4% and a beta of 1.2. We selected these to reflect what we view as conservative earnings forecasts, a once strong and proven children's franchise and a business model that is not capital intensive. On this basis, our reverse DCF requires a terminal EBIT margin of 22%, a level that we regard as achievable given our forecast of a modest increase in licensing income over the next ten years, to c 9% of total revenue, albeit still significantly short of management's aspirations in this area.

Applying the same assumptions to our moderate growth forecast scenario, with consistent EBIT margin development derives a share price of US$10.59, (c 25% above current levels). Our lower growth forecast scenario points to a price of US$5.81.

Additionally, using our base case forecasts, we have explored alternative scenarios with a range of WACC of 7-13% and terminal EBIT margins from 14-30%. This indicates the sensitivity to the terminal EBIT margin, which likely corresponds to the rate of development of licensing income over the period. At the same time, over-achievement on revenue growth milestones would be associated with a decrease in perceived execution risk and hence in the WACC, while any negative impact from factors mentioned in our sensitivities section could correspond to a higher WACC in the eyes of investors.

Exhibit 4: Scenario analysis (US$ per ADR)

		Terminal EBIT margin				
		14%	18%	22%	26%	30%
WACC	7.0%	9.98	12.66	15.33	18.00	20.67
	8.0%	7.95	10.06	12.16	14.26	16.36
	9.0%	6.52	8.22	9.92	11.63	13.33
	10.0%	5.45	6.86	**8.27**	9.68	11.09
	11.0%	4.63	5.82	7.00	8.19	9.38
	12.0%	3.98	4.99	6.01	7.02	8.03
	13.0%	3.46	4.33	5.20	6.08	6.95

Source: Edison Investment Research. Note: Bold indicates current level.

Financials

As we outline earlier in this report, the opportunity for Yowie is significant; however with relatively limited sales data, there is a fair amount of uncertainty as to how revenues will ramp up over the next three years. We believe that the outlook and visibility for Yowie will improve considerably over the next six months as the Walmart rollout is completed and we get a better sense of unit sales across a greater array of store sizes and geographies. Quarterly updates (the next is due in October 2015), are likely to be catalysts to the share price.

Profit and loss

Our base case calls for revenues of US$15.5m in FY16e climbing to US$44.6m by FY18e, including US$0.8m of licensing revenues, a compound average annual increase of 70%.

We forecast EBITDA margins to move from (3.7%) in FY16 to 11.1% by FY18. Our margin forecasts could be conservative should the company not plan to accelerate its marketing spend to 15% from our estimate of 11.8% in FY16, a level that is in line with the large confectionery companies. In addition, should the company generate licensing revenues beyond the US$0.8m we have in FY18, margins could further expand as we would expect licensing revenue to largely fall directly to the operating profit line.

Cash flow

At this early stage, Yowie is not operating cash flow positive. The company used approximately US$5.9m in operating and investing cash flows in FY15, down slightly from US$6.5m in FY14. Our forecast calls for operating cash flow losses to narrow to approximately US$0.8m in FY16, before turning positive in FY17. Our forecast is based on 9.5 million units produced in FY16 delaying the need for capex on a second production line until FY17/18. However, should demand exceed our estimates, operating and investing cash needs could be considerably greater in FY16 with positive cash flow possibly being delayed until FY18.

Balance sheet

Yowie is currently debt free, with US$8.0m of cash on the balance sheet at 30 June 2015. The company has been able to fund operations through a combination of new shares and exercised options. The company maintains a low level of accounts receivable (A/R), however we would expect A/R to grow as the company expands its customer base.

Exhibit 5: Financial summary

	US$000s	2013	2014	2015e	2016e	2017e	2018e
Year end June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		11	18	1,903	15,517	33,453	43,017
Cost of Sales		0	(4)	(879)	(9,731)	(19,056)	(23,392)
Gross Profit		11	15	1,024	5,787	14,397	19,625
EBITDA		(805)	(3,259)	(2,622)	(797)	3,938	6,612
Operating Profit (before amort. and except.)		(808)	(3,274)	(2,658)	(905)	3,796	6,430
Intangible Amortisation		0	(0)	0	0	0	0
Exceptionals		(906)	(1,431)	(110)	0	0	0
Other		0	0	0	0	0	0
Operating Profit		(1,714)	(4,705)	(2,768)	(905)	3,796	6,430
Net Interest		18	74	257	241	337	668
Pre-tax profit (norm)		(790)	(3,200)	(2,402)	(664)	4,134	7,098
Pre-tax profit (FRS 3)		(1,696)	(4,631)	(2,512)	(664)	4,134	7,098
Tax		0	0	0	0	0	0
Profit After Tax (norm)		(790)	(3,375)	(2,401)	(662)	4,137	7,101
Profit After Tax (FRS 3)		(1,696)	(4,631)	(2,512)	(664)	4,134	7,098
Average Number of ADRs Outstanding (m)		4.1	9.7	12.7	14.8	14.8	14.8
EPADR - normalised (US$)		(0.19)	(0.35)	(0.19)	(0.04)	0.28	0.48
EPADR - normalised & fully diluted (US$)		(0.19)	(0.35)	(0.19)	(0.04)	0.27	0.46
EPADR - (IFRS) (US$)		(0.41)	(0.48)	(0.20)	(0.04)	0.28	0.48
Dividend per ADR (US$)		0.00	0.00	0.00	0.00	0.00	0.00
Gross Margin (%)		71.9	57.7	38.7	26.8	31.0	32.8
EBITDA Margin (%)		N/A	N/A	N/A	N/A	8.5	11.1
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	8.2	10.8
BALANCE SHEET							
Fixed Assets		1,092	973	1,477	1,561	2,031	2,317
Intangible Assets		407	172	455	359	359	359
Tangible Assets		685	801	1,022	1,202	1,672	1,958
Investments		0	0	0	0	0	0
Current Assets		2,830	8,843	13,353	12,494	17,556	25,019
Stocks		0	2,005	4,884	5,060	6,670	7,252
Debtors		28	53	299	310	669	860
Cash		2,318	5,932	7,955	6,902	9,926	16,590
Other		484	853	214	221	292	317
Current Liabilities		(350)	(672)	(1,475)	(1,460)	(2,858)	(3,509)
Creditors		(350)	(672)	(1,475)	(1,460)	(2,858)	(3,509)
Short term borrowings		0	0	0	0	0	0
Long Term Liabilities		0	0	0	0	0	0
Long term borrowings		0	0	0	0	0	0
Other long term liabilities		0	0	0	0	0	0
Net Assets		3,573	9,144	13,355	12,595	16,729	23,827
CASH FLOW							
Operating Cash Flow		(1,157)	(5,571)	(5,639)	(766)	3,636	7,131
Net Interest		18	74	0	0	0	0
Tax		0	0	0	0	0	0
Capex		(950)	(905)	(264)	(288)	(612)	(468)
Acquisitions/disposals		(179)	0	0	0	0	0
Financing		3,440	10,016	7,926	0	0	0
Dividends		0	0	0	0	0	0
Net Cash Flow		1,172	3,614	2,023	(1,053)	3,024	6,664
Opening net debt/(cash)		(1,146)	(2,318)	(5,932)	(7,955)	(6,902)	(9,926)
HP finance leases initiated		0	0	0	0	0	0
Other		0	(1)	0	0	0	0
Closing net debt/(cash)		(2,318)	(5,932)	(7,955)	(6,902)	(9,926)	(16,590)

Source: Yowie Group, Edison Investment Research

EDISON

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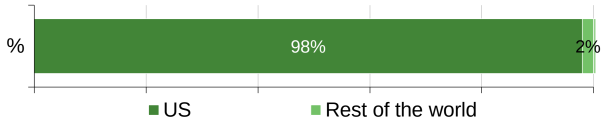
Revenue by geography



Management team

Executive Chairman: Wayne Loxton

Mr Loxton's business career has spanned over 30 years. He has held executive positions for a number of companies including the positions of managing director of three listed companies, operations director and nonexecutive directorships. Mr Loxton has a broad range of experience including formulating strategy, completing feasibility studies, commercialization and entrepreneurial start-ups, performance improvement change programmes, commercial and strategic due diligence, capital raisings, mergers and acquisitions, asset divestiture and introduction of best practices. His experience has included overseas assignments in North America, South Africa, Togo, Nigeria, Ghana, Philippines, Indonesia, Papua New Guinea, Zimbabwe and Fiji.

Executive Director: Patricia Fields

Ms Fields has 20+ years of commercial and brand experience in FMCG industries. She is a former global director for Cadbury Schweppes, where she led the development and commercialisation of the Yowie brand. Ms Fields has a graduate diploma in marketing from Chisholm Institute (now Monash).

CEO, North America: Salvador (Sal) Alvarez

Mr Alvarez has 32 years' experience in consumer sales and marketing, having worked in pharmaceutical, consumer products and spirits industries. He has held senior executive positions with major companies including Cadbury, Warner Lambert (Adams), Pfizer, Johnson & Johnson, Unilever, Playtex (a division of Sara Lee), and Brown Forman. More recently he was CEO and managing director of InnovaEdge, a boutique consulting firm offering strategic business solutions to deliver sustainable business growth.

Principal shareholders (refers to ASX holdings)	(%)
National Nominees	5.73
JP Morgan Nominees Australia	5.20
HSBC Custody Nominees (Australia) – A/c 2	5.13
K.P. Hudson	4.51
Abdullah Hani Abdallah	3.95
Wayne Loxton	4.09

Companies named in this report

Hershey (HSY), Mondelez (MDLZ), Tootsie Roll (TR), General Mills (GIS), Nestle (NESN), Lindt & Sprüngli (LISN)