Yowie Group Ltd (YOW.ASX)

Time to sweeten your portfolio.

Event:

- We initiate on YOW with a SPEC BUY recommendation with a price target of $1.10/sh.

Investment Highlights:

- **Launching a proven brand.** Yowie Group ('YOW') is an early stage growth company that is now well advanced on the re-launch of the Yowie chocolate brand into the US market that will be followed by Australia and New Zealand. In its first full 12 months of sales in Australia in 1997, Cadbury sold 65m ($100m) units and took 30% of Kinder Surprise's market share.
- **No direct competitor in the US.** Despite over 2 billion unit sales worldwide, Kinder Surprise is unable to be sold in US because the chocolate encapsulated toy is considered a choking hazard.
- **Competitive advantage lies in exclusive use of patent capsule.** YOW has partnered up with the Whetstone Candy Company who holds an exclusive use of a patent to commercialise an inclusion/capsule chocolate manufacturing process inside the US market.
- **Rolling out to largest US retailer, Walmart.** Yowie product is scheduled to be rolled out across 1,505 Walmart stores nationally in March post a successful trial which was conducted in Q4CY14 across 50 stores in Texas. This is a significant endorsement laying the foundations to build sales volumes and brand awareness in the US market.
- **In country sales team quickly building distribution.** In addition to Walmart Yowie has quickly established distribution network across 35 US mainland States and in ~4,500 outlets. Notably rolling out in Safeway across 1,300 and concluding a trial with Walgreens. Sales and distribution are being led by in-country management in conjunction with confectionary broker networks to provide national reach across various trade channels.
- **Capital light and scalable production facility.** Manufacturing occurs in St Augustine, Florida US under a contract manufacturing agreement. The facility operates at a production rate of 7m units p.a has a current capacity of 20m units pa (facility has scope to increase to 100m units p.a). Additional 20m units p.a of capacity can be added at a cost $600K with a 4 month lead time.
- **Funded for growth, forecast profitability within 12 months.** Company is well funded with $12m cash and no debt. We forecast YOW can achieve profitability at a sales run rate of ~12m unit's p.a which forecast to occur in Q3 FY16. We forecast sales volumes increasing from 11m units p.a in FY16 to 49m units by FY19 delivering $A20.9m NPAT. We note our assumptions are for US market only.
- **Significant upside achievable.** While our assumptions ere on the conservative side. Conceivably if the brand is a success the demand for US alone could exceed 100 units p.a. On annualised sales of 100m units we believe Yowie generates $40m NPAT, applying a 17 times earnings multiple would imply a valuation of up to $4.10/sh. Further upside can be achieved through new markets and product lines.

Recommendation:

- **We initiate on YOW with a SPEC BUY and a price target of $1.10/sh.**

Rating	SPEC BUY
Previous	n/a
Price Target	**$ 1.10**
Previous	n/a

Share Price (A$)	$ 0.55
52 week low - high (A$)	$0.78-0.42
Valuation (A$/share)	1.05
Methodology	DCF
Risk	High

Capital Structure	
Shares on Issue (m)	139
Shares on Issue diluted (m)	182
Free Float (%)	100%
12mth Av Daily Volume ('000)	1130
Diluted Market Cap ($m)	**100**
EV ($m)	88

Key Metrics	2015e	2016e	2017e	2018e
Revenue ($m)	1.6	16.2	34.4	48.2
EBITDA ($m)	-4.8	-0.5	6.8	12.1
NPAT rep ($m)	-4.9	-0.5	4.4	7.7
NPAT adj($m)	-4.9	-0.5	4.4	7.7
EPS adj (¢)	0.0	0.0	0.0	0.1
Revenue Growth (%)	n/a	886%	113%	40%
EBITDA growth (%)	n/a	n/a	-1510%	79%
EBITDA margin (%)	n.a	-3%	20%	25%
EPS growth (%)	n/a	n/a	n/a	0%
Op Cashflow ($m)	-9.0	-1.7	7.6	10.3
Capex ($m)	-0.9	-0.7	-1.0	-0.5
FCF ($m)	-9.9	-2.3	6.6	9.8
Net Cash ($m)	8.9	8.9	6.6	13.2

Share Price Graph

Analyst

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Foster Stockbroking was the Lead manager to the placement of 20m shares at $0.50 per share to raise A$10m in February and received fees for this service

Yowie Group Ltd (YOW)

Full Year Ended 30 June

Profit and Loss ($m)	2015e	2016e	2017e	2018e
Revenue	1.6	16.2	34.4	48.2
Cost of Sales	0.6	8.0	17.0	23.8
Gross Margin	1.0	8.2	17.5	24.5
Operating Costs	5.8	8.7	10.7	12.3
EBITDA	-4.8	-0.5	6.8	12.1
D&A	0.0	0.0	0.0	0.0
EBIT	-4.9	-0.5	6.8	12.1
Net Interest exp / (income)	0.0	0.0	0.0	0.0
Profit before tax	-4.9	-0.5	6.8	12.1
Tax exp / (benefit)	0.0	0.0	1.4	2.4
NPAT	-4.9	-0.5	5.4	9.7
Minority interest	**0.0**	**0.0**	**1.0**	**2.0**
Reported NPAT	**-4.9**	**-0.5**	**4.4**	**7.7**
Non recurring items	**0.0**	**0.0**	**0.0**	**0.0**
NPAT adjusted	-4.9	-0.5	4.4	7.7
EPS (c)	-0.03	0.00	0.03	0.06
EBITDA Margin(%)	-295.1%	-3.0%	19.7%	25.2%

Cash Flow ($m)	2015e	2016e	2017e	2018e
Net Income	**-5.5**	**-0.5**	**7.4**	**13.0**
Add: D&A	0.0	0.0	0.0	0.0
Add: Other non cash	0.0	0.0	0.0	0.0
Δ Working Capital	-3.6	-1.2	0.2	-2.8
Other	0.0	0.0	0.0	0.0
Operating Cashflow	**-9.0**	**-1.7**	**7.6**	**10.3**
Purchase of PP&E	-0.7	-0.7	-1.0	-0.5
Purchase of intangible assets	-0.2	0.0	0.0	0.0
Investing Cashflow	**-0.9**	**-0.7**	**-1.0**	**-0.5**
Equity proceeds	9.4	0.0	0.0	0.0
Debt proceeds	0.0	0.0	0.0	0.0
Debt repayment	0.0	0.0	0.0	0.0
Financing Cashflow	**9.4**	**0.0**	**0.0**	**0.0**
Net Cashflow	9.4	0.0	0.0	0.0

Balance Sheet ($m)	2015e	2016e	2017e	2018e
Cash	8.9	6.6	13.2	23.0
Receivables	0.1	0.5	2.9	4.0
Prepayments	0.6	0.6	0.6	0.6
Inventories	6.0	7.0	5.2	7.2
PPE	1.9	2.6	3.5	4.0
Intangibles	0.5	0.5	0.5	0.5
Total Assets	**18.1**	**17.7**	**25.9**	**39.4**
Accounts payable	0.1	0.2	1.0	1.4
Other	0.0	0.0	0.0	0.0
Total Liabilities	**0.1**	**0.2**	**1.0**	**1.4**
Reserves and capital	30.6	30.6	30.6	30.6
Retained earnings	-12.4	-12.9	-5.5	7.5
Minorities	0.0	0.0	1.0	2.0
Total Equity	**18.3**	**17.8**	**25.1**	**38.2**

Operational Metrics	2015e	2016e	2017e	2018e
Revenue Growth	n/a	886%	113%	40%
EBITDA Growth	n/a	n/a	-1510%	79%
NPAT Growth	n/a	n/a	-942%	74%
EPS Growth	n/a	n/a		
Operating cost margin	-356%	-54%	-31%	-26%
EBITDA Margin	-295%	-3%	20%	25%
NPAT margin	-297%	-3%	13%	16%
Effective Tax rate	0%	0%	20%	20%
DPS (c/sh)	n/a	n/a	n/a	n/a
Dividend Yield	n/a	n/a	n/a	n/a
Payout Ratio	n/a	n/a	n/a	n/a
ROE	n/a	n/a	n/a	n/a
ROA	n/a	n/a	n/a	n/a

Valuation Multiples	2015e	2016e	2017e	2018e
Reported P/E	n/a	n/a	17.4x	10.0x
Normalised P/E	n/a	n/a	17.4x	10.0x
EV/Revenue	53.0x	5.4x	2.5x	1.8x
EV/EBIT	n/a	n/a	12.8x	7.2x
EV/EBITDA	n/a	n/a	12.8x	7.2x
EV/FCF	-8.8x	-37.2x	13.1x	8.9x

Valuation	A$m	$/sh
Enterprise NPV (10 years)	189	1.04
Terminal value	181	1.00
Enterprise Value	370	2.04
Net Cash	12	0.07
Equity Value	382	2.10

Assumption: Discount rate 10%, terminal growth rate 3%

Capital Structure	
Ordinary	139
Listed options	28
Unquoted options	15
Fully Diluted	182

Major Shareholders	%
Keith Hudson	4.5%
Abdallah Abdallah	4.1%
Wayne Loxton	3.8%

COMPANY BACKGROUND – RELAUNCHING A PREVIOUSLY SUCCESSFUL BRAND

Yowie ('YOW') is an early stage story which is effectively reinvigorating the Yowie chocolate brand and rolling it out initially in the US

- Yowie Group ('YOW') is an early stage growth company that is now well advanced on the re-launch of the Yowie chocolate brand into the US market that will be followed by Australia and New Zealand.
- Yowie is similar to the Kinder Surprise chocolate/toy product with historical market sales data indicating that it outsold Kinder Surprise in Australia back in the early 2000s, achieving more than 40% of the $80m annual children's chocolate market.
- YOW has a target to replicate the success of Kinder Surprise which is the only marketed competitor in the encapsulated toy and chocolate space. Last year Kinder Surprise sold an estimated 2B units globally; generating revenue of US$3.6B which excludes the US where Kinder Surprise is not sold due to regulatory restrictions.
- Despite over 2 billion unit sales worldwide, Kinder Surprise is unable to be sold in US because the chocolate encapsulated toy and is considered a choking hazard. YOW has partnered up with the Whetstone Candy Company who holds an exclusive use of a patent to commercialise an inclusion/capsule chocolate manufacturing process inside the US market. Therefore we see no major competitor with any scale or similar product to impact the launch of YOW.

Figure 1: Yowie Product

Source: Company Presentation

Management's strategy is to build a high margin business based around licensing and contract manufacturing with a focus on building a global brand through multiple product lines

- By way of background, the Yowie Products were launched initially in Australia in 1997 by the Cadbury group of companies which had the license to operate and distribute into the Asian Pacific region. In its first full 12 months of sales in Australia Cadbury sold 65m ($100m) units and took 30% of Kinder Surprise's market share. The product also won numerous global industry awards in 1997 including:
  - No.1 selling single unit confectionery line;
  - No.1 in value in total confectionery; and
  - 31m units sold in Australia in 20 weeks.
- In 2005 Cadbury wanted to buy the IP for the brand globally however the creators refused. This in conjunction with a strategic move to a global core brand focus resulted in Cadbury pulling YOW off the shelves after 10 successful years.
- After Kraft's takeover of Cadbury, YOW and Kidcorp acquired the license back. Kidcorp became capital constrained that led to YOW acquiring the global license. Management's strategy is to build a high margin business based around licensing and contract manufacturing with a focus on building a global brand through multiple product lines including other chocolate products and merchandising.

WALMART SIGNS ON AS THE BEACHHEAD CUSTOMER

A number of sales/distribution agreements have already been signed with the largest being retailing giant Walmart.

- YOW is entering an exciting period as the company seeks to convert significant interest across numerous trade channels to sales/distribution agreements. A number of sales/distribution agreements have already been signed with the largest being retailing giant Walmart.
- This is a very significant endorsement of the brand as Walmart is the largest retailer in the world and the largest grocery retailer in the United States, with more than 4,000 stores and 800 club stores across the U.S. (this compares to Coles and Woolworths combined 1613 number of stores in Australia).
- Yowie product is scheduled to be rolled out across 1,505 Walmart stores nationally during March post a successful trial which was conducted in Q4CY14 across 50 stores in Texas. In our view, to have the product progressed from a trial to a rollout is a significant endorsement given the high attrition rate of products that progress from a trial to a rollout.
- Our understanding is that an expanded rollout beyond the 1,500 stores (with a potential +4,500 stores) is contingent on the product continuing to sell above a minimum sales threshold which we believe to be in the range of 15-25 units per store per week. We highlight positive sales rates were achieved during the trial ranging from 20-100 units per week per store supporting the push for a broader rollout.
- The product is certainly being given the best possible opportunity to sell with Walmart placing it in prime real estate position on the cash register stands, within 10 isles per store and stocked within all the high foot traffic Walmart 'superstores'. Additionally, an external merchandising company and the Yowie North American sales team will also be actively supervising the roll out to ensure display merchandising, inventory levels etc are consistently met.

An expanded Walmart rollout in our view is fundamental to the company's strategy moving forward given it has the potential to underwrite substantial demand/volume.

- Our understanding is that there is no official 'contract' as such with the retailer. Purchase orders are raised by the retailer as and when the inventory levels are depleted. How well a product ultimately sells determines its position within the store (ie the bestselling products will command prime real estate) and whether the product will be distributed across a wider network of stores.
- An expanded Walmart rollout in our view is fundamental to the company's strategy moving forward given it has the potential to underwrite substantial demand/volume and provides a strong platform to build brand presence within the America market.
    - For example a national rollout across all 4,500 stores nationally at a sell through rate of 40 units per week per store would underwrite ~10m unit's p.a of demand, which equates to half our production volumes estimate of 20m units in FY17

Figure 2: Yowie display units in Walmart store during trial in Texas

Source: Company Presentation

DISTRIBUTION INCREASING IN THE US

In addition to Walmart Yowie has quickly established distribution network across 35 US mainland States and in ~4,500 outlets.

- In addition to Walmart Yowie has quickly established distribution network across 35 US mainland States and in ~4,500 outlets. Sales and distribution are being led by in-country management in conjunction with confectionary broker networks to provide national reach across various trade channels. Yowie will be in 48 states with the initial Walmart roll out.
- Figure 3 below highlights all current accounts and distribution outlets the YOW product is being sold in the US. Two other large accounts to highlight include:
  1. **Safeway**, which will launch the product into 1318 Safeway stores nationally across the U.S. from March; and
  2. **Walgreens**, which have trialled the product across 60 stores. Results of the trial have not been release however if successful, the Company anticipates a staged national rollout.

Figure 3: Sales distribution

Re tail Channel	# Customer Groups Per Channel	# Stores Product Ranged	Total # Available Stores	Customer Trading Brand
Mass Merchandising	1	1500	4116	• Walmart
Drug	1	60	8217	• Walgreen
Grocery	6	2112	2668	• Safeway • Cost Plus World Market • Unified Grocers Distributor • Hy Vee • URM Stores Distributor • Raley's Supermarket chain • Dierbergs Louisville area
Convenience	4	564	1800	• Valero • MTC Distributing • Core Mark New Mexico for Western Refining • Thornton Oil/Lipari Foods Chicago & Nashville regions
Specialist Candy	5	353	2308	• First Source LLC for Sweet Factory stores • B.A Sweet Candy Distributor order for > 200 small traders • Its Sugar • Lolli & Pops National Retail Group • Dylans
Leisure & Entertainment	2	2	40	• Summerwinds theme park • St Louis Zoo
Total	19	4591	19149	

Source: FSB Research/Company presentation

Yowie has made significant progress given sales and marketing in the US commenced only 12 months ago.

- While the company remains in the early stages of building brand awareness and distribution in the US, Yowie has made significant progress given sales and marketing in the US commenced only 12 months ago and to have quickly built the distribution network and be supplied in the largest retailer is an impressive feat.
- We believe significant scope remains to target further tier 1 accounts in the near term. Figure 4 below provides a list of potential tier 1 accounts (which is only a sub set of the total potential market) available in the US for Yowie to target which collectively provide over 39,000 distribution outlets (~800% increase on the existing outlets).

Figure 4: Tier 1 US accounts

Potential Customers	Estimated Outlets
Walmart	4,500
Rite Aid	4,600
Walgreens	4,000
Kroger	2,600
Seven eleven	2,500
Chevron	2,500
Tesco	2,010
CVS	2,000
Valero	1,900
Speedway	1,700
Target	1,683
Safeway	1,500
Food Lion	1,300
Publix	1,300
BI-Lo Winn Dixie	1,100
Party City	800
K-Mart	700
Toys R US	600
Cracker Barrel	569
Mapco	545
Circle K	500
HE Butt	311
Total	39,218

Source: FSB Research/Company presentation

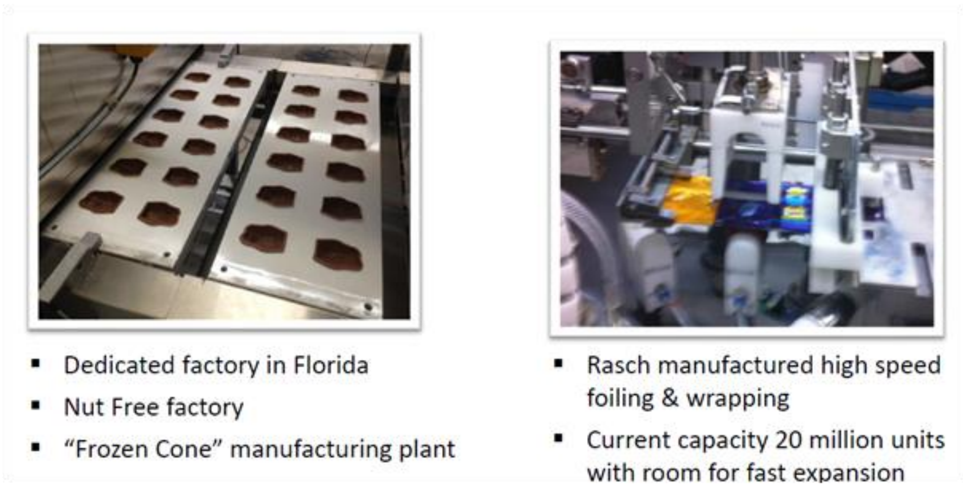
- We also highlight 'blue sky' opportunity exists to build the brand beyond children's confectionery through establishing licensing agreements for merchandise, apparel, toys and other consumer products.

CAPITAL LIGHT AND SCALEABLE PRODUCTION FACILITY

The factory has capacity to expand to 100m units p.a with 20m uunits p.a of installed capacity currently in place.

- Manufacturing occurs in St Augustine, Florida under a contract manufacturer. With regards to the manufacturing process the toy capsule and leaflets are manufactured in China and shipped to the US facility. The chocolate is manufactured on site, the components are then assembled and wrapped, and inventory is warehoused in distribution centres.

Figure 5: Yowie Manufacturing facility



Source: Company presentation

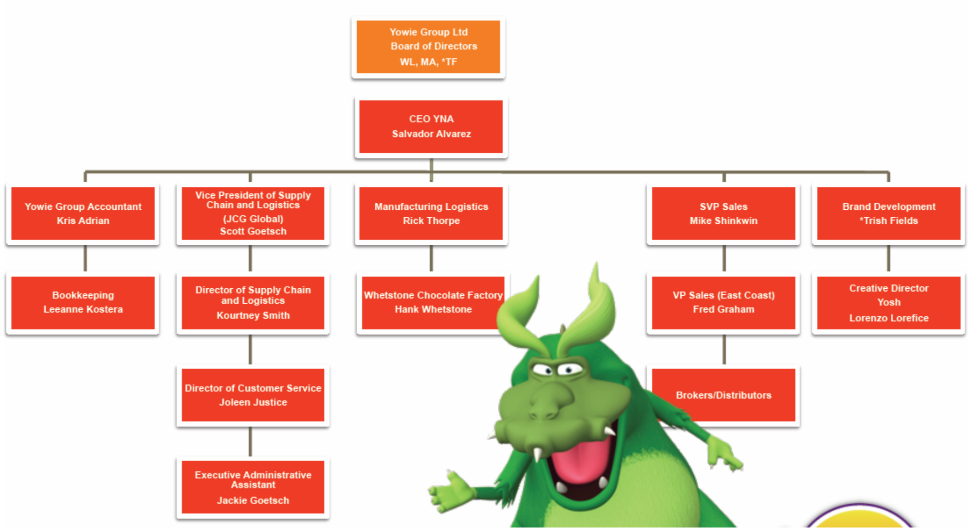
There are currently ~6m units in inventory, ample supply to meet the requirements for any near terms trials through a retail distributor.

- There are currently ~6m units in inventory, ample supply to meet the requirements for any near terms trials and ramp up of existing clients.
- The factory has a current capacity of 20m units pa. The facility currently operates on one shift and produces approximately 25k units per day (7m pa run-rate). Operations can ramp up to 3 shifts a day (or 20m pa) when sales dictate.
- The second wrapping machine has been funded and plans for installation and commissioning are subject to demand. We forecast a second wrapping machine will need to be commissioned by Q1FY16 and based on three shifts running the plant can operate at 40m pa capacity.
- Each wrapping machine adds ~20m units p.a capacity and takes ~8 months from ordering to commissioning. Contract manufacturing of the product is a capital light model with the cost of wrapping machine ~US$600K. Expansion capacity of the manufacturing facility can support up to 100 units p.a production.
- We have provided our assumptions regarding royalty and tolling rates on page 9.

BUILDING IN COUNTRY SALES AND MANGEMENT TEAM

- Over the course of the past 12 months Yowie have built an in country management structure together with a robust sales and distribution network in the US.
- This has consisted of recruited of management team , sales & logistics team and YNA CEO, Salvador Alvarez, who was appointed in November initially working on a consultancy basis with a view to transitioning full time.
- Sales team consists of two highly experienced Sales VP's covering the East coast and West coast respectively and an extensive broker network to provide reach and distribution country wide across multiple channels. A key plank of the sales strategy is to partner with a large distributor to quickly increase distribution and reach in the US market.
- The supply chain and logistics is managed/outsourced to JCG global which are located in Missouri.

Figure 6: Yowie Organisational Structure



Source: Company presentation

COMPETITIVE ADVANTAGE LIES IN EXCLUSIVE PATENT TO SELL TO THE US

- Despite over 2 billion unit sales worldwide, Kinder Surprise is unable to be sold in US because the chocolate encapsulated toy and is considered a choking hazard. Therefore we see no major competitor with any scale or similar product to impact the launch of Yowie.

YOW has partnered up with the Whetstone Candy Company who holds an exclusive use of a patent to commercialise an inclusion/capsule chocolate manufacturing process inside the US market.

- YOW has partnered with Hank Whetstone of the Whetstone Candy Company who holds an exclusive use of a patent to commercialise an inclusion/capsule chocolate manufacturing process inside the US market. ***It is the significant 'safe capsule' commercial advantage that is key to Yowie launching in the USA market.***
- The Whetstone patented capsule and process is the only method approved by the FDA and CPSC to sell chocolate-toy combinations in the US. The US manufacturing facility (Mr Hank Whetstone) is based in St Augustine Florida. Whetstone has extensive chocolate manufacturing experience with previous clients including Mars, Hershey and Nestle.
- Whetstone patent ensures that when the product is unwrapped the chocolate falls away from the Capsule, leaving three pieces, namely two pieces of chocolate and the capsule which is then opened to reveal a toy inside of the capsule. The toy is rated safe for a child aged zero.
- YOW has the exclusive use of Whetstone's patent until April 2018 to sell Yowie in the US. Kinder Surprise and Nestle magic ball have previously tried to enter the US market but have had their products rejected by the FDA. Yowie product has FDA and CPSC approval.

EARNINGS FORECAST

- Given Yowie is in its early stages of growth and management is yet to provide meaningful guidance to the market we have made an estimate on future revenue and earnings on the basis of unit volume growth, which is a function of accounts/distribution outlets and the average weekly sales rate. Figure 7 highlights our projections for number of units sold per annum which we forecast to grow from 11.7m units in FY16 to 24.95m by FY17. These estimates are for the US market only.
- We have assumed a sales rate of 32 units per store per week on average across all the stores. Average weekly sales rate is the key driver in our volume forecast and we will adjust accordingly as actual numbers are communicated. We consider this to be conservative.
- We have assumed that Walmart will progressively expand their distribution through FY15 from 1,500 stores to across 4,500 stores and in the early years represents a significant portion (~45%) of total production volume.
- We have assumed Growth in distribution/outlets from 3,500 to 9,996 in FY16 which is primarily a function of new accounts and organic growth of existing accounts.

Figure 7: Unit volume projections

Unit volume projection	FY15	Q1	Q2	Q3	Q4	FY16	FY17	FY18	FY19
Total stores outlets	3,500	4,550	5,915	7,690	9,996	9,996	14,995	20,992	29,389
sell through rate p/w	32	32	32	32	32	32	32	32	32
Total Volume (m)	**5.82**	**1.89**	**2.46**	**3.20**	**4.16**	**11.71**	**24.95**	**34.93**	**48.90**
Walmart									
# Stores	1,500	1,950	2,535	3,296	4,284	4,500	4,500	4,500	4,500
% of total store	43%	43%	43%	43%	43%	45%	30%	21%	15%

Source: FSB Research

- **Figure 8 below provides a conceptual earnings model key assumptions include:**
  - **Net sell price $1.40/unit:** Our understanding is the listed sell price between accounts varies from $1.60 - $1.90 per unit. We have assumed net sell price $1.40 per unit which factors in any promotional discounts, spoilage and commissions.
  - **Cost of goods $0.70/unit:** We have assumed variable costs of $0..70 per unit which accounts for raw materials (chocolate, foils, labels, toys, capsules etc), warehousing, freight and packaging. We have kept the COG per unit constant to ere on the conservative side, this should theoretically decrease with economies of scale.
  - **Royalty $0.04/unit:** Our understanding is that the royalty payable to Whetstone for the exclusive use of the patent is $0.04 per unit and is applicable until April 2018.
  - **Tolling Cost $0.24 reducing to $0.12/unit:** We have assumed a sliding scale tolling cost as production increases starting at $0.24 per unit based on production of 7m units p.a (1 wrapper and 1 shift) reducing to $0.12 per unit as production ramps up to 40m units p.a.
- **Based on our assumption outlined in Figure 8 we believe YOW can achieve profitability at a sales run rate of ~12m units p.a which we forecast to occur in Q3 FY16 with NPAT growing to A$20.79m by FY19 based on annual sales of 49m units.**
- **We forecast EBIT margin per unit of $0.30 growing to $0.40 based on 20m and 40m units p.a respectively.**

Figure 8: Profit & Loss (FSBe)

Income Statement	FY15e	Q1e	Q2e	Q3e	Q4e	FY16e	FY17e	FY18e	FY19e
Wrappers #		1	1	1	1		2	2	2
Production	5.8	1.9	2.5	3.2	4.2	11.7	25.0	34.9	48.9
Net sell Price $US/unit	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Sales of Goods $US	1.6	2.6	3.4	4.4	5.7	16.2	34.4	48.2	67.5
Total revenue $USm	**1.6**	**2.6**	**3.4**	**4.4**	**5.7**	**16.2**	**34.4**	**48.2**	**67.5**
COG $/unit	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
COG $US	0.6	1.3	1.7	2.2	2.8	8.0	17.0	23.8	33.3
Gross Profit $Usm	1.0	1.3	1.7	2.2	2.9	8.2	17.5	24.5	34.2
Gross Profit margin (%)	61%	51%	51%	51%	51%	51%	51%	51%	51%
Royalty per unit US$/unit	0.0	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Royalty US$m	0.5	0.23	0.23	0.23	0.23	0.90	1.00	1.40	1.96
Tolling Cost $/unit	0.21	0.14	0.14	0.14	0.14	0.14	0.13	0.12	0.12
Tolling Cost $USm	0.2	0.26	0.34	0.45	0.58	1.64	3.24	4.19	5.87
Marketing (US$)	1.0	0.40	0.40	0.40	0.40	1.60	1.68	1.76	1.85
Admin (US$)	4.0	1.10	1.10	1.10	1.10	4.40	4.62	4.85	5.09
D&A (US$m)	0.0	0.01	0.01	0.01	0.01	0.04	0.02	0.02	0.02
EBIT ($USm)	**-4.7**	**-0.7**	**-0.4**	**0.1**	**0.6**	**-0.4**	**6.9**	**12.2**	**19.4**
EBIT Margin (%)	n/a	-25.8%	-10.5%	1.3%	10.3%	-2.4%	20.1%	25.4%	28.8%
EBIT $ per unit		-0.36	-0.15	0.02	0.14	-0.03	0.28	0.35	0.40
Tax @ 0.20	0.0	0.00	0.00	0.00	0.00	0.00	1.38	2.45	3.89
NPAT ($USm)	**-4.7**	**-0.7**	**-0.4**	**0.1**	**0.6**	**-0.4**	**5.5**	**9.8**	**15.6**
Exchange	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
NPAT ($A)	**-5.5**	**-0.9**	**-0.5**	**0.1**	**0.8**	**-0.5**	**7.4**	**13.0**	**20.7**

Source: FSB Research

WHAT DOES THE BULL CASE SCENARIO LOOK LIKE?

- We have modelled what we believe to be a conservative ramp up and growth assumptions given the early stage of commercialisation which we will adjust accordingly once further data points are released from the Walmart roll-out and other stores.
- While our assumptions are on the conservative side it is important to emphasis the significant opportunity the US market provides for YOW to capitalise on. Conceivably if the brand is a success the demand within the US market alone could exceed 100 units p.a. Anecdotal evidence which supports this level of market potential include:
    i. Europe which has a comparable population to the US currently sell 1.2B Kinder Surprises annually. There are no competitors in the encapsulated chocolate/toy category in the US, if the brand takes off annualised sales beyond 100m is a readily conceivable target ; and
    ii. Yowie in Australia previously sold 65m units and steady state sales post launch year was 17m units for a population of only 17m at the time.
- For illustrative purposes Figure 9 below provides a conceptual ‘bull case’ model highlighting the valuation potential based on annualised unit sales. Key highlights include:
    - On 40m unit sales, $0.40 EBIT margin and an earnings multiple of 17x we derive a valuation of $226m or $1.37/sh.
    - Upgrading to annualised sales of 200m units the valuation increases to $8.19/sh, demonstrating the upside potential of the company.

Figure 9: Conceptual valuation under different volume sales assumptions

Output mpa	20	40	60	80	100	200
EBIT per unit	0.3	0.4	0.5	0.5	0.5	0.5
EBIT ($US)	6.0	16.0	27.0	38.4	48.0	96.0
TAX	-1.8	-6.0	-10.1	-14.4	-18.0	-36.0
NPAT ($US)	4.2	10.0	16.9	24.0	30.0	60.0
AUD/USD	0.8	0.8	0.8	0.8	0.8	0.8
NPAT AUD	5.6	13.3	22.5	32.0	40.0	80.0
Eps (diluted)	0.0	0.1	0.1	0.2	0.2	0.5
Earnings multiple (x)	17	17	17	17	17	17
Target $/sh	0.6	1.4	2.3	3.3	4.1	8.2
Valuation $Am	95.2	226.7	382.5	544.0	680.0	1360.0

Assumptions
1. 166m fully dilued shares

Source: FSB Research

BALANCE SHEET AND CASH FLOWS

- Post the recent $10m capital raising the cash position has been bolstered to $12m which we forecast will provide sufficient liquidity for the company to reach a self-funding profile by Q3 FY16.
- Quarterly cash burn has averaged $1.8m per quarter supporting a production rate of 7m units p.a.
- There is no debt on the balance sheet.
- Contract manufacturing (tolling) agreement provides for minimal capital requirements for expansion of the facilities to meet our growth targets.

VALUATION

- **Our un-risked enterprise valuation for YOW is $370m, or $2.04/sh and comprises a 10 year operational NPV of $189.0m and a terminal value $180.9m.** We have assumed a 10% discount rate and a terminal growth rate of 3%. Accounting for $12m in cash we derive an equity valuation of $382m or $2.10/sh. We also have the exercise of options by 31 December 2015 which brings a further ~$7m cash.
- We have discounted our valuation by 50% given the early stage of commercialisation and will look to unwind our risk weighting upon confirmation of sales volumes in line with our assumptions. Our risked valuation is $191.0m or $1.10/sh.

Figure 10: Valuation

Description	A$m	$/sh
Enterprise NPV (10 years)	189.0	1.04
Terminal value	180.9	1.00
Enterprise Value	370.0	2.04
Net Cash	12.0	0.07
Equity Value	382.0	2.10
Risk Factor (%)	50%	50%
Risked valuation	191.0	1.1

Assumptions	
Fully Diluted shares on issue	181.7
Discount rate	10%
Terminal growth rate	3%
Terminal value as a % of EV	49%

Source: FSB Research

RECOMMENDATION & PRICE TARGET

- We recommend YOW as a BUY and PT $1.10/sh.
- YOW provides a compelling growth opportunity launching in one of the largest retail markets with zero competition and a proven confectionery product that can sell in high volumes.

CAPITAL STRUCTURE & SHAREHOLDERS

- Yowie's fully diluted capital base is 182m shares, including 28m listed options with a strike price of 20c and 15m unquoted options with exercise price ranging from $0.23 to $1.05. Ordinary fully paid shares is 139m.

Figure 11: Capital Structure

Capital Structure	
Ordinary fully paid shares (m)	139
Listed options (m)	28
Unquoted options (m)	15
Fully Diluted	182

Source: FSB Research, Alexium

RISKS

- Securing sales distribution agreements in target markets.
- Supply of Yowie product inputs to meet growth projections.
- Industry specific risks including: fluctation in prices of input material in chocolates and or toys and capsules; competition and pricing and global food activism

BOARD OF DIRECTORS

- **Wayne Loxton (Executive Director & Chairman)**. Extensive corporate executive experience spanning over 30 years at M.D.& Director level across companies, disciplines and international markets. Wayne was a shareholder in YOW prior to becoming Executive Chairman. He has been influential in raising ~$31m since his involvement and personally owns over 11.7m shares/options.
- **Mark Avery (Executive Director)**. Mark is a former CEO of ThemeSTAR (AEGIS), division of Anschutz Entertainment Group who operates 100+ venues globally with revenues of $1B annually. He has over 30 years' experience in the entertainment industry across global market operations.
- **Patricia Fields (Non Executive Director & CEO).** Previously led the development and commercialisation of the Yowie brand for Cadbury ANZ. She has a background 20+ years commercial and brand experience in FMCG, was the ex-global director of Cadbury Schweppes and was instrumental in securing the license back from Cadbury

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