



Marley Spoon AG (MMM) – Q3 Report

Reopening headwinds require a re-set; Growth guidance lowered

10 November 2021

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Recommendation

Buy PT \$1.41

Risk Rating	High
12-mth Target Price (AUD)	\$1.41 (was \$2.67)
Share Price (AUD)	\$0.875
12-mth Price Range	\$0.81 - \$3.22
Forecast 12-mth Capital Growth	61.1%
Forecast 12-mth Dividend Yield	0.0%
12-mth Total Shareholder Return	61.1%
Market cap (\$m)	248.5 (EUR 159.1m)
Net debt (net cash) (\$m)(Dec 21e)	(62.3) (EUR 39.9m)
Enterprise Value (\$m)	310.8 (EUR 198.9m)
Gearing (Net Debt/ Equity)	-251%
Shares on Issue (m)	284.1
Options / est. Convertible bonds (m)	0.1
Sector	Consumer (Internet mktg)
Average Daily Value Traded (\$m)	\$1.6m
ASX 300 Weight	0.1%

Financial Forecasts & Valuation Metrics

Years ending Dec € m	19(A)	20(A)	21(e)	22(e)	23(e)
Sales revenue	129.6	254.0	316.9	336.5	407.1
Sales growth	41%	96%	25%	6%	21%
EBITDA	-30.2	-0.9	-40.2	-27.0	-22.9
NPAT (reported)	-34.5	-86.2	-53.7	-43.0	-42.1
NPAT (adjusted)	-40.1	-14.8	-53.7	-43.0	-42.1
EPS (adjusted)	-27.4	-7.9	-18.9	-15.1	-14.8
EPS growth	-23%	-71%	139%	-20%	-2%
DPS	0.0	0.0	0.0	0.0	0.0
OCF / share	-20.7	2.4	-14.1	-11.0	-9.2

Valuation

P/E	-2.0x	-7.1x	-3.0x	-3.7x	-3.8x
P / OCF	-2.7x	23.8x	-4.0x	-5.1x	-6.1x
EV / Sales	1.66x	0.67x	0.69x	0.80x	0.76x
EV / Ebitda	-7.1x	-182.5x	-5.4x	-10.0x	-13.5x
Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Cash from Operations	-30.3	4.4	-40.1	-31.2	-26.2
Net cash (net debt)	-47.6	-1.8	-39.9	-91.1	-125.2
Enterprise Value	215.4	171.0	218.2	270.8	309.6

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 value brand – Dinnerly.

MMM launched in Germany in August 2014, the USA in April 2015 and Australia in June 2015. It listed on the ASX in 2018. It has a stated ambition of achieving EUR 1.0bn of sales by 2025 and EUR 5.0bn by 2030. (v Key rival HelloFresh at EUR 3.75bn in CY20). Our forecasts are below that ambition.

3Q report

• MMM posted a disappointing Q3 update in the seasonally weak quarter as Covid tailwinds boosted Australia, but became headwinds in the USA and Europe.

• Revenue of EUR 79m -2% QoQ but up 14% on the pcg was OK, but 6% below our forecast. Aust revenue +21% but USA -7% and Europe down -28% QoQ. Growth guidance was lowered to 26%-28% (from 30-35%, down 4%-7%).

• Contribution margin OK at 28%, up 1.5 points QoQ.

• Q3 Ebitda was a loss of EUR -12.7m (v -9.1m loss in Q2 and 0.4m profit in the pcg). USA -5.0m loss, Aust -0.9m, Europe -2.0m. Central costs -4.8m.

• Marketing costs of EUR 22m (+32% QoQ and up 124% YoY) at a whopping 28% of Sales could not arrest the turning tide. Active Customers down 3% with Aust +27%, USA -12% and Europe -24% QoQ.

• Operating cash-out-flow of EUR 7.2m was similar to Q2's 7.5m outflow. 9-mth YTD cash outflow EUR 9.9m.

• WOW 7.0% bonds converted to equity (EUR 17.2m), but MMM drew-down EUR 39m of new debt (Tranche 1) from Runway Growth Capital and EUR 3.7m from NAB for capex.

Our Forecasts

We downgrade Ebitda by EUR -15m/ -18m / -21m for CY21 / 22 / 23 for new more conservative post-Covid assumptions.

Valuation & Recommendation

Our composite valuation and 12-mth Price Target is now \$1.41 based on a 33%/33%/33% weighting of EV/Sales, DCF and EV per active customer. This implies +61% potential upside.

Despite our PT downgrade, we think the long-term global growth story for MMM is still intact. Potential user numbers and TAMs (total addressable markets) are huge at ~ 190m households for MMM's existing countries. Customer awareness is high and acceptance growing. And HelloFresh is showing the way. MMM is targeting EUR 1bn revenue by 2025 and 5bn by 2030 (we regard as stretch targets).

The share price is down -42% since the Q3 result. We maintain our Buy (High Risk) recommendation.

Review of Q3 Report

MMM posted a disappointing Q3 report, well below our expectations, as Covid reopening and normalisation turned into a headwind in the USA and Europe. A huge increase in marketing costs was unable to offset these headwinds, in difficult and variable market conditions.

MMM Aust revenue benefitted from further lock-downs in Victoria and NSW, but still posted an increased loss (possibly due to costs of the West Australian launch of the Marley Spoon brand in the quarter, following the Dinnerly brand launch last December).

We review MMM's Q3 report in detail in the table below. Our colour coding is: Orange = negative trend; Green = positive trend. There is a lot of orange (negative trends).

We have also analysed global leader HelloFresh's (HF) Q3 result which experienced similar trends. Refer pages 12-16 of this report. However HelloFresh remained profitable and upgraded its revenue growth guidance for Q4 / full CY, whereas MMM's losses blew out and it downgraded revenue growth guidance. HF share price up 21% since its Q3 result. MMM down ~42% (\$1.51 to \$0.885 currently).

Marley Spoon - FINANCIALS													Our Comments			CY20	CY21	Chnge
Year ended Dec (EUR m)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	CY20	1Q21	2Q21	3Q21	Chge	Chge		9mths	9mths	%
Revenue (EUR m)(geo splits are estimated)									Year				QoQ	YoY		YTD	YTD	
USA	13.1	14.1	14.0	15.0	20.4	38.3	34.2	34.3	127.2	37.1	37.8	35.2	-7%	3%	Q3 is holiday season, so increased skip-rates	92.9	110.1	19%
Australia	9.5	11.8	13.8	13.8	14.8	24.0	25.3	21.8	86.0	24.4	27.3	32.9	21%	30%	Lockdown benefit in Vic & NSW. First time contribn from WA	64.1	84.6	32%
Europe	6.8	6.0	5.4	6.4	7.6	11.0	9.8	12.4	40.8	15.8	15.7	11.3	-28%	15%	Losing momentum post Covid	28.4	42.8	51%
Difference to reconcile	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.2	-0.2				0.1	0.1	nm
Group Total	29.4	32.0	33.1	35.1	42.9	73.3	69.3	68.5	254.0	77.4	80.9	79.2	-2%	14%	No growth QoQ, and only 14% growth YoY	185.5	237.5	28%
Revenue growth (QoQ)	n/a	9%	3%	6%	22%	71%	-5%	-1%	n/a	13%	5%	-2%						
Revenue growth (YoY)	0%	0%	0%	25%	46%	129%	110%	95%	96%	80%	10%	14%			Losing momentum post Covid			
Contribution Margin (EUR m)(Gross Profit less Fulfilment costs)																		
USA	2.7	3.0	2.3	3.4	5.3	10.7	7.9	8.9	32.7	10.4	9.1	8.1	-11%	3%	Staffing challenges, higher labour rates, input inflation	23.9	27.6	15%
Australia	3.0	3.9	4.2	5.0	5.6	8.9	9.0	7.8	31.4	8.1	9.0	11.2	25%	25%	Lockdown benefit in Vic & NSW	23.5	28.3	20%
Europe	0.0	0.0	0.0	1.7	1.6	2.8	2.5	3.1	10.1	3.2	3.5	2.9	-16%	14%	Losing momentum post Covid	6.9	9.5	38%
Difference to reconcile	-5.8	-6.9	2.8	-1.3	0.0	0.0	-0.1	0.0	0.0	0.1	0.0	-0.1				-0.1	0.0	-100%
Group Total	0.0	0.0	9.3	8.8	12.5	22.4	19.3	19.9	74.1	21.7	21.5	22.2	3%	15%	Aust saves the qtr, 15% growth YoY is solid	54.2	65.4	21%
Contribution Margin %																		
USA	21%	21%	16%	23%	26%	28%	23%	26%	26%	28%	24%	23%	-1%	0%	Staffing challenges, higher labour rates, input inflation	26%	25%	
Australia	32%	33%	30%	36%	38%	37%	36%	36%	36%	33%	33%	34%	1%	-1%	Aust absorbing extra costs re new premises in Perth & Sydney.	37%	33%	
Europe	0%	0%	0%	26%	21%	25%	26%	25%	25%	20%	22%	26%	4%	0%		24%	22%	
Group Total	0%	0%	28%	25%	29%	31%	28%	29%	29%	28%	26.6%	28.0%	1%	0%	Effectively gross profit margin. Holding up OK	29%	28%	
Operating contribution margin %																		
Impact of vouchers & fixed costs(€m)					-12.1	-22.0	-18.9	-19.5	-73.8	-21.3	-21.2	-21.8	3%	15%	Vouchers & fixed costs up EUR 2.9m YoY (includes leases)	-53.8	-65.0	
Marketing costs					-11.6	-9.5	-9.9	-8.2	-30.5	-15.5	-16.8	-22.2	32%	124%	Up \$5.3m QoQ, but delivered declining benefits	-31.0	-54.5	76%
% of revenue	0%	0%	0%	0%	27%	13%	14%	12%	12%	20%	21%	28%	7%	8%	Massive spend 28% of sales, did not have expected benefit	17%	23%	
General & Admin costs (ex D&A)					-7.4	-8.3	-9.0	-10.5	-44.2	-11.9	-13.8	-12.7	-8%	40%	Cost 8% lower QoQ, but 41% higher YoY	-24.7	-38.4	55%
% of revenue	0%	0%	0%	0%	17%	11%	13%	15%	17%	15%	17%	16%	-1%	6%		13%	16%	
Total marketing, G&A costs	0.0	0.0	0.0	0.0	-19.0	-17.9	-18.9	-18.8	-74.7	-27.4	-30.6	-34.9	14%	84%	Big cost increases, especially marketing	-55.7	-92.9	67%
% of revenue	0%	0%	0%	0%	44%	24%	27%	27%	29%	35%	38%	44%	6%	13%				
Operating Ebitda																		
USA	0.0	0.0	0.0	N/A	-2.9	4.6	0.7	1.7	4.1	-1.0	-2.0	-5.0	150%	-814%	Holidays & Normalisation hurts performance	2.4	-8.0	-435%
Australia	-1.9	0.1	0.0	N/A	-0.1	3.6	3.4	2.9	9.7	0.0	0.0	-1.1	nm	-132%	Big adverse swing. Costs of Perth & expanded new Sydney FCs	6.9	-1.1	-116%
Europe	-5.0	0.0	0.0	N/A	-0.6	-0.9	-0.6	0.1	-1.9	-1.5	-1.5	-2.0	33%	233%	Holidays & Normalisation hurts performance	-2.0	-5.0	150%
Central costs	N/A	N/A	N/A	N/A	-2.9	-2.9	-3.1	-3.6	-12.4	-3.2	-5.6	-4.6	-18%	48%	MMM investing strongly in IT, people & capability	-8.8	-13.4	52%
Group Total	0.0	0.0	0.0	N/A	-6.5	4.5	0.4	1.1	-0.5	-5.7	-9.1	-12.7	40%	-3275%	Loss blows out \$3.6m more than Q2. Sequoia EUR 7.2m	-1.6	-27.5	1661%
Operating ebitda margin %	N/A	N/A	N/A	N/A	-15%	6%	1%	2%	0%	-7%	-11%	-16%	-5%	-17%		-1%	-12%	
Operating cash flow per 4C																		
	-6.8	-10.7	-5.6	-7.4	0.5	7.6	-1.3	-3.6	3.1	5.3	-7.5	-7.7	3%	483%	Not as bad as Ebitda loss, as customers pay in advance	6.8	-9.9	-246%

Source: Company; Sequoia estimates

Key points Q3

- **Revenue** - Q3 revenue was EUR 79.2m (v 80.9 in Q2) down -2% on Q2, but (v 69.3m pcp) up 14% on pcp. Sequoia Q3 estimate EUR 84m, so 5.7% below our expectations. Global competitor HelloFresh (HF) Q3 revenue was down -9.0% and up 46% YoY (+44% excluding our estimate of the Factor75 acquisition).
- **USA revenue** was -7%, Europe -28% whilst Australia was up 21% benefitting from lock-downs in Victoria and NSW, and also the launch of the Marley Spoon brand in WA during the quarter. Q1 & Q3 are usually quieter quarters for MMM because people are travelling on vacation and skipping weeks. With the northern hemisphere reopening, consumers are back to going on holidays and eating out again, so less need for weekly meal kits.
- **Contribution margin %** was 28% up ~1.5 points on Q2 and in line with the pcp. This included operating costs of new leased fulfilment centres (FCs) in Perth (3,000 sqm, opened Dec 2020) and Sydney (13,500 sqm, opened Q2) both of

which have significant surplus capacity available for future growth. So MMM is starting to show some improved efficiency and operating leverage from scale. Competitor HelloFresh's contribution margin was 22% down 3.6 points QoQ and down 4.6 points YoY. HelloFresh said it was impacted by the rapid opening of new FCs in its international segment and lower utilisation rates.

- Operating Ebitda loss EUR -12.7m (v -9.1m in Q2) was 40% worse than Q2; and (v 0.4m profit in the pcp) was significantly worse YoY. Sequoia forecast was EUR -7.2m, so the result was EUR 5.5m or 76% worse than our forecast. Negative Ebitda margin of -16.0% (v +1.0% positive in the pcp). Competitor HelloFresh was positive 5.6% (v 12.5% in the pcp).
- The main problem was that MMM spent a massive EUR 22.2m on marketing (v 16.8m in Q2 +32%) and (v 9.9m pcp, +124%) but did not derive the full benefit that it expected. This was a whopping 28% of sales (v 21% in Q2, and 14% in the pcp). Competitor HelloFresh invested 14.8% of Sales (v 12.8% pcp).
- G&A (General & admin) costs were EUR 12.7m (v 13.8m Q2) down 8%, but up 40% YoY as MMM continues to invest in staff, digital and capability. This excludes depreciation.
- Implied depreciation (and share-based payments) EUR 2.9m, so 11.6m annualised (v 6.5m in CY20), +78%.
- Q3 EBIT was a loss of EUR -15.6m (v loss of -1.2m pcp).

Operating Statistics

Several key performance statistics appear to be rolling over, as Covid tailwinds turn into a headwind. However we think that once consumer behaviour normalises, the strong growth exhibited by HelloFresh and Marley Spoon pre-Covid will continue. Both companies had 41% revenue growth in CY19 pre-Covid (see page 12).

- Active customer number (includes first time trialists) rolling over in USA & Europe.
- Orders per customer and orders per subscriber both reducing slightly (frequency).
- Marketing costs / customer acquisition costs rising / unsurprisingly not as effective as during lock-downs.

Marley Spoon (MMM) - 3Q21 Review																			CY20	CY21	Chnge
Year ended Dec (EUR m)	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	CY20	Year	1Q21	2Q21	3Q21	Chge	Chge	Our Comments		9mths	9mths	%	
																		YTD	YTD		
Active Customers (000s)(end)																					
USA	100	81	89	80	117	176	180	161			196	197	173	-12%	-4%	Losing momentum post Covid		180	173	-4%	
Australia	50	59	74	68	81	114	123	99			123	133	169	27%	37%	Lockdown benefit in Vic & NSW		123	169	37%	
Europe	40	32	32	35	42	60	60	67			93	94	71	-24%	18%	Losing momentum post Covid; But still up 18% YoY		60	71	18%	
Difference to reconcile	0	0	0	-1	0	0	-1	0			0	0	0								
Group Total	190	172	195	182	240	350	362	327			412	424	413	-3%	14%	Customer nos appear to have peaked, despite huge marketing		362	413	14%	
Growth (QoQ)	n/a	-9%	13%	-7%	32%	46%	3%	-10%	n/a		26%	3%	-3%								
Growth (YoY)	0.0%	0.0%	0.0%	0.0%	26%	103%	86%	80%			172%	121%	114%								
No. of Orders																					
Orders (worldwide)(000s)	685	726	758	800	945	1,551	1,563	1,536			1,749	1,811	1,691	-7%	8%	Losing momentum post Covid		4,059	5,251	29%	
Growth (QoQ)	n/a	6%	4%	6%	18%	64%	1%	-2%	n/a		14%	4%	-7%								
Growth (YoY)	n/a	n/a	n/a	n/a	38%	114%	106%	92%			85%	17%	8%								
Orders per subscriber																					
USA	n/a	n/a	n/a	6.1	7.0	7.9	7.1	6.7			6.8	6.6	6.2	-6%	-13%	Losing momentum post Covid					
Australia	n/a	n/a	n/a	6.7	7.6	8.2	8.0	6.8			7.5	7.4	7.6	3%	-5%	Lockdown benefit in Vic & NSW					
Europe	n/a	n/a	n/a	5.4	6.2	6.9	5.6	6.2			6.6	5.9	4.7	-21%	-16%	Losing momentum post Covid					
Orders per subscriber	6.4	6.3	6.4	6.1	6.9	7.8	6.9	6.6			6.9	6.7	6.4	-4%	-7%	Post lock-down headwind					
Meals sold (m) (Volume)																					
USA	2.2	2.3	2.4	2.6	3.4	6.6	6.4	6.3	22.7		6.7	6.7	5.7	-15%	-11%	Losing momentum post Covid		16	19	16%	
Australia	1.6	2.1	2.5	2.4	2.7	4.5	4.8	4.1	16.1		4.6	5.2	6.6	27%	38%	Lockdown benefit in Vic & NSW		12	16	37%	
Europe	1.3	1.1	1.0	1.2	1.4	2.1	1.9	2.4	7.8		3.2	3.2	2.1	-34%	11%	Losing momentum post Covid		5	9	57%	
Group Total (m)	4.9	5.4	5.9	6.2	7.5	13.2	13.1	12.8	46.7		14.5	15.1	14.4	-5%	10%	Post lock-down headwind; But still up 10% YoY		34	44	30%	

Source: Company reports; Sequoia analysis

9 Months YTD financial performance

- Revenue EUR 237m +28% (1H21 +36%; 3Q -2%).
- Contribution margin EUR 65.4m (v 54.3m) +21%.
- Contribution margin percent of revenue – 27.6% (v 29.3%) -1.7 points. This is potentially an attractive medium margin business, but it needs more scale.
- Marketing spend of 23.0% of sales is obviously unsustainable. Either MMM achieves scale, or it will have to reduce marketing to more affordable levels.

- Operating Ebitda loss (means before share-based payments) EUR -27.5m (v -1.6m). Ebitda loss margin 11.6% (v 0.9%).
- EBIT loss EUR -34.8m (v -6.5m), +435%. EBIT loss margin -14.7% (v -0.9%).

Regional Performance

- USA was a an operating Ebitda loss of EUR -5.0m (v 0.7m profit pcp), Europe a loss of EUR -2.0m (v -0.6m pcp), Australia a surprising loss of EUR -1.1m (v 3.4m profit pcp), and Central costs were EUR -4.6m (v 3.1m pcp). All regions were below our forecasts. We review each region separately further below.

MMM USA Division

Marley Spoon (MMM) - 3Q21 Review - Operating Metrics													CY20	CY21	Chnge
USA	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	Change QoQ	Change YoY	Our Comments	9mths YTD	9mths YTD		
Revenue (EUR m)	15	20	38	34	34	37	38	35	-7%	3%	Losing momentum post Covid, but still up 3% on Covid boosted	93	110	19%	
COGS & fulfilment costs (EUR m)	-12	-15	-28	-26	-25	-27	-29	-27	-5%	3%		-69	-83	20%	
Contribution margin (EUR m)	3	5	11	8	9	10	9	8	-11%	3%	Staffing challenges, higher labour rates & food cost inflation	24	28	15%	
Contribution margin (%)	23.0%	26.0%	28.0%	23.0%	26.0%	28.0%	24.0%	23.0%	-1%	0%		25.7%	25.0%	-0.7%	
Marketing costs (est. at group rate)		-6	-5	-5	-4	-7	-8	-10	25%	100%	Big increases in group marketing	-16	-25	61%	
G&A costs (EUR m)	N/a	-3	-1	-2	-3	-4	-3	-3	3%	45%	Big cost increase YoY; New larger FC in California	-6	-10	75%	
Operating Ebitda (EUR m)	N/a	-2.9	4.6	0.7	1.7	-1.0	-2.0	-5.0	150%	-814%	EUR 5.0m loss v EUR 0.7m profit in the pcp, a huge 5.7m swing	2	-8	-435%	
Operating Ebitda margin (%)	0%	-14%	12%	2%	5%	-3%	-5%	-14%	-9%	-16%	14% loss margin is back to 1Q20 level	2.6%	-7.3%	-9.8%	
Stats															
Active customers (k)	80	117	176	180	161	196	197	173	-12%	-4%	Active customers down 12% QoQ				
Active subscribers (k)	56	62	99	108	114	120	125	114	-9%	6%	Subscribers down 6%. Post Covid normalisation				
No. of orders (k)	339	432	780	772	760	813	823	705	-14%	-9%	Volume down 14% QoQ and 9% YoY	1,984	2,341	18%	
Orders per customer	4.2	3.7	4.4	4.3	4.7	4.1	4.2	4.2	0%	-3%	Order frequency down				
Orders per subscriber	6.1	7.0	7.9	7.1	6.7	6.8	6.6	6.2	-6%	-13%	Order frequency down				
Meals (m)	2.6	3.4	6.6	6.4	6.3	6.7	6.7	5.7	-15%	-11%	Volume down 15% QoQ and -11% YoY	16.4	19.1	16%	
Avg. Order value (EUR)	44.2	47.2	49.1	44.3	45.1	45.6	45.9	50.0	9%	13%	Price increase implemented; Probably also impacted orders	46.8	47.0	0%	

Source: Company reports; NB. Several figures including geographical revenue are estimates derived and rounded due to incomplete reporting by MMM; Sequoia analysis

- Operations:** In September, MMM moved into its new fulfilment centre in California (1 of 3 in the USA) with triple the previous capacity. MMM also rolled out new automated picking equipment at all 3 sites which simplified operations, improved customer experience and enables further order personalisation. We assume there were some added costs in the quarter for these changes, plus higher depreciation and lease interest payments going forward. The CFO told us that exiting the previous lease was managed well with no significant extra costs. But we think there must be a cost increase here for the extra space.
- USA revenue (our estimate of EUR 35m) was down 7% on Q2, but up 3% YoY on the Covid19 benefitted pcp. Annoyingly, MMM does not provide exact figures at Q1 & Q3 reporting stage (Vs HelloFresh which provides full accounts including summary balance sheet).
- US rival HelloFresh's Q3 US revenue was also down 7%, but up 50% YoY (+45% excluding Factor75 acquisition on our estimates) so it looks like MMM is losing market share to HelloFresh.
- Active customers (which includes trialists) was down -12% QoQ and active subscribers (MMM's preferred measure which excludes short-term trialists) was down -9% QoQ. We think this was partly normal Q3 seasonality, but mostly normalisation of customer behaviour post Covid.
- Orders were down -14% and meal volumes down 15% in Q3, which is traditionally a softer quarter due to northern hemisphere holiday season. Revenue was down less than this due to a 9% price rise towards the end of the quarter (Dinnerly brand from end-August, Marley Spoon brand from end September). Whilst necessary due to rising food and labour costs, this is expected to further reduce demand in Q4. MMM said it noticed an immediate decline in orders when the price increases were announced. MMM tries to set its prices the same as supermarkets, but we think price rises will be more obvious on MMM's per meal charge, than supermarkets' price rises spread over an array of different products.

- The contribution margin was 23% down 1 point QoQ, but up 40bps YoY per management. The decline was attributed to continuing staffing shortages, higher labour rates and food cost inflation. Packaging costs are also higher in the summer months (insulation/ ice packs). Higher costs and lower fixed cost utilisation due to the new FC in California would also have had some impact.
- Marketing costs – MMM does not split these costs by region, but we now allocate at the group % of sales rate as an estimate. (It also makes our model consolidate the regions more easily).
- Combined SG&A (selling, general & administrative costs) were up 83% on the pcp.
- USA landed an Ebitda loss of EUR -5.0m (v -2.0m in Q2) and (v +0.7m in the Covid benefitted pcp), a substantial -5.7m adverse swing. Sequoia forecast EUR -2.5m, so the result was EUR 2.5m (100%) worse than our forecast.
- **Outlook for Q4:** Normalisation is expected to continue to impact demand and skip rates. Price rises expected to have a minor negative impact on orders into Q4, but obviously a more positive revenue benefit. MMM expects lower Ebitda losses in Q4. Competitor HelloFresh is expecting improved margins and a slightly stronger Q4.
- In CY20 Q4 profit was EUR 1.0m better than Q3 but revenue and meals (volume) were similar. MMM enters 4Q with 6% more subscribers than 4Q 2020, plus the benefit of 9% price rises, and the new equipment helping efficiencies, but staffing challenges, and now normalisation headwinds remain challenges. So we expect only a small reduction in losses for Q4.
- We forecast an Ebitda loss for the US division of EUR 4.0m for Q4 (v 5.0m in Q3).

MMM Europe

Marley Spoon (MMM) - 3Q21 Review - Operating Metrics											Our Comments	CY20 9mths YTD	CY21 9mths YTD	Chnge %
Europe (6 countries)	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	Change QoQ	Change YoY				
Revenue (EUR m)	6	8	11	10	12	16	16	11	-28%	15%	Losing momentum post Covid, but still up 15% on boosted pcp	28	43	51%
COGS & fulfilment costs (EUR m)	-5	-6	-8	-7	-9	-13	-12	-8	-32%	15%		-22	-33	55%
Contribution margin (EUR m)	2	2	3	3	3	3	3	3	-16%	14%	Losing momentum post Covid	7	10	38%
Contribution margin (%)	20.0%	21.0%	25.0%	26.0%	25.0%	20.0%	22.0%	25.8%	4%	0%	Contribution margin held flat on pcp, despite lower Revenue & vol	24.3%	22.3%	-2.0%
Marketing costs (est. at group rate)		-2	-1	-1	-1	-3	-3	-3	-3%	126%	Big increases in group marketing	-5	-10	95%
G&A costs (EUR m)	N/a	0	-2	-2	-2	-2	-2	-2	3%	0%	SG&A costs up EUR 2m or 46% on pcp	-4	-5	24%
Operating Ebitda (EUR m)	N/a	-0.6	-0.9	-0.6	0.1	-1.5	-1.5	-2.0	33%	233%	EUR 2.0m loss v EUR 0.6m loss in the pcp, a -1.4m swing	-2	-5	150%
Operating Ebitda margin (%)	N/a	-7%	-8%	-6%	1%	-9%	-10%	-18%	-8%	-12%	18% ebitda loss margin V -6% pcp	-7.0%	-11.7%	-4.6%
Stats														
Active customers (k)	35	42	60	60	67	93	94	71	-24%	18%	Losing momentum post-Covid, but still up 18% on pcp			
Active subscribers (k)	30	30	39	44	50	62	68	59	-13%	34%	Losing momentum post-Covid, but still up 34% on pcp			
No. of orders (k)	161	186	269	245	310	410	403	276	-32%	13%	Losing momentum post-Covid, but still up 13% on pcp	700	1,089	56%
Orders per customer	4.6	4.4	4.5	4.1	4.6	4.4	4.3	4.1	-4%	0%	Losing momentum			
Orders per subscriber	5.4	6.2	6.9	5.6	6.2	6.6	5.9	4.7	-21%	-16%	Losing momentum			
Meals (m)	1.2	1.4	2.1	1.9	2.4	3.2	3.2	2.1	-34%	11%	Volume down 34% QoQ, but still up 11% on pcp	5.4	8.5	57%
Avg. Order value (EUR)	39.5	40.9	40.9	40.0	40.0	38.5	39.0	40.8	5%	2%	Pleasant increases	40.6	39.3	-3%

Source: Company reports; NB. Several figures including geographical revenue are estimates derived and rounded due to incomplete reporting by MMM; Sequoia analysis

- **Operations:** No major business changes in Europe. This region now includes the benefit of new automated picking equipment. MMM is trialling its own last mile delivery service, and is planning a new FC for sometime next year.
- Revenue was down 28% on Q2, but still up 15% on the pcp. As in the USA, MMM said Europe saw extensive post-lockdown holiday related customer behaviour impacting revenue. So a combination of some northern hemisphere holiday seasonality, plus post Covid normalisation headwinds.
- Active customers (includes trialists) was down -24% on Q2 and active subscribers (longer-term measure) was down 13%, partly due to normal Q3 seasonality (2 months of 3 are school holidays), but we think mostly due to post-Covid normalisation.
- The contribution margin improved in Q3 over Q2 despite the revenue and volume declines, and was flat at 25.8% YoY. MMM said that Europe also experienced some labour shortages and wage rate inflation and food cost inflation. So we think this was a creditable performance.
- SG&A costs were EUR 5m, up EUR 2m or 56% YoY. Obviously MMM continues to market hard in all regions.
- Europe landed an Ebitda loss (before head office costs) of EUR 2.0m (v -1.5m in Q2) and -0.6m pcp).
- Europe has only had 1 profitable quarter (Q4 2020). With just 59,000 active customers across 6 countries, MMM Europe still looks sub-scale at this stage.
- **Outlook for Q4:** 4Q CY20 was a strong result for MMM. It enters 4Q2021 with 34% more subscribers than last year, but with post-Covid normalisation raising new challenges, we expect a similar break-even result to last year.
- We forecast an Ebitda loss for the European division of EUR 2.0m for Q4 (v 2.0m in Q3, unchanged).

MMM Australia

Marley Spoon (MMM) - 3Q21 Review - Operating Metrics														Our Comments			CY20	CY21	Chnge
Australia	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	Change QoQ	Change YoY	WA: Dinnerly launched in Dec 2020 & Marley Spoon Sep 2021			9mths	9mths	%			
													YTD	YTD					
Revenue (EUR m)	14	15	24	25	22	24	27	33	21%	30%	Lockdown benefit in Vic & NSW. First time contribn from WA			64	85	32%			
COGS & fulfillment costs (EUR m)	-9	-9	-15	-16	-14	-16	-18	-22	18%	33%				-41	-56	39%			
Contribution margin (EUR m)	5	6	9	9	8	8	9	11	25%	25%	Scale & efficiency benefits			24	28	20%			
Contribution margin (%)	36.0%	38.0%	37.0%	35.6%	36.0%	33.0%	33.0%	34.2%	1%	-1%	Down on pcp due to higher voucher activity			36.7%	33.5%	-3.2%			
Marketing costs (est. at group rate)		-4	-3	-4	-3	-5	-6	-9	63%	155%	Big increases in group marketing			-11	-20	83%			
G&A costs (EUR m)	N/a	-2	-2	-2	-2	-3	-3	-3	-7%	56%	Includes costs of WA opened Dec 20, and expanded Sydney FC			-6	-10	65%			
Operating Ebitda (EUR m)	N/a	-0.1	3.6	3.4	2.9	0.0	0.0	-1.1	large -ve	-132%	Surprise loss of EUR 1.1m??			7	-1	-116%			
Operating Ebitda margin (%)	0%	-1%	15%	13%	13%	0%	0%	-3%	-3%	-17%	Surprise loss margin ??			10.7%	-1.3%	-12.0%			
Stats																			
Active customers (k)	68	81	114	123	99	123	133	169	27%	37%	Lockdown benefit in Vic & NSW. First time contribn from WA								
Active subscribers (k)	45	43	61	68	69	70	79	93	18%	37%	Lockdown benefit in Vic & NSW. First time contribn from WA								
No. of orders (k)	300	327	502	545	466	526	585	710	21%	30%	Lockdown benefit in Vic & NSW. First time contribn from WA			1,374	1,821	33%			
Orders per customer	4.4	4.0	4.4	4.4	4.7	4.3	4.4	4.4	0%	-1%									
Orders per subscriber	6.7	7.6	8.2	8.0	6.8	7.5	7.4	7.6	3%	-5%									
Meals (m)	2.4	2.7	4.5	4.8	4.1	4.6	5.2	6.6	27%	38%	Lockdown benefit in Vic & NSW. First time contribn from WA			12.0	16.4	37%			
Avg. Order value (EUR)	46.0	45.3	47.8	46.4	46.8	46.4	46.6	46.3	-1%	0%				46.7	46.4	0%			

Source: Company reports; NB. Several figures including geographical revenue are estimates derived and rounded due to incomplete reporting by MMM; Sequoia analysis

- **Operations:** MMM launched in Perth/ WA in December 2020 with the lower priced Dinnerly brand first. During Q3 it added the Marley Spoon brand.
- **Revenue** - Australia delivered 30% revenue growth boosted by lock-downs in Vic & NSW, and the launch of the Dinnerly brand in WA in December 2020 and Marley Spoon in WA during this quarter as mentioned.
- Active customers (includes short-term trialists) grew by 27% QoQ and 37% YoY. Active subscribers (longer-term measure) grew by 18% QoQ and 37% on the pcp which was a strong result. Orders were up 21% QoQ and 30% YoY.
- The contribution margin at 34.2% (v 35.6% pcp) was down -1.4% QoQ reflecting higher investment in new customer acquisition / higher use of vouchers as MMM took advantage of a favourable new customer acquisition environment. And the new Perth FC would have had a minor impact.
- SG&A expenses were EUR 12m +37% QoQ and +120% YoY. Some of this increase was due to the new Perth FC from December, plus extra marketing spend on the Marley Spoon WA brand launch in the quarter.
- Despite the strong revenue growth, Australia reported a surprise EUR 1.1m Ebitda loss (v 3.4m profit in the pcp, a large adverse swing of EUR -4.5m. Ebitda margin -3.0% (v +13%). This is hard for us to fathom as the inefficiencies and extra costs from Covid would have been captured in the contribution margin (impact -0.5m).
- We forecast an Ebitda loss for the Australian division of EUR 0.9m for Q4 (v 1.1m in Q3).



MMM's new FC at 300 Victoria St Wetherill Park, Sydney. MMM has ~50% of the facility (Building 2A, ~13,500 sqm). Source: JLL.com.au and CBRE.com.au

Cash Flow Report

- Cash receipts EUR 80.7m up 1% on Q2 and up 15% on the pc. This was slightly better than accounting revenue of EUR 79.2m (-2%). 9 months YTD cash receipts were EUR 239.3m (v 187.1m) +28% again slightly better than accounting revenue of EUR 237.5m (+28%).
- The Q3 operating cash flow was an outflow of EUR 7.7m (similar to Q2's -7.5m outflow). This was better than the Ebitda loss of EUR -12.7m because of the positive working capital benefit (customers pay 1 week in advance; MMM pays suppliers 30 days in arrears).
- 9 months YTD was an out-flow of EUR -9.9m (v an inflow of +6.8m pc). MMM recorded 3 positive cash flow quarters but has been unable to maintain that.
- We forecast a Q4 outflow of approximately EUR 3m making EUR -12.8m for CY21.
- Investing cash flow was EUR -5.5m comprising EUR 3.7m on plant and equipment (new fulfilment centre opened in California during the quarter, and new automated picking equipment at all 3 US centres), and EUR 1.8m of capitalised intellectual property investment (IT development costs).
- Financing cash flow was EUR 0.3m included lease payments and interest of EUR 2.0m, offset by a net draw down of EUR 3.5m of borrowings.

MMM: Analysis of Quarterly Cash Flows Year ended Dec (EUR m)																	
	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1Q21e	2Q21e	3Q21e	Change QoQ	Change YoY	Comments	3QFY20 YTD	3Q21 YTD	Change %
1. Receipts from customers	30.6	31.8	32.5	34.7	43.0	73.8	70.3	67.4	78.7	80.0	80.7	1%	15%	1% growth QoQ; 15% growth YoY Quarterly growth looks to have stalled	187.1	239.3	28%
1a. Other Revenue (Grants)										0.019				YTD cash receipts +28% in line with Revenue	0.000	0.019	
2. Cash Payments																	
Product manufacturing & operating cos	(19.9)	(22.9)	(22.1)	(26.8)	(26.0)	(47.0)	(47.8)	(51.2)	(47.4)	(59.9)	(53.8)	-10%	12%	Up 40% on pc. Vs Sales +15%	(120.8)	(161.1)	33%
Advertising & marketing	(9.9)	(11.7)	(7.2)	(9.5)	(7.6)	(10.8)	(12.9)	(7.8)	(12.8)	(14.2)	(18.0)	27%	40%		(31.2)	(44.9)	44%
Administration and corporate	(7.4)	(7.5)	(8.8)	(5.7)	(8.7)	(8.1)	(10.4)	(11.5)	(13.0)	(13.3)	(16.8)	26%	61%		(27.2)	(43.1)	58%
Interest received	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	nm	nm		0.0	0.1	nm
Interest paid	(0.3)	(0.2)	(0.0)	(0.1)	(0.3)	(0.3)	(0.4)	(0.6)		0.0	0.0	nm	nm		(0.9)	0.0	nm
Tax & Other	(0.0)	(0.1)	(0.0)	0.0	(0.0)	(0.0)	(0.1)	(0.0)	(0.3)	(0.1)	0.1	nm	nm		(0.1)	(0.2)	nm
Cash expenses	(37.4)	(42.5)	(38.2)	(42.1)	(42.5)	(66.2)	(71.6)	(71.0)	(73.4)	(87.5)	(88.4)	1%	23%	Costs flat QoQ	(180.3)	(249.3)	38%
3. Operating Cash flow	(6.8)	(10.7)	(5.6)	(7.4)	0.5	7.6	(1.3)	(3.6)	5.3	(7.5)	(7.728)	3%	483%	Another \$7.7m out-flow quarter 3 qtrs of positive cash-flow unable to repeat	6.8	(9.9)	-246%
4. Investing Cash Flow																	
Property Plant & Equipment	(2.5)	(0.9)	(0.7)	(0.4)	(0.5)	(1.7)	(1.3)	(1.8)	(2.3)	(7.8)	(3.7)	-52%	192%	New facility in California completed	(3.4)	(13.8)	303%
Acquisition of Businesses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				nm	nm		0.0	0.0	nm
Intellectual Property (capitalised R&D)	(0.5)	(0.3)	(0.3)	(0.8)	(0.8)	(1.0)	(0.9)	(0.7)	(0.8)	(0.8)	(1.8)	130%	103%	Big increase in capitalised R&D	(2.7)	(3.5)	28%
Other	0.0	0.0	(0.2)	0.0	0.0	0.0	0.0	0.0				nm	nm		0.0	0.0	nm
Total Investing Cash Flow	(3.1)	(1.2)	(1.1)	(1.2)	(1.3)	(2.7)	(2.2)	(2.5)	(3.1)	(8.6)	(5.5)	-35%	155%		(6.1)	(17.2)	181%
5. Financing Cash Flow																	
Equity issues (incl options exercise)		2.5		1.5		10.0	2.0	34.0	0.001	1.734	(1.0)	-155%	-147%	Negative cash from options exercise???	12.0	0.8	-94%
Convertible debt issues	12.0		15.9		2.3		0.0	0.0				nm	nm	NB. WOW bonds converted to equity in qtr	2.3	0.0	nm
Transaction costs on equity & convertible issues	(0.2)	(0.1)	(0.1)	(0.1)	(0.0)	(0.7)	0.0	(1.5)	(0.039)	0.000	(0.2)	nm	-735%		(0.8)	(0.2)	nm
Debt issued (repaid)	(2.0)	11.4	(10.5)	5.6	0.3	(0.3)	0.6	(6.9)	2.8	23.8	3.5	-85%	458%	Drawing down on debt	0.6	30.1	5087%
Other financing changes		(1.0)	(1.0)		(1.1)	(1.2)	(1.2)		(1.3)	(1.4)	(2.0)	38%	70%		(3.4)	(4.7)	37%
Cash from Financing	10.0	13.8	4.3	6.0	1.4	7.7	1.5	24.3	1.5	24.144	0.328	-99%	-78%		10.6	26.0	144%
6. Opening Cash	8.6	8.8	10.6	7.9	5.4	5.9	18.4	16.5	34.4	38.5	46.3				5.4	34.4	
7. Net increase (decrease) in cash	0.1	1.9	(2.4)	(2.5)	0.6	12.7	(2.0)	18.2	3.6	8.1	(12.9)				11.3	(1.1)	
8. FX movements	0.1	(0.1)	(0.2)	0.0	(0.2)	(0.2)	0.2	(0.3)	0.4	(0.3)	(0.4)				(0.2)	(0.2)	
9. Cash at end of period	8.8	10.6	7.9	5.4	5.9	18.4	16.5	34.4	38.5	46.316	33.049	-29%	100%		16.5	33.1	100%

Source: Company reports; Sequoia analysis

Balance Sheet changes

- MMM ended Q3 with a cash balance of EUR 33.0m (v EUR 46.3m in Q2), down EUR 13.3m.
- Shareholders funds was boosted by EUR 17.2m (A\$27m) Woolworths (WOW) subsidiary W23 Investments Pty Ltd converting the last two outstanding 7.0% convertible bonds into shares (on 6/9/21). Debt reduced by the same amount. The conversion price was set by a complicated growth formula, but worked out to be A\$0.965 per CDI. This became a 9.87% stake briefly, which WOW immediately sold on market at A\$1.91 per share (a 6.0% discount) for A\$53.5m.
- This additional equity was almost completely eliminated by the EUR 15.6m EBIT loss for Q3.
- We have included a cash outflow of EUR 3.6m for 3 years of accumulated interest to WOW paid at maturity.

- During Q3 MMM entered into a new asset financing facility with National Australia Bank (NAB) for EUR 3.7m (A\$6m) at 3.5% interest rate. This was used to fund the fit-out of the new Sydney fulfilment centre (FC). MMM has taken 50% of the 27,000 sqm premises (i.e. ~13,500 sqm) but has sub-leased some of that out, which it can take back later for future expansion when needed.

Subsequent to Sept 30

- MMM said that in late October it had drawn down the remaining US\$15m (EUR 13m) of its USD \$45m (EUR 39m) Tranche 1 facility from Runway Growth Capital, which is earmarked for capex on digital platforms and further fulfilment centre expansion. Tranche 2 of US\$20m (EUR 17m) remains undrawn. The interest rate on this facility we understand is ~10.25% pa.
- Net debt (including leases) was EUR 30.5m at June 30. We estimate net debt at end December would be ~EUR 40m (being 30.5m at June, + 0.3m increase in Q3 per the 4C, less 17.2m WOW bonds conversion on 6/9/21, plus 3.6m interest on maturity + 13m further draw down in October for capex + say 7.0m further operating outflow in Q4 plus 3.0m other).
- Shareholders Funds was a deficit of EUR -12.2m at end June. Add 17.2m WOW bonds conversion, less Q3 EBIT loss -15.6m, less interest expense estimate \$0.9m for Q3, gives us an estimated deficit of -11.5m at end-September.

Company Guidance updated

- MMM reduced its previous guidance of 30-35% revenue growth to 26-28% (-4% to -7%).
- It maintained its guidance for contribution margin at ~29%, in line with CY2020.
- However MMM also stated that operating conditions were highly variable, and post-Covid recovery behaviour had changed, and it was not deriving the benefit it previously expected from aggressive marketing spend and voucher use. Whilst we sympathise with most businesses trying to manage their way through Covid, and into the reopening period, the uncertainty expressed by management is a worry to us.
- MMM also expects losses in Q4 to be lower than the EUR 15.6m EBIT loss in Q3. Q4 is seasonally better (competitor HelloFresh expecting improved margins and result in Q4).
- **Guidance for cash flow for CY22** – MMM's strategy for CY22 and beyond is to continue investing for strong customer and revenue growth towards its long-term ambition of EUR 1.0bn of sales, while keeping operating cash flow around breakeven. However a moderately significant cash outflow will occur in CY21 (EUR -9.9m for the 9 months YTD).
- Combined with the company's negative working capital dynamics (+EUR 1.5m benefit in CY20; customers pay 1 week in advance; MMM pays suppliers 30 days in arrears – a good thing), this implies ongoing Ebitda losses.
- So we think that as long as MMM continues with its EUR 1.0bn revenue ambition (by 2025) and EUR 5bn by 2030, investors will not see any reported profits (maybe Ebitda will be positive).

Sequoia estimates

We have reviewed MMM's Q3 result in detail in this report. We also reviewed global competitor HelloFresh's Q3 result on pages 12-14.

With the USA, Europe and now NSW and even Victoria finally reopening, there is now a Covid headwind in all of MMM's markets rather than a tailwind. We make significant downgrades to our forecasts.

Given the uncertainty highlighted by management, we have decided to be more conservative than the company's downgraded guidance.

MMM: Changes in Estimates	FY20A	FY21e			FY22e			FY23e		
Years ending Dec EUR m		Old	New	Change	Old	New	Change	Old	New	Change
Sales revenue	254.0	330.6	316.0	-4.4%	392.6	329.0	-16.2%	453.4	390.5	-13.9%
Sales growth	96.1%	30.1%	24.4%	-5.7%	18.7%	4.1%	-14.6%	15.5%	18.7%	3.2%
Sales growth guidance		30-35%	26-28%	-4% to -7%						
Contribution margin	74.1	94.4	87.2	-7.7%	122.3	96.4	-21.2%	145.0	117.5	-19.0%
Contribution margin %	29%	29%	28%	-1.0%	31%	29%	-1.9%	32%	30%	-1.9%
Operating costs	-75.1	-119.4	-114.9	-3.8%	-131.4	-125.2	-4.7%	-143.2	-143.4	0.1%
EBITDA	-0.9	-25.0	-27.7	11%	-9.1	-28.8	217%	1.9	-25.9	-1499%
Ebitda Margin %	-0.4%	-7.6%	-8.8%	-1.2%	-2.3%	-8.8%	-6.4%	0.4%	-6.6%	-7.0%
Depreciation & Amortisation	-6.5	-8.0	-9.5	18.8%	-8.8	-10.5	18.8%	-9.5	-11.2	18.8%
EBIT	-7.4	-33.0	-37.2	13%	-17.9	-39.3	119%	-7.6	-37.1	388%
Ebit Margin %	-2.9%	-10.0%	-11.8%	18%	-4.6%	-11.9%	162%	-1.7%	-9.5%	467%
Interest expense	-7.4	-4.0	-4.0	0%	-4.2	-5.5	31%	-4.5	-8.0	78%
Pre-Tax Profit (Loss)	-14.8	-37.0	-41.2	11%	-22.1	-44.8	103%	-12.1	-45.1	273%
Abnormal items	-71.4									
NPAT (reported including Abnormals)	-86.2	-37.0	-41.2	11%	-22.1	-44.8	103%	-12.1	-45.1	273%
NPAT (normalised)	-14.8	-37.0	-41.2	11%	-22.1	-44.8	103%	-12.1	-45.1	273%
EPS (normalised) (euro cents)	-7.9	-13.7	-14.5	6%	-8.2	-15.8	93%	-4.5	-15.9	256%
EPS growth %	-71%	72%	83%	11%	-40%	9%	49%	-45%	1%	46%
Operating Cash Flow	4.4	-11.9	-27.6	132%	-5.0	-33.4	566%	5.6	-29.8	-634%
Cash Flow per share (euro cents)	2.4	-4.4	-9.7	122%	-1.9	-11.8	536%	2.1	-10.5	-609%
DPS (euro cents)	0.0	0.0	0.0		0.0	0.0		0.0	0.0	
Payout rate (of normalised EPS)	0%	0%	0%	0.0%	0%	0%	0.0%	0%	0%	0.0%
Shares on issue (F/D; weighted average)	187.2	271.1	284.1	4.8%	271.1	284.1	4.8%	271.1	284.1	4.8%

Source: Sequoia estimates

Key modelling assumptions:

Australia

Active customers: Q4 -5% as a post-Covid correction, and partly mitigated by the WA start-up; CY22 +10%; CY23 +20%; CY24 +20%.

Order rate: Q4 -5%; CY22 -5%; CY23 n/c; CY24 n/c.

Avg Order Value: Q4: 0%; CY22 +5%; CY23 +3%, CY24 +3%.

USA

Active customers: Q4 -3% (with Q3's -12% makes -15% post-Covid correction); CY22 +10%; CY23 +20%; CY24 +20%.

Order rate: Q4 -5%; CY22 -3%; CY23 n/c; CY24 n/c.

Avg Order Value: Q4: +5%; CY22 +5%; CY23 +5%, CY24 +5%.

Europe

Active customers: Q4 +4% (with Q3's -24% this makes a -20% post-Covid correction); CY22 +5%; CY23 +20%; CY24 +20%.

Order rate: Q4 -5%; CY22 -5%; CY23 n/c; CY24 n/c.

Avg Order Value: Q4: +5%; CY22 +5%; CY23 +5%, CY24 +5%.

Worldwide

The above assumptions result in forecast revenue growth of 25% for FY21 (slightly below

guidance of 26-28%), 6% for CY22 (a post-Covid rebalancing year), +21% in CY23 and 26% in CY24.

Group Costs

Marketing costs is a key variable for MMM, and is mostly discretionary. We now assume: Q4 25% of sales; CY22 23% of sales; CY23 20% of sales; CY24 20% of sales.

However there are some lasting benefits from Covid:

- MMM now has significantly more active customers (413,000 worldwide Vs 183,000 at Dec 2019 pre-Covid, +126%), and 265,000 active subscribers (v 182,000 Dec 2019, +46%).
- Consumers have significantly more awareness of meal kit companies (Hello Fresh/ Every Plate, and Marley Spoon / Dinnerly) and pre-prepared meal home delivery companies (e.g. Youfoodz, taken over by HelloFresh in October).
- Online purchasing of virtually everything has become more accepted and changed habits forever, including the grocery category where MMM plays.

Recommendation and Price Target

Our revised blended valuation is \$1.41 (was \$2.67, -47%), based on an equal-weighted blend of 3 different valuation methodologies.

Marley Spoon - Sequoia - Blended valuation		CY20A	CY21e	CY22e	CY23e
HelloFresh (key comp) details:					
HelloFresh share price (HFGG.DE) (EUR)			84.76		
Shares on issue			173,864		
Market Cap EUR m			14,737		
Net cash (Net debt) EUR m		371.9	519.1		
Enterprise value EUR m			14,218		
Active customers (m)		5.29	6.94		
EV per customer EUR (AUD)			€ 2,049	\$ 3,201	
Consensus Revenue forecasts EUR m		3,750	5,746	6,840	7,821
Consensus Ebitda forecasts EUR m		481.2	522.0	644.0	830.3
Ebitda margin		12.8%	9.1%	9.4%	10.6%
HelloFresh - Consensus EV / Revenue multiples			2.43x	2.04x	1.78x
HelloFresh - Consensus EV / Ebitda multiples			26.9x	21.8x	16.9x
(consensus per Refinitiv, years ended Dec)					
MMM EV/ Sales multiple			0.69x	0.81x	0.76x
MMM discount to HFGG.de			-72%	-60%	-57%
Implied MMM share price using HFGG multiples			\$ 4.02	\$ 3.27	\$ 3.30
Method A - Discounted EV/ Sales multiple (as above)					
We apply a 50% discount (prev 20%)		33.3%	\$ 2.01	\$ 1.64	\$ 1.65
Method B - Discounted cash flow valuation					
Our DCF valuation is negative as we do not forecast positive cash flows in our 5-yr forecast period. So we use Nil as a valuation under this method. Extremely conservative.		33.3%	\$ -		
Method C - Discounted EV/ Customer valuation					
MMM active customers at 30/9/21 (m)		0.413			
Implied value using HF valn per active customer (m)		€ 846.1			
less: estimated net debt at 31/12/21e		-€ 39.9			
Implied Equity value (EUR m)		€ 806.2			
We apply a 50% discount (for quality, risk etc)		€ 403.1			
AUD valuation (A\$m)		\$ 629.9			
MMM CDIs on issue (F/d) (m)		284.1			
AUD valuation per CDI (A\$)		\$ 2.22			
EV/ customer Valuation Per share		33.3%	\$ 2.22		
Blended valuation		100%	\$ 1.41		

Source: Consensus estimates for HelloFresh per Refinitiv; Sequoia estimates for MMM

Revenue multiple basis

We value MMM at \$2.01 per share based on a 50% discount (previously 20%) to global leader HelloFresh's EV/ Sales multiple for CY21 of 2.43x (i.e. implies 1.22x Sales).

HelloFresh is >90 times the market cap of MMM and has forecast revenue 28x MMM's for CY21. It is now profitable since CY19 and cash-flow positive. MMM is not profitable, and will burn significant cash in CY21, CY22 and CY23 on our revised (downgraded) forecasts. So we are taking a very conservative approach. We note the market is currently applying a 57% to 77% discount depending on the year selected.

We show other comparable companies at Appendix 2 (page 22). Goodfood Market Corp in Canada trades on 1.16x FY1 sales and My Food Bag in New Zealand on 1.30x.

DCF Valuation – now nil

Our DCF valuation is now a negative figure, because of the aggressive investment in costs (particularly growth marketing) in the next 3 years and beyond, and MMM's ambition to achieve EUR 5bn in sales in 10 years (HelloFresh is already there for CY21). As we understand it, MMM's strategy is to invest all available cash flow into further customer acquisition, whilst keeping operating cash flow around break-even. (However, MMM will not even come close to this cash-flow break-even target in CY21. We now forecast a material EUR 40m cash out-flow for CY21; no longer a modest out-flow).

Because of the negative working capital in the business (a good thing - customers pay 5 days in advance, MMM pays creditors 30 days in arrears), this means that Ebitda will generally be EUR 2-5m worse than management's targeted cash flow result, and will continue to be a negative result in our opinion until MMM can achieve sufficient scale. We do not forecast positive cash flows in the next 5 years, and expect MMM's strategy to continue for years 5-10 so we don't assume anything positive in our terminal value either. So we now have a negative DCF valuation (previously we thought MMM would cross over into profits and positive cash flows in 3-4 years). To highlight this point to investors, we include our DCF component at Nil in our blended valuation. We assume that other analysts who have positive DCF valuations must be assuming a cross over to profits at some stage in the near future, or a big cut in the marketing budget. But we highlight that MMM is very clear on its strategy, which will not see meaningful operating cash flows for a long time.

We can amend our long-term modelling, if and when it becomes clear that MMM will surface a profit or positive cash flows. Investors who think this is too extreme can consider our other two valuation measures.

Valuation per active customer

We have added a third valuation metric, being the enterprise valuation per customer achieved by HelloFresh, the global leader in the category. HF's valuation works out to be EUR 2,049 per active customer (~A\$3,200). This sounds quite high to us, but understandable as a profitable global market leader now operating in 15 countries (+ Japan #16 coming soon). Myfoodbag in NZ (MFB.NZ) is valued at NZ \$4,039/ customer (A\$3,921) for its 76,875 customers in a single small market. It is profitable.

MMM is not profitable, and will burn significant cash in CY21. So we again apply a 50% discount to HF's "EV per active customer" valuation. This produces a valuation of A\$2.22 per MMM CDI.

Risk Rating

We consider MMM a high-risk investment, as it does not yet have an established track record of profitability, it has estimated net debt of EUR 39m at September 30 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 as the current Covid headwinds abate, and as MMM derives scale benefits / capacity utilisation benefits in its recently expanded fulfilment centres (WA, Sydney & California all new, and have significant spare capacity).

Recommendation

With the share price down some 42% since the Q3 result, and Q4 expected to be seasonally stronger (although Covid headwinds now prevalent), we maintain our buy recommendation for the long-term growth potential. HelloFresh has shown the way.

HelloFresh Q3 result review & Comparison

HelloFresh also posted a trend reversal, although it managed to stay in profit and stay cash-flow positive. HelloFresh was approximately break-even at the EBIT line in CY19, and has been profitable since.

It was interesting that both companies grew revenue in CY19 by 41%, which was before the boost from Covid. We expect a modest decline/ pull-back post Covid (it has already started) making 1H22 and perhaps all of CY22 a low growth year, then for growth to resume at perhaps ~20% per annum in CY23.

HelloFresh SE (founded November 2011; IPO 1/11/17)														
Years ended Dec (EUR m)	CY14	CY15	CY16	CY17	CY18	CY19	CY20 (Covid Boost)	CY21e Consensus	2 yr CAGR	5 yr CAGR	3Q20 QTR	3Q21 QTR	3QYTD 9 mths	3QYTD 9 mths
	(IPO)													
Revenue	69.6	305.0	597.0	909.9	1279.2	1809.0	3749.9	5746.0	78.2%	57.3%	970.2	1415.5	2641.4	4413.4
Revenue growth %	n/a	338%	96%	52%	41%	41%	107%	53%				46%		67%
Ebitda (adjusted ex SBPs)	-12.2	-86.2	-82.6	-70.1	-54.5	46.5	505.2	522.0	235.1%		114.7	79.8	331.4	396.8
Ebitda growth %	n/a	nm	-4%	-15%	-22%	-185%	986%	3%				-30%		20%
Ebitda margin	-17.5%	-28.3%	-13.8%	-7.7%	-4.3%	2.6%	13.5%	9.1%			11.8%	5.6%	12.5%	9.0%
EBIT	-15.8	-115.5	-90.5	-88.8	-82.8	1.3	97.9	429.2	1717.0%		92.1	41.4	272.8	306.4
EBIT growth %	n/a	nm	-22%	-2%	-7%	-102%	7430%	338%				-55%		12%
EBIT margin	-22.7%	-37.9%	-15.2%	-9.8%	-6.5%	0.1%	2.6%	7.5%			9.5%	2.9%	10.3%	6.9%
Total Assets	28.1	158.6	151.7	452.9	559.1	570.2	1525.6	2058	90.0%	68.5%	1172.5	2099.6	1172.5	2099.6
growth %	n/a	nm	-4%	199%	23%	2%	168%	35%				79%		79%
Return on Assets % (EBIT)	-56%	-73%	-60%	-20%	-15%	0%	6%	21%			31%	8%	31%	19%
Shareholders Funds (ex minorities)	14.6	87.6	20.6	303.3	546.1	245.3	656.0	968.4			518.5	834.8	518.5	834.8
growth %	n/a	nm	-76%	1372%	80%	-55%	167%	48%				61%		61%
							9mths YTD							
Active customers (Q4)(m)	n/a	0.62	0.86	1.45	2.04	2.97	5.29	6.94	52.9%	51.9%	5.00	6.94	5.00	6.94
Customer growth	n/a	n/a	38%	69%	41%	46%	78%	31%				39%		39%
Orders (m)	1.7	6.8	12.4	19.0	27.1	37.5	74.3	87.9	53.2%	48.0%	19.49	27.59	52.33	87.85
Orders growth %	n/a	nm	82%	53%	43%	38%	98%	18%				42%		68%
Average Order Value (Q4) EUR	41.1	44.9	48.2	46.6	48.6	48.0	47.1	51.3	3.4%	1.3%	49.7	51.3		
Source: HelloFresh reports														

Source: HelloFresh reports

We show MMM's data in a similar format.

Marley Spoon (founded May 2014; IPO 2/7/18)														
Years ended Dec (EUR m)	CY14	CY15	CY16	CY17	CY18	CY19	CY20 (Covid Boost)	CY21e Consensus	2 yr CAGR	5 yr CAGR	3Q20 QTR	3Q21 QTR	3QYTD 9 mths	3QYTD 9 mths
					(IPO)									
Revenue	Founded	3.9	20.2	53.2	92.0	129.6	254.0	323.9	58.1%	74.2%	69.3	79.2	185.5	237.2
Revenue growth %		n/a	418%	164%	73%	41%		28%				14%		28%
Ebitda		-11.4	-24.0	-26.8	-35.0	-30.2	-0.9	-30.3	nm	nm	0.4	-12.7	-1.6	-27.5
Ebitda growth %	n/a	nm	111%	12%	31%	-14%	-97%	3135%				-3275%		1619%
Ebitda margin		-292.3%	-118.8%	-50.4%	-38.1%	-23.3%	-0.4%	-9.4%			0.6%	-16.0%	-0.9%	-11.6%
EBIT		-11.5	-24.2	-27.2	-35.9	-34.8	-7.4	-38.8	5.6%		-1.2	-15.6	-6.5	-34.8
growth %	n/a	nm	110%	13%	32%	-3%	-79%	422%				1200%		435%
EBIT margin		-294.9%	-119.8%	-51.2%	-39.0%	-26.8%	-2.9%	-12.0%			-1.7%	-19.7%	-3.5%	-14.7%
Total Assets		0.0	15.3	10.2	23.2	37.0	73.1	98.73	63.4%			n/a		n/a
growth %	n/a	nm	#DIV/0!	-33%	127%	59%	98%	35%						
Return on Assets % (EBIT)				-266%	-154%	-94%	-10%	-39%						
Shareholders Funds (ex minorities)		0.0	7.4	-11.7	-5.2	-35.7	8.1	-27.87			Our est:	-11.5	Our est:	-11.5
growth %	n/a	nm	#DIV/0!	-259%	-56%	589%	-123%	-443%						
								9mths YTD						
Active customers (Q4)(m)			0.042	0.093	0.172	0.182	0.327	0.413	50.6%	58.0%	0.362	0.413	0.36	0.413
Customer growth			n/a	121%	85%	6%	80%	26%				14%		14%
Orders (m)			0.442	1.1	2.2	3.0	5.6	5.3	33.0%	64.0%	1.563	1.691	4.059	5.251
Orders growth %	n/a	n/a	n/a	155%	91%	38%	89%	-7%				8%		29%
Average Order Value (Q4) EUR			45.7	47.2	42.7	43.6	45.2	46.7	3.5%	0.4%	44.4	46.8		

Source: MMM reports

We summarise some key differences in the performance metrics of these two companies. We recognise that there is a massive size disparity between the two companies.

Marley Spoon & HelloFresh - Variance analysis									CY20 YTD	CY21 YTD	Our comments
	1QCY20	2QCY20	3QCY20	4QCY20	CY20A (12 mths)	1QCY21	2QCY21	3QCY21	(9 mths)	(9 mths)	
Customer growth (QoQ)											
HelloFresh (incl acqn from 31/12/20)	41%	0%	20%	6%	78%	38%	5%	-10%	n/a	n/a	Both HF & MMM had seasonally weak quarters; Slowing was already evident in Q2 after 100%+ gains in CY20.
MMM	32%	46%	3%	-10%	80%	26%	3%	-3%	n/a	n/a	
MMM difference	-8.9%	45.8%	-16.2%	-15.5%	1.6%	-11.6%	-2.6%	7.0%			
Revenue growth QonQ											
HelloFresh (incl acqn from 31/12/20)	37%	39%	0%	14%	n/a	30%	8%	-9%	n/a	n/a	Both HF & MMM had seasonally weak quarters; Slowing was already evident in Q2 after 100%+ gains in CY20.
MMM	22%	71%	-5%	-1%	n/a	13%	5%	-2%	n/a	n/a	
MMM difference	-14.5%	31.7%	-5.3%	-15.4%		-17.2%	-3.2%	6.8%			
Revenue growth on pcq											
HelloFresh (incl acqn from 31/12/20)	66%	123%	120%	117%	107%	106%	60%	46%		67%	HF out-performing MMM, although boosted by the Faxctor75 Inc acqn
MMM	46%	129%	110%	95%	96%	80%	10%	14%	n/a	28%	
MMM difference	-20.4%	6.7%	-10.6%	-21.7%	-11.2%	-26.1%	-49.5%	-31.6%		-39.1%	
Contribution margin %											
HelloFresh	28.6%	26.1%	26.6%	30.6%	28.0%	27.9%	25.6%	22.0%	26.9%	25.2%	Contribution margins similar. Differences could just be classifications.
MMM	29.2%	30.5%	27.9%	29.0%	29.2%	28.0%	26.6%	28.0%	29.2%	27.5%	
MMM difference	0.5%	4.4%	1.3%	-1.6%	1.2%	0.1%	0.9%	5.9%	2.3%	2.3%	
Marketing % of sales											
HelloFresh	-17.0%	-8.6%	-12.8%	-12.9%	-12.5%	-15.1%	-13.7%	-14.8%	-12.4%	-14.5%	HF clearly deriving scale benefits over MMM
MMM	-27.0%	-13.0%	-14.3%	-12.0%	-15.5%	-20.0%	-20.7%	-28.0%	-16.7%	-22.9%	
MMM difference	-10.0%	-4.4%	-1.5%	0.9%	-2.9%	-4.9%	-7.0%	-13.2%	-4.4%	-8.4%	
G&A % of sales											
HelloFresh (includes D&A)	-5.0%	-3.7%	-4.3%	-3.0%	-3.9%	-3.5%	-3.5%	-4.3%	-4.2%	-3.8%	HF clearly deriving scale benefits over MMM
MMM (excludes D&A)	-17.2%	-11.4%	-13.0%	-15.4%	-17.4%	-15.4%	-17.1%	-16.0%	-13.3%	-12.3%	
MMM difference	-12.2%	-7.7%	-8.7%	-12.4%	-13.5%	-11.9%	-13.6%	-11.7%	-9.1%	-8.5%	
Operating Ebitda (before SBPs) %											
HelloFresh	9.0%	15.8%	11.8%	15.7%	13.5%	11.0%	10.1%	5.6%	12.5%	9.0%	MMM's 3 quarters of profit did not last; It has spooked investors by swinging back into material losses
MMM	-15.1%	6.1%	0.6%	1.6%	-0.2%	-7.4%	-11.2%	-16.0%	-0.8%	-11.6%	
MMM difference	-24.1%	-9.7%	-11.2%	-14.1%	-13.7%	-18.4%	-21.4%	-21.7%	-13.4%	-20.6%	

Source: Marley Spoon and HelloFresh reports; Sequoia analysis

HelloFresh SE – Q3 Results

HelloFresh SE (HFGG.DE) Financials (EUR m)	CY20 YTD						CY21 YTD						3Q	3Q	3QYTD
Years ended Dec (EUR m)	1QCY20	2QCY20	3QCY20	(9 mths)	4QCY20	(12 mths)	1QCY21	2QCY21	3QCY21	(9 mths)	(12 mths)	(9 mths)	Change QoQ	Change YoY	Change YoY
Revenue - USA	436.7	525.9	527.9	1,488.9	582.8	2,073.3	802.4	846.9	789.3	2,444.3	2,444.3	2,444.3	-6.8%	49.5%	64.2%
Revenue - R.O.W	262.4	446.2	442.3	1,152.5	525.7	1,676.6	640.5	708.1	626.2	1,969.1	1,969.1	1,969.1	-11.6%	41.6%	70.9%
Revenue - Group	699.1	972.1	970.2	2,641.4	1,108.5	3,749.9	1,442.9	1,555.0	1,415.5	4,413.4	4,413.4	4,413.4	-9.0%	45.9%	67.1%
Growth on pcp %	66.4%	122.6%	120.2%	103.6%	116.7%	107.3%	106.4%	60.0%	45.9%	67.1%	67.1%	67.1%			
COGS	(240.6)	(342.2)	(332.4)	(915.3)	(361.5)	(1,276.7)	(487.3)	(532.7)	(489.8)	(1,509.8)	(1,509.8)	(1,509.8)	-8.1%	47.4%	65.0%
% of revenue	-34.4%	-35.2%	-34.3%	-34.7%	-32.6%	-34.0%	-33.8%	-34.3%	-34.6%	-34.2%	-34.2%	-34.2%			
Gross Profit	458.5	629.9	637.8	1,726.1	747.0	2,473.2	955.6	1,022.3	925.7	2,903.6	2,903.6	2,903.6	-9.4%	45.1%	68.2%
Gross profit margin %	65.6%	64.8%	65.7%	65.3%	67.4%	66.0%	66.2%	65.7%	65.4%	65.8%	65.8%	65.8%			
Fulfillment costs	(258.3)	(376.3)	(379.8)	(1,014.5)	(407.7)	(1,422.1)	(553.0)	(623.5)	(613.8)	(1,790.4)	(1,790.4)	(1,790.4)	-1.6%	61.6%	76.5%
% of revenue	-36.9%	-38.7%	-39.1%	-38.4%	-36.8%	-37.9%	-38.3%	-40.1%	-43.4%	-40.6%	-40.6%	-40.6%			
Contribution Margin	200.2	253.6	258.0	711.6	339.3	1,051.1	402.6	398.8	311.9	1,113.2	1,113.2	1,113.2	-21.8%	20.9%	56.4%
Contribution margin %	28.6%	26.1%	26.6%	26.9%	30.6%	28.0%	27.9%	25.6%	22.0%	25.2%	25.2%	25.2%			
Marketing expenses	(118.6)	(83.7)	(124.3)	(326.6)	(143.1)	(469.7)	(218.0)	(213.4)	(209.5)	(640.9)	(640.9)	(640.9)	-1.8%	68.5%	96.2%
% of revenue	-17.0%	-8.6%	-12.8%	-12.4%	-12.9%	-12.5%	-15.1%	-13.7%	-14.8%	-14.5%	-14.5%	-14.5%			
General & Admin, Other	(35.0)	(35.8)	(41.6)	(112.2)	(33.6)	(146.0)	(50.7)	(54.4)	(61.0)	(165.9)	(165.9)	(165.9)	12.1%	46.6%	47.9%
% of revenue	-5.0%	-3.7%	-4.3%	-4.2%	-3.0%	-3.9%	-3.5%	-3.5%	-4.3%	-3.8%	-3.8%	-3.8%			
Other income (expense)					-950.0%	(9.5)									
EBIT	46.6	134.1	92.1	272.8	153.1	425.9	133.9	131.0	41.4	306.4	306.4	306.4	-68.4%	-55.0%	12.3%
% of revenue	6.7%	13.8%	9.5%	10.3%	13.8%	11.4%	9.3%	8.4%	2.9%	6.9%	6.9%	6.9%			
Add back: Depreciation & amortisation	10.6	11.5	11.6	33.7	13.4	47.1	15.6	24.8	25.6	65.9	65.9	65.9	3.2%	120.7%	95.5%
EBITDA	57.2	145.6	103.7	306.5	166.5	473.0	149.5	155.8	67.0	372.3	372.3	372.3	-57.0%	-35.4%	21.5%
% of revenue	8.2%	15.0%	10.7%	11.6%	15.0%	12.6%	10.4%	10.0%	4.7%	8.4%	8.4%	8.4%			
Add back: Abnormal/ special items	0.3	1.7	4.7	6.7	1.5	8.2	2.5	1.3	3.9	7.8	7.8	7.8	200.0%	-17.0%	16.4%
Add back: Share-based payments	5.5	6.3	6.2	18.1	6.0	24.0	7.1	0.6	8.8	16.6	16.6	16.6	1366.7%	41.9%	-8.3%
Adjusted Ebitda	63.1	153.7	114.7	331.4	174.1	505.2	159.2	157.8	79.8	396.8	396.8	396.8	-49.4%	-30.4%	19.7%
Ebitda margin %	9.0%	15.8%	11.8%	12.5%	15.7%	13.5%	11.0%	10.1%	5.6%	9.0%	9.0%	9.0%			
CASH FLOW															
Operating cashflow	132.5	148.9	134.8	416.1	185.3	601.5	208.7	102.6	85.2	396.3	396.3	396.3	-17.0%	-36.8%	-4.8%
Investing cash flow (ex M&A)	(19.2)	(10.6)	(14.2)	(44.0)	(38.2)	(82.2)	(26.8)	(40.3)	(57.5)	(124.5)	(124.5)	(124.5)	42.7%	304.9%	183.0%
Investing cash flow - M&A	-	-	-	-	(128.3)	(128.3)	-	-	-	-	-	-			
Free cash flow	113.3	138.3	120.6	372.1	18.8	391.0	181.9	62.3	27.7	271.8	271.8	271.8	-55.5%	-77.0%	-27.0%
Financing cash flow	(3.7)	173.5	0.9	170.7	(7.3)	163.4	(48.1)	(2.6)	(8.5)	(59.2)	(59.2)	(59.2)			
FX & other	(3.4)	(0.1)	(10.5)	(13.9)	(5.0)	(19.0)	13.5	(2.6)	2.5	13.5	13.5	13.5			
Change in cash	106.2	311.7	111.0	528.9	6.5	535.4	147.3	57.1	21.7	226.1	226.1	226.1	-62.0%	-80.5%	-57.3%
Closing cash	299.8	611.5	722.5	722.5	729.0	729.0	876.3	933.4	955.1	955.1	955.1	955.1	2.3%	32.2%	32.2%
STATS															
Active customers - USA (Qtr, m)	2.64	1.98	2.49	2.49	2.61	2.61	3.69	3.82	3.48	3.48	3.48	3.48	-8.9%	39.8%	39.8%
Active customers - ROW (Qtr, m)	1.54	2.20	2.51	2.51	2.68	2.68	3.59	3.86	3.46	3.46	3.46	3.46	-10.4%	37.8%	37.8%
Active customers - Group (Qtr, m)	4.18	4.18	5.00	5.00	5.29	5.29	7.28	7.68	6.94	6.94	6.94	6.94	-9.6%	38.8%	38.8%
No. of orders - USA (m)	8.95	8.87	9.97	27.78	10.90	38.69	15.10	15.58	14.12	44.80	44.80	44.80	-9.4%	41.6%	61.3%
No. of orders - ROW (m)	5.79	9.23	9.52	24.55	11.10	35.64	14.18	15.40	13.47	43.05	43.05	43.05	-12.5%	41.5%	75.4%
No. of orders - Group (m)	14.74	18.10	19.49	52.33	22.00	74.33	29.28	30.98	27.59	87.85	87.85	87.85	-10.9%	41.6%	67.9%
Orders per customer - USA	3.4	4.5	4.0		4.2		4.1	4.1	4.1				-0.5%	1.3%	
Orders per customer - ROW	3.8	4.2	3.8		4.1		3.9	4.0	3.9				-2.4%	2.6%	
Orders per customer - Group	3.5	4.3	3.9		4.2		4.0	4.0	4.0				-1.4%	2.0%	
No. of meals - USA (m)	61.30	63.90	72.7	197.9	80.1	278.0	113.90	118.40	108.1	340.4	340.4	340.4	-8.7%	48.7%	72.0%
No. of meals - ROW (m)	50.00	85.00	89.3	224.3	98.9	323.2	125.20	135.70	119.2	380.0	380.0	380.0	-12.2%	33.5%	69.4%
No. of meals - Group (m)	111.30	148.90	162.0	422.2	179.0	601.2	239.10	254.10	227.3	720.4	720.4	720.4	-10.5%	40.3%	70.6%
Average order value - USA (EUR)	48.8	59.3	52.9		53.5	53.6	53.1	54.4	55.9				2.8%	5.6%	
Average order value - ROW (EUR)	45.3	48.3	46.5		47.4	47.0	45.2	46.0	46.5				1.1%	0.1%	
Average order value - Group (EUR)	47.4	53.7	49.8		50.4	50.4	49.3	50.2	51.3				2.2%	3.1%	

Source: HelloFresh quarterly and Annual Reports

Acquisitions: HF acquired US-based Factor75 Inc for EUR 219.8m on 31/12/20; And YouFoodz will be included from 27/10/21.

We have reviewed the HelloFresh (HF) results above and comment below. Key points:

1. HF also reported a seasonally soft quarter (Q1 & Q3 are usually softer being influenced by northern hemisphere holidays, whilst Q2 and Q4 benefit from back to school, and households getting back into a normal routine).
2. Q3 revenue EUR 1,415m was down 9.0% on Q2 but up 46% on the pcp. Both figures include the Factor75 Inc acquisition which had revenue of ~US\$100m (EUR 87m) in 2020. There was some operational impact from major storms in the USA, and Covid shut-downs in Australia. HF believed it had gained market share from competitors in the period as it has significantly improved its customer proposition and service levels (e.g. continued rapid expansion of its fulfilment centre capacity, faster time from ordering to delivery, expanded menu choices, constantly improving recipes, and maintaining good price points Vs supermarkets). It noted that several of its competitors were struggling with the volatility of trading conditions.
3. Q3 Year-to-date revenue was EUR 4,413m up 67% on the pcp.
4. Q3 contribution margin was 22.0% (v 25.6% in Q2) and (v 26.6% pcp). HF said this decline was a primarily driven by: (a) continued rapid expansion of its fulfilment centre capacity (3 new FC's added to international, 1 coming in USA) and associated launch

- and ramp-up costs; (b) more normal seasonality which means lower fixed cost utilisation and higher packaging costs in the peak months of July and August; (c) increased production wages; (d) rising logistics costs. Also mentioned (e) storm-related impact for 2 weeks in the USA; and (f) Covid-related quarantine measures for some production staff in Australia and New Zealand.
5. Q3 adjusted Ebitda was EUR 79.8m down -49% on Q2 and down -30% on the Covid boosted pcp. HF said the decline primarily reflected the short-term impact on contribution margin of a continued rapid expansion of fulfilment capacity, more normal seasonality, inflation in wages and logistics costs and a normalisation in marketing expenses.
 6. Q3 Ebitda (adjusted) margin 5.6% (v 11.8% pcp) down 6.2% points (~4.0% due to lower contribution margin and ~2.0% from normalisation in marketing costs).
 7. Year-to-date adjusted Ebitda was EUR 372.3m +20%. YTD Ebitda margin 9.0% (v 12.5% pcp) with about 2.0% of that margin reduction due to recent capacity expansion which has higher costs and hurts productivity and utilisation rates in the short-term.
 8. Q4 margins are expected to improve slightly over Q3 with better capacity utilisation post summer holidays (2 months impact in Q3), and also lower packaging costs due to lower temperatures in Q4. Then a significant step up in 1Q 2022.
 9. **Guidance raised** – With the Q3 result, HF increased its revenue growth guidance to 57% to 62% for CY21 (+45-55% previously) on a constant currency basis, due to the strong sales growth in the current financial year up to and including October, strong year-on-year customer growth, a continued high order rate and high average order values. This includes 0.4% from two months of Youfoodz (acquired 27/10/21). Based on current FX rates, actual revenue growth is expected to be 2-3% lower than this. HF maintained its guidance for adjusted Ebitda margins at between 8.25% and 10.25% for CY21. 9-months YTD: 9.0%.
 10. HF's share price has risen by 21% since the new guidance and result was given (EUR 69.96 on 1/11/21 to EUR 84.76 now).
 11. **Outlook** – HF expects slightly improved margin in 4Q and much better in 1Q. It enters CY22 with a significantly expanded customer base (6.94m at end-Sep). It is seeing a continuation of strong trends and says its value proposition to consumers is paying off. HF has been investing in people and capacity. Its trajectory towards EUR 10bn of sales long term is intact.

Other points of interest were:

- Q3 marketing costs were EUR 209m down 2% on Q2, but up 68.5% on the pcp of EUR 124m. This was 14.8% of sales (v 12.8% of sales in the pcp).
- 9 months YTD marketing costs were EUR 641m (vs 470m pcp) representing 14.5% of sales (v 12.4% of sales in the pcp). Last year's marketing costs were abnormally low as HF said demand was very strong during Covid and it was capacity constrained in many regions.
- This huge EUR 641m marketing investment (9 months) is largely a discretionary investment for growth, and represents 209% of YTD EBIT of EUR 306m. HelloFresh is building a powerful global brand (and sub-brands).
- Q3 active customers 6.94m worldwide, down 9.6% on Q2's 7.68m but up 39% on the pcp. Customer numbers include Factor75 customers (acquisition completed 31/12/20).
- Q3 orders per customer per quarter (worldwide) held up well at 4.0 (v 4.0 in Q2) and 3.9 in the pcp (+2.0%), despite a return to more normal seasonality in the quarter compared to the previous Covid boosted year.
- Q3 average order value (worldwide) also held up well at EUR 51.3 (v 50.2 in Q2,

+2.2%) and (v 49.8 in the pc, +3.1%). Management said this was pleasing given that customers have resumed eating out once more. Food price inflation has led to price rises in some markets.

- Normalisation – HF made several comments on the analysts' call and in the result regarding normalisation. It does not seem to expect a major loss of customers, order frequency or order value. Just a minor reversion to pre-Covid consumer behaviour, but now with a significantly higher customer base.
- Customer Retention – HF says it is now achieving a retention rate of ~40% after 2 years, and ~30% after 4 years, up from ~20% 4 years ago. This also includes successful re-activations where lost customers come back.
- New regions - HF entered Italy a couple of weeks ago (26m households), with a tailored menu offering, served from a new fulfilment centre near Milan. It plans to enter Japan in December 2021 or January 2022.
- Last mile delivery – HF was now doing ~20% of its German deliveries in-house with its own fleet. HF also owns its last mile delivery in Benelux and Australia.

HelloFresh Cash Flow

- Q3 cash from operations was + EUR85.2m (v 134.8m pc, down 37%). HF has reported positive operating cash flows in every quarter since 2QCY19.
- HF has invested EUR 125m YTD (v 82m pc) in property, plant and equipment, adding more Fulfilment centres. (3 new FC's in International. Plus a new FC in Phoenix opens end 4Q CY21 making 6 in the USA).
- M&A activity - HF entered the pre-prepared meals segment with its acquisition last year of US-based Factor75 Inc (completed 31/12/20) for EUR 220m and followed that up with the acquisition of Youfoodz Holdings Limited (YFZ) in Australia (completed 27/10/21) for A\$125m (EUR 80m). HF said Factor75 achieved mid-teens growth since acquisition. HF has not yet started to cross promote Factor75 to HF customers as it is also capacity constrained currently (2nd large FC being built for Factor75 in Colorado currently).
- Strategy – HF was founded 10 years ago in November 2011. It aims to become the world's leading food solutions group. It has entered the pre-prepared meal segment as noted above, and is also now providing ~100 regular grocery items to its customers in the USA and is piloting ~500 items in Benelux. These moves potentially significantly expand HF's TAM (Total Addressable Market) as well as improve the value proposition to customers.
- HF had EUR 955m of cash available at end-September (v 722m pc) +32%.

MMM - Risks / Negative Factors (updated from our previous reports)

1. **Covid now a clear headwind** – 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, active subscribers 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.

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.

MMM's business and customer numbers have more than doubled since Covid and so has HelloFresh. We expect a mild pull-back in customer / subscriber numbers across Q3 and Q4 and then a resumption of normal online growth that MMM and HelloFresh enjoyed pre-pandemic (Both companies posted 41% revenue growth in CY19). We have factored in a 5% reduction in customer numbers in Aust (would have been higher, but mitigated by WA launch), -15% in USA and -20% in Europe across Q3 (already happened) and Q4.

2. **Cash-flow negative again** – Q3 is a seasonally soft quarter because of northern hemisphere school holidays and people travelling once more. However we were surprised by the size of MMM's cash flow deficit in the quarter (EUR 7.7m / A\$12m). Unless MMM decides to throttle back the aggressive marketing, a further capital raising will probably be needed in the next couple of years.
3. **Customer retention rates & churn** – Customer retention charts published by MMM show an average retention rate after 3 years of just under 20%. HelloFresh says it is now retaining ~30%. MMM operates in the fast-moving consumer goods sector, and has strong local and international competition. MMM has seen a record number of new customers come onto its platform (website) in 1Q21 (85,000 net new customers) but many of these will be "trialists" including people taking advantage of MMM's introductory marketing offers and free or discount voucher offers, who may not stick to become regular long-term weekly customers (subscribers). MMM say that approximately 50% of these trialists churn (leave the system). In 1Q21 MMM had 327,000 active customers, of which 233,000 or 71% were "Active Weekly Subscribers," a new measure released by MMM that shows the number of customers who ordered (or skipped) subscription orders on a weekly basis during the quarter. MMM has multiple strategies to improve retention rates, but high churn does seem to be a feature of the business.
4. **Competition** – MMM operates in a competitive sector with competition from other subscription-based meal-kit companies (especially HelloFresh in all MMM's markets), subscription based pre-prepared food companies (e.g. Youfoodz, now owned by HelloFresh, 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. We note that HelloFresh has recently strengthened its strategic position with the Factor75 Inc acquisition in the USA (December 31) and the Youfoodz acquisition in Australia (completed October), both in the adjacent pre-prepared home-delivered meals segment. HelloFresh is becoming a behemoth. We also observe a number of new entrants increasing their marketing presence, so competition is increasing,

being attracted to the high growth rates on offer in this sector.

5. **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), and Italy (just launched) so Hello Fresh already has a 3 to 9 year start on MMM if MMM were to enter any of those markets.
6. **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.
7. **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.
MMM was impacted by severe storms and flooding in CY20 in all 3 regions and also bushfires in Australia in early 2020. Deliveries simply could not get through, resulting in lost sales, wasted inventory and some higher costs.
8. **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. Analysts & Fund Manager site visit to Sydney FC (Wetherill Park) on 2 December (rescheduled due to Covid lock-downs).
2. **Quarterly reports** - We expect MMM to continue to report generally strong revenue growth and other growth metrics. An improvement in the contribution margin is also expected as MMM achieves more scale, including the benefit of recent price rises and a gradual easing of labour supply issues in the US. We caution investors that quarterly figures for a high-growth company like MMM operating in 8 countries, can be quite volatile, as we have just seen with the Q3 report.
3. **MMM becoming profitable at the Group Ebitda level** for a full year (including covering head office / central costs and share-based payments). Currently we do not expect MMM to achieve Ebitda break-even in our 5 year forecasting time frame, although this is possible depending on the revenue growth and cost assumptions used.

We note that consensus estimates for MMM (Refinitiv) have a declining Ebitda loss each year, but still a loss of EUR 1.2m forecast for CY23.

We believe that MMM would be better served if it aimed at a slightly lower growth rate (perhaps 15-20% pa), to enable it to surface a small positive cash flow and small profit, with a more sustainable and affordable marketing spend of <20% of sales. The current strategy leaves no room for error – such as a bad quarter which sees cash flows and debt blow out alarmingly. Management's aim for 26-30-35% annual growth (as implied by the EUR 5bn growth ambition) is too demanding in our view, and unsustainable. Investors have trashed the share price sending management a clear message that MMM is simply aiming too high / trying too hard. And we don't like loss-making companies running up expensive debt (10.25% on the new Runway Growth Capital facility, plus fees). In our opinion, MMM has a great opportunity to be a profitable No.2 global meal kit provider after the HelloFresh juggernaut. MMM requires more conservatism on the board and should aim at a more sustainable/ manageable growth rate. We think investors would be happier with a lower risk approach.

4. **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, New Zealand and now Italy (& coming soon – Japan). To date, MMM has followed Hello Fresh into various countries a few years later (except Denmark where it looks like MMM launched first).
5. **Possible horizontal expansion into pre-prepared foods and / or grocery items** - which would significantly expand MMM's total addressable market (TAM). HelloFresh entered the pre-prepared meals segment last year with the acquisition of Factor75 for EUR 220m in November 2020, and its takeover bid for Youfoodz Holdings (ASX: YFZ) announced in July has just completed. As HelloFresh is the segment leader, we expect that MMM will be watching those competitor moves closely.
6. **Increased institutional ownership** – We note that Perennial has just gone substantial with a 6.15% stake.
7. **Takeover potential** – As one of only two subscription-based meal kit companies operating multi-nationally, and still modestly cash-flow negative, we believe there is a chance that MMM could be acquired or privatised. We believe MMM has an excellent cash-generative, high growth business model with a massive TAM (total addressable market) opportunity. It trades at a significant discount to Hello Fresh (0.7x CY21 EV/ Sales Vs HFGG.F 2.4x), and is now even cheaper than before at just A\$250m market cap versus Hello Fresh at EUR 14.7 bn (A\$23 bn). We note that Myfoodbag in New Zealand (a

small market) now has a bigger market cap \$A\$276m) than MMM's (A\$250m) even though its growth prospects are limited by one market.

Appendix 1 – Key Statistics

- 8 countries
- 7 fulfilment centres (US 3, Australia 3, Europe 1)
- >30 recipes per week Marley Spoon; > 20 per week Dinnerly
- 47 shippers worldwide
- 1,000 SKU's (v a typical supermarket 10,000 SKU's).

Appendix 2 – Valuation comparables

Refinitiv Code	Company (in Market Cap order)	Market Cap AUD m	Net Cash (Debt) AUD m	Price A\$	Revenue (\$m or local currency)				Ebitda (\$m)				Ebitda Margin			
					FY0	FY1e	FY2e	FY3e	FY0	FY1e	FY2e	FY3e	FY0	FY1e	FY2e	FY3e
MMM.AX	Marley Spoon AG (Sequoia est)	249	7	0.875	254.0	316.9	336.5	407.1	(0.9)	(40.2)	(27.0)	(22.9)	-0.4%	-12.7%	-8.0%	-5.6%
Similar online subscription-based meal kit companies (consensus forecasts)																
MMM.AX	Marley Spoon AG (consensus)	249	7	0.875	254.0	323.9	387.2	452.1	(0.9)	(30.3)	(12.1)	(1.2)	-0.4%	-9.4%	-3.1%	-0.3%
HFGG.F	Hellofresh SE	23,011	686	84.560	3,749.9	5,766.8	6,879.7	7,881.1	481.1	521.4	644.0	827.6	12.8%	9.0%	9.4%	10.5%
APRN.K	Blue Apron Holdings Inc	274	15	8.450	460.6	497.7	541.2	587.8	(5.0)	(17.4)	3.5	19.0	-1.1%	-3.5%	0.6%	3.2%
FOOD.TO	Goodfood Market Corp	592	47	7.310	285.4	391.2	445.0	508.4	2.8	2.4	8.7	14.5	1.0%	0.6%	2.0%	2.8%
MFB.NZ	My Food Bag Group Ltd	276	-28	1.180	153.3	192.1	199.0	212.5	16.3	35.7	38.4	41.2	10.6%	18.6%	19.3%	19.4%
LMKG.ST	LMK Group AB (publ)	86	-21	43.000	1,217.0	1,421.0	1,558.0	1,735.5	145.3	124.4	144.0	172.7	11.9%	8.8%	9.2%	9.9%
Online pre-prepared food & groceries																
DHER.DE	Delivery Hero SE	41,630	-295	106.950	2,471.9	5,997.3	8,944.8	12,427.1	(714.5)	(752.3)	(521.0)	35.4	-28.9%	-12.5%	-5.8%	0.3%
TKWY.AS	Just Eat Takeaway.com NV	20,187	-65	60.910	2,042.0	4,719.0	6,322.2	7,787.5	57.0	(252.5)	(25.8)	402.8	2.8%	-5.4%	-0.4%	5.2%
OCDO.L	Ocado Group PLC	23,250	890	1701.500	2,331.8	2,625.1	3,079.8	3,566.0	81.4	67.3	145.7	239.4	3.5%	2.6%	4.7%	6.7%
ROO.L	Deliveroo PLC	5,395	1,436	277.200	1,189.6	1,861.6	2,385.6	2,931.3	(9.6)	(162.3)	(130.9)	2.8	-0.8%	-8.7%	-5.5%	0.1%
Other online businesses (non-food)																
ZOIG.DE	Zooplus AG	5,376	34	482.400	1,801.5	2,101.3	2,410.6	2,741.2	86.4	65.7	81.4	97.0	4.8%	3.1%	3.4%	3.5%
KGN.AX	Kogan.com Ltd	966	-3	9.040	780.7	849.1	916.7	1,018.9	21.8	61.0	76.5	85.2	2.8%	7.2%	8.3%	8.4%
MYD.AX	Mydeal.Com Au Ltd	212	43	0.820	38.3	50.0	64.0	81.6	(3.9)	(5.3)	(2.7)	0.4	-10.3%	-10.5%	-4.1%	0.4%
RBL.AX	Redbubble Ltd	1,043	94	3.780	657.3	513.0	628.6	775.8	56.1	27.8	42.8	69.8	8.5%	5.4%	6.8%	9.0%
TPW.AX	Temple & Webster Group Ltd	1,324	92	10.990	326.8	438.9	568.3	719.8	20.9	15.3	20.3	33.3	6.4%	3.5%	3.6%	4.6%
Takeaway food Comps																
CKF.AX	Collins Foods Ltd	1,477	-573	12.660	1,065.9	1,168.0	1,283.5	1,381.1	185.1	177.3	199.4	205.4	17.4%	15.2%	15.5%	14.9%
DMP.AX	Domino's Pizza Enterprises Ltd	20,174	-1094	117.550	2,199.1	2,414.1	2,758.5	3,065.4	401.1	461.2	543.4	624.2	18.2%	19.1%	19.7%	20.4%
MCD	McDonald's Corp	254,889	-44179	253.100	19,207.8	23,265.5	24,737.4	25,824.6	8,675.9	12,085.4	12,821.6	13,566.4	45.2%	51.9%	51.8%	52.5%
YUM	Yum! Brands Inc	49,864	-12991	126.220	5,652.0	6,578.6	7,026.4	7,561.5	1,931.0	2,338.9	2,513.4	2,732.1	34.2%	35.6%	35.8%	36.1%

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)	24.7%	6.2%	21.0%	0.67x	0.69x	0.80x	0.76x	-5.4x	-10.0x	-13.5x	-3.0x	-3.7x	-3.8x
Similar online subscription-based meal kit companies (consensus forecasts)														
MMM.AX	Marley Spoon AG (consensus)	27.5%	19.5%	16.8%	0.95x	0.56x	0.47x	0.40x	NaN	NaN	NaN	NaN	NaN	NaN
HFGG.F	Hellofresh SE	53.8%	19.3%	14.6%	5.95x	2.43x	2.04x	1.78x	26.9x	21.8x	16.9x	50.9x	41.2x	31.2x
APRN.K	Blue Apron Holdings Inc	8.1%	8.7%	8.6%	0.56x	0.37x	0.34x	0.31x	NaN	52.2x	9.6x	NaN	NaN	NaN
FOOD.TO	Goodfood Market Corp	37.1%	13.7%	14.3%	1.91x	1.16x	1.02x	0.89x	190.6x	52.3x	31.4x	NaN	NaN	NaN
MFB.NZ	My Food Bag Group Ltd	25.3%	3.6%	6.8%	1.98x	1.30x	1.34x	1.46x	8.7x	8.1x	7.5x	13.4x	12.2x	11.1x
LMKG.ST	LMK Group AB (publ)	12.1%	9.6%	11.4%	0.09x	0.04x	0.05x	0.31x	4.3x	3.7x	3.1x	10.3x	8.4x	6.7x
Online pre-prepared food & groceries														
DHER.DE	Delivery Hero SE	142.6%	49.1%	38.9%	16.96x	4.66x	3.13x	2.25x	NaN	NaN	789.8x	NaN	NaN	NaN
TKWY.AS	Just Eat Takeaway.com NV	131.1%	34.0%	23.2%	9.92x	2.89x	2.15x	1.75x	NaN	NaN	33.8x	NaN	NaN	NaN
OCDO.L	Ocado Group PLC	12.6%	17.3%	15.8%	9.59x	4.83x	4.12x	3.56x	188.5x	87.1x	53.0x	NaN	NaN	NaN
ROO.L	Deliveroo PLC	56.5%	28.1%	22.9%	3.33x	1.87x	1.46x	1.19x	NaN	NaN	1243.3x	NaN	NaN	NaN
Other online businesses (non-food)														
ZOIG.DE	Zooplus AG	16.6%	14.7%	13.7%	2.97x	1.61x	1.40x	1.23x	51.4x	41.5x	34.8x	149.0x	116.5x	89.1x
KGN.AX	Kogan.com Ltd	8.8%	8.0%	11.2%	1.24x	1.14x	1.06x	0.95x	15.9x	12.7x	11.4x	30.5x	23.1x	19.5x
MYD.AX	Mydeal.Com Au Ltd	30.4%	28.1%	27.4%	4.43x	3.40x	2.65x	2.08x	NaN	NaN	484.9x	NaN	NaN	NaN
RBL.AX	Redbubble Ltd	-22.0%	22.5%	23.4%	1.44x	1.85x	1.51x	1.22x	34.1x	22.2x	13.6x	94.5x	45.0x	23.9x
TPW.AX	Temple & Webster Group Ltd	34.3%	29.5%	26.7%	3.77x	2.81x	2.17x	1.71x	80.4x	60.8x	37.0x	127.6x	103.3x	62.8x
Takeaway food Comps														
CKF.AX	Collins Foods Ltd	9.6%	9.9%	7.6%	1.92x	1.76x	1.60x	1.48x	11.6x	10.3x	10.0x	27.2x	24.3x	21.6x
DMP.AX	Domino's Pizza Enterprises Ltd	9.8%	14.3%	11.1%	5.12x	4.67x	4.08x	3.68x	24.4x	20.7x	18.1x	49.8x	40.6x	34.2x
MCD	McDonald's Corp	21.1%	6.3%	4.4%	15.57x	9.45x	8.89x	8.52x	18.2x	17.2x	16.2x	26.9x	25.0x	23.0x
YUM	Yum! Brands Inc	16.4%	6.8%	7.6%	11.12x	7.18x	6.72x	6.25x	20.2x	18.8x	17.3x	27.7x	25.5x	22.8x

Source: Refinitiv consensus estimates; Sequoia estimates for MMM

Marley Spoon AG (MMM) \$ 0.88 € equivalent: 0.56

Profit & Loss

Year end Dec (€m)	FY19	FY20	FY21e	FY22e	FY23e
Op. Revenue	129.6	254.0	316.9	336.5	407.1
Revenue growth %	40.8%	96.1%	24.7%	6.2%	21.0%
Cost of Goods Sold	(71.8)	(133.3)	(164.8)	(171.6)	(203.6)
Gross Profit	57.8	120.7	152.1	164.9	203.6
Gross Profit Margin	44.6%	47.5%	48.0%	49.0%	50.0%
Fulfillment costs	(25.5)	(46.6)	(64.7)	(65.2)	(79.7)
Contribution Margin	32.3	74.1	87.4	99.7	123.8
Contribution Margin %	25.0%	29.2%	27.6%	29.6%	30.4%

Other Income	0.0	0.0	0.0	0.0	0.0
Cash Operating Expenses	(62.1)	(74.7)	(126.6)	(125.7)	(145.7)
Share based payments	(0.4)	(0.4)	(1.0)	(1.0)	(1.0)
EBITDA	(30.2)	(0.9)	(40.2)	(27.0)	(22.9)
Ebitda Margin	-23.3%	-0.4%	-12.7%	-8.0%	-5.6%
Depreciation & Amort	(4.6)	(6.5)	(9.5)	(10.5)	(11.2)
EBIT	-34.8	-7.4	-49.7	-37.5	-34.1
Ebit Margin	-26.8%	-2.9%	-15.7%	-11.1%	-8.4%
Net Interest Inc (Expense)	(5.6)	(7.4)	(4.0)	(5.5)	(8.0)
Share of Assoc NPAT	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	(40.4)	(14.8)	(53.7)	(43.0)	(42.1)
Income Tax Credit (Expense)	(0.0)	(0.1)	0.0	0.0	0.0
Tax Rate	0.1%	0.9%	0.0%	0.0%	0.0%
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
NPAT (reported)	-34.5	-86.2	-53.7	-43.0	-42.1
Adjustments (Abnormals)	-5.5	71.4	0.0	0.0	0.0
NPAT (normalised)	-40.1	-14.8	-53.7	-43.0	-42.1

Balance Sheet

Cash	5.4	34.4	12.5	-28.7	-62.9
Receivables	0.5	0.7	1.2	1.3	1.4
Inventories & contract assets	3.7	6.6	8.2	8.6	10.2
Other	2.4	2.4	2.4	2.4	2.4
Total current assets	12.0	44.1	24.3	-16.5	-48.9
PP&E	20.1	21.0	51.0	51.0	51.0
Investments	0.0	0.0	0.0	0.0	0.0
Intangibles	3.4	4.9	7.9	10.9	13.9
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
Other	1.4	3.0	4.0	10.5	5.3
Total non-current assets	24.9	29.0	63.0	72.4	70.2
Total Assets	37.0	73.1	87.3	55.9	21.3
Payables	-12.9	-17.5	-28.7	-30.5	-36.9
Interest bearing liabilities - C	-6.0	-8.2	-13.2	-13.2	-13.2
Provisions	-5.3	-7.9	-15.9	-15.9	-15.9
Other	-1.4	-3.4	-6.0	-6.0	-6.0
Total Current Liabilities	-25.6	-37.0	-63.8	-65.6	-72.0
Interest-bearing liabilities - N	-47.1	-28.0	-39.1	-49.1	-49.1
Provisions	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	-12.0	0.0	0.0
Total Non-current Liabilities	-47.1	-28.0	-51.1	-49.1	-49.1
Total Liabilities	-72.7	-65.0	-114.9	-114.7	-121.1
Total Shareholders' Equity	-35.7	8.1	-27.6	-58.7	-99.8

Interims

Year end June	1H20	2H20	1H21	2H21e
Sales	116.2	137.9	158.0	158.9
Sales Growth (g)	89.2%	102.2%	36.0%	15.2%
EBITDA	-2.0	1.5	-14.8	-24.4
EBITDA Margin	-1.7%	1.1%	-9.4%	-15.4%
EBIT	-5.3	-2.2	-19.3	-30.4
Equity Share of Assocs NPAT	0.0	0.0	0.0	0.0
NPAT (Reported)	-67.5	-18.8	-21.0	-32.7
NPAT (Adjusted)	-8.4	-6.4	-21.0	-32.7
EPS (adjusted)(cents)	-5.2	-2.7	-8.2	-10.7
EPS Growth	-65.9%	-77.6%	58.6%	289.4%

Source: Sequoia estimates

Per share & Ratio data

Year end Dec	FY19	FY20	FY21e	FY22e	FY23e
CDIs on Issue - Wavge (f/d)	146.1	187.2	284.1	284.1	284.1
CDIs on Issue - at year-end	158.5	256.0	284.1	284.1	284.1
Reported EPS (cents)	(23.7)	(46.1)	(18.91)	(15.13)	(14.82)
Growth	-33.7%	94.8%	Large +ve	Large +ve	-2.1%
P/E ratio (x)	-2.4x	-1.2x	-3.0x	-3.7x	-3.8x

EPS (normalised)(cents)	(27.4)	(7.9)	(18.91)	(15.13)	(14.82)
Growth	-22.9%	-71.1%	Large +ve	Large +ve	-2.1%
P/E ratio (x)	-2.0x	-7.1x	-3.0x	-3.7x	-3.8x
DPS (cents)	0.0	0.0	0.0	0.0	0.0
Franking	0%	0%	0%	0%	0%
Yield	0.0%	0.0%	0.0%	0.0%	0.0%
OCF per share (cents)	-20.7	2.4	-14.1	-11.0	-9.2
Price/OCF (x)	-2.7x	23.8x	-4.0x	-5.1x	-6.1x
Enterprise Value \$m	215.4	171.0	218.2	270.8	309.6
EV/ Sales	1.66x	0.67x	0.69x	0.80x	0.76x
EV/EBITDA	-7.1x	-182.5x	-5.4x	-10.0x	-13.5x
EV/EBIT	-6.2x	-23.0x	-4.4x	-7.2x	-9.1x

Liquidity & Leverage

Net Cash (Debt) \$m	(47.6)	(1.8)	(39.9)	(91.1)	(125.2)
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%	-57.0%	-67.0%	-160.1%
ROE (NPAT / T.Equity) %	112.2%	-182.4%	194.3%	60.8%	37.7%
Interest Cover (EBIT)	-6.2x	-1.0x	-12.4x	-6.8x	-4.3x
Dividend Payout % (of adj EPS)	n/a	n/a	n/a	n/a	n/a

Cash Flow

EBITDA	-30.2	-0.9	-40.2	-27.0	-22.9
Chge in Working Capital	-1.8	1.5	9.1	1.3	4.7
Interest Received (Paid)	-1.0	-0.3	-7.6	-5.5	-8.0
Income taxes paid	0.0	0.0	-0.3	0.0	0.0
Other	2.7	4.1	-1.0	0.0	0.0
Operating cash flows	-30.3	4.4	-40.1	-31.2	-26.2
Capex	-4.4	-5.2	-20.0	-17.0	-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	-3.0	-3.0	-3.0
Net investing cash flows	-6.3	-8.6	-23.0	-20.0	-8.0
Equity raised (bought back)	4.0	43.7	17.9	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Change in Debt	29.3	-10.0	23.2	10.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Financing cash flow	33.3	33.7	41.1	10.0	0.0
Change in Cash	-3.2	29.5	-22.0	-41.2	-34.2

Operating Stats & Segmental	FY19	FY20	FY21e	FY22e	FY23e
Active customers Worldwide ('000s)	182	327	402	442	531
Active subscribers Worldwide ('000)	131	233	282	326	376

Revenue by Segment

USA	56.1	127.2	145.6	143.1	173.1
Australia	48.8	86.0	116.4	141.2	170.8
Europe	24.6	40.8	54.9	52.2	63.2
Operating revenue	129.6	254.0	316.9	336.5	407.1

Ebitda by Segment

USA	-13.0	4.1	-11.5	-6.6	-4.6
Australia	-1.7	9.7	-2.3	6.6	10.4
Europe	-7.7	-1.9	-7.2	-5.0	-4.6
Global head office costs	-7.4	-12.4	-18.2	-21.0	-23.1
Ebitda (ex share-based paymts)	-29.8	-0.5	-39.2	-26.0	-21.9

Operating Ebitda Margins

USA	-23.2%	3.2%	-7.9%	-4.6%	-2.7%
Australia	-3.5%	11.3%	-2.0%	4.6%	6.1%
Europe	-31.2%	-4.7%	-13.1%	-9.6%	-7.2%
Ebitda margin %- Total	-23.0%	-0.2%	-12.4%	-7.7%	-5.4%

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- Retail, wholesale and institutional trading platforms
- Market data and financial news services.

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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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