

My Food Bag

A Winning Recipe? — Initiate at OUTPERFORM

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OUTPERFORM

We initiate coverage of My Food Bag (MFB) with an OUTPERFORM rating and a 12 month target price of NZ\$1.85. MFB offers investors exposure to a developing segment of the defensive food retail space. We are attracted to 1) its strong cash generation, 2) demographic trends towards convenience and online product offerings, 3) future growth opportunities available through leveraging its brand equity into adjacent markets, and 4) trading at a -24% discount to the market we view current valuation as attractive. While the product premise appears similar to an online grocer, we believe meal kit providers are a lifestyle product and offer a value proposition to the customer beyond convenience and price, with room to further disrupt the traditional grocery and foodservice markets.

NZX Code	MFB	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$1.61	NPAT* (NZ\$m)	8.2	15.6	20.2	22.3	PE	47.6	25.0	19.3	17.5
Target price	NZ\$1.85	EPS* (NZc)	3.4	6.4	8.4	9.2	EV/EBIT	32.6	17.8	14.2	13.3
Risk rating	Medium	EPS growth* (%)	13.9	90.5	29.6	9.9	EV/EBITDA	24.3	14.5	12.0	11.6
Issued shares	242.4m	DPS (NZc)	0.0	0.0	6.5	8.0	Price / NTA	n/a	n/a	n/a	n/a
Market cap	NZ\$390m	Imputation (%)	0	100	100	100	Cash div yld (%)	0.0	0.0	4.0	5.0
Avg daily turnover	684.9k (NZ\$1,126k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	5.6	6.9

Activating the customer reservoir

MFB and other meal kit providers experienced a surge in customer acquisition and reactivation over the last 12 months, with greater adoption of the online convenience offering. Having served over 300,000 individual customers (c. 17% of New Zealand households), we expect customer acquisition growth for MFB to moderate. Deliveries, and therefore new growth, will be dictated by MFB's ability to tap into its customer reservoir to maximise utilisation. We view shifts towards more flexible (My Choice) and goal based (Fresh Start) offerings as key drivers of the strategy.

Leveraging its brand, future growth opportunities exist through cross selling and expansion into additional channels/beyond food. While we recognise the significant market opportunity these represent, at this stage we do not expect to see a material contribution within the explicit forecast period and therefore represent upside to our base valuation.

Margin expansion significant, but not out of step with peers

Near-term earnings growth is to be driven primarily by material margin expansion as a result of 1) improved product pricing, 2) favourable product mix changes, and 3) better procurement contract terms which are expected to unleash a material reduction in COGS per bag. Whilst the margin uplift is significant (FY19 contribution margin 21%, FY22E 29%), it is not out of step with global meal-kit peers, providing comfort in the prospectus forecasts.

Valuation attractive

MFB currently trades on a 12 month forward PE ratio of 17.5x on our estimates, a -24% discount to the market median (22.9x), which we view as attractive given its growth characteristics and strong cash generation. While there are a number of listed meal-kit companies, globally direct comparisons are difficult at this stage given the various growth stages and market exposures. HelloFresh (HFG.GR), its closest competitor in New Zealand, trades on a 12 month forward PE ratio of 37.9x.

My Food Bag (MFB)

Priced as at 07 Apr 2021 (NZ\$) **1.61**

12-month target price (NZ\$)*	1.85
Expected share price return	14.9%
Net dividend yield	4.9%
Estimated 12-month return	19.8%

Key WACC assumptions	
Risk free rate	2.30%
Equity beta	0.98
WACC	6.8%
Terminal growth	1.5%

Spot valuations (NZ\$)	
1. DCF	180
n/a	n/a
n/a	n/a

DCF valuation summary (NZ\$m)	
Total firm value	481
(Net debt)/cash	(17)
Less: Capitalised operating leases	27
Value of equity	437

Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Valuation Ratios	2019A	2020A	2021E	2022E	2023E
Sales revenue	156.0	153.3	189.5	186.4	192.0	EV/EBITDA (x)	30.3	24.1	14.3	11.8	11.4
Normalised EBITDA	13.5	16.9	28.5	34.4	35.7	EV/EBIT (x)	36.5	32.3	17.4	13.9	13.1
Depreciation and amortisation	(2.3)	(4.3)	(5.2)	(5.2)	(4.6)	PE (x)	54.2	47.6	25.0	19.3	17.5
Normalised EBIT	11.2	12.6	23.3	29.2	31.1	Price/NTA (x)	6.7	n/a	n/a	n/a	n/a
Net interest	1.1	1.3	1.8	1.1	0.2	Free cash flow yield (%)	2.0	4.0	1.3	6.1	6.2
Associate income	0	0	0	0	0	Net dividend yield (%)	0.0	0.0	0.0	4.0	5.0
Tax	(2.9)	(3.1)	(5.9)	(7.9)	(8.7)	Gross dividend yield (%)	0.0	0.0	0.0	5.6	6.9
Minority interests	0	0	0	0	0						
Normalised NPAT	7.2	8.2	15.6	20.2	22.3	Capital Structure	2019A	2020A	2021E	2022E	2023E
Abnormals/other	0.8	0	14.8	0	0	Interest cover EBIT (x)	n/a	n/a	n/a	n/a	n/a
Reported NPAT	6.4	8.2	0.8	20.2	22.3	Interest cover EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Normalised EPS (cps)	3.0	3.4	6.4	8.4	9.2	Net debt/ND+E (%)	22.5	22.5	23.5	1.9	-8.0
DPS (cps)	0	0	0	6.5	8.0	Net debt/EBITDA (x)	1.3	1.0	0.6	0.0	n/a

Growth Rates	2019A	2020A	2021E	2022E	2023E	Key Ratios	2019A	2020A	2021E	2022E	2023E
Revenue (%)	n/a	-1.7	23.7	-1.6	3.0	Return on assets (%)	228.6	11.5	23.1	29.5	29.8
EBITDA (%)	n/a	25.2	68.8	20.7	3.6	Return on equity (%)	12.3	14.1	29.6	30.5	30.6
EBIT (%)	n/a	12.5	85.1	25.2	6.5	Return on funds employed (%)	10.5	11.7	22.7	29.9	32.2
Normalised NPAT (%)	n/a	13.9	90.5	29.6	9.9	EBITDA margin (%)	8.7	11.0	15.1	18.5	18.6
Normalised EPS (%)	n/a	13.9	90.5	29.6	9.9	EBIT margin (%)	7.2	8.2	12.3	15.7	16.2
Ordinary DPS (%)	n/a	n/a	n/a	n/a	23.1	Capex to sales (%)	0.8	2.3	1.6	1.5	1.6
						Capex to depreciation (%)	108	257	86	88	121
						Imputation (%)	0	0	100	100	100
						Pay-out ratio (%)	0	0	0	78	87

Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Operating Performance	2019A	2020A	2021E	2022E	2023E
EBITDA	n/a	n/a	28.5	34.4	35.7	Deliveries ('000)	1,266	1,250	1,526	1,503	1,526
Working capital change	n/a	n/a	(3.4)	(3.5)	0.3	Average order value (NZ\$)	123.2	122.6	124.2	124.0	125.9
Interest & tax paid	n/a	n/a	(6.2)	(8.2)	(8.8)	Revenue	156.0	153.3	189.5	186.4	192.0
Other	n/a	n/a	(10.8)	3.9	0	Gross profit	69.7	66.0	88.3	92.8	96.0
Operating cash flow	n/a	n/a	8.1	26.6	27.1	Gross profit margin (%)	44.7	43.1	46.6	49.8	50.0
Capital expenditure	n/a	n/a	(3.0)	(2.8)	(3.1)						
(Acquisitions)/divestments	n/a	n/a	0	0	0	Assembly cost / delivery (NZ\$)	16.2	15.2	14.4	14.3	14.5
Other	n/a	n/a	(55.6)	(2.1)	(1.6)	Distribution cost / delivery (NZ\$)	12.6	11.5	12.0	11.7	11.8
Funding available/(required)	n/a	n/a	(50.4)	21.8	22.5	Operating contribution	33.2	32.6	48.1	53.8	55.8
Dividends paid	n/a	n/a	(13.3)	(7.3)	(15.8)	Contribution margin (%)	21.3	21.3	25.4	28.9	29.1
Equity raised/(returned)	n/a	n/a	56.4	0	0						
(Increase)/decrease in net debt	n/a	n/a	(7.3)	14.5	6.7						

Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Working capital	n/a	n/a	(9.2)	(6.0)	(6.2)
Fixed assets	n/a	n/a	3.2	3.6	3.9
Intangibles	n/a	n/a	85.9	85.4	85.3
Right of use asset	n/a	n/a	8.6	6.1	5.6
Other assets	n/a	n/a	1.3	1.3	1.4
Total funds employed	n/a	n/a	89.7	90.4	90.0
Net debt/(cash)	n/a	n/a	16.2	1.3	(5.4)
Lease liability	n/a	n/a	10.0	7.5	7.2
Other liabilities	n/a	n/a	10.8	15.2	15.4
Shareholder's funds	n/a	n/a	52.7	66.3	72.8
Minority interests	n/a	n/a	0	0	0
Total funding sources	n/a	n/a	89.7	90.4	90.0

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

Executive summary

My Food Bag (MFB) is a meal-kit company which began trading in 2013 and has expanded its service across New Zealand with deliveries able to reach 86% of New Zealand. MFB delivers its food boxes weekly, which contain recipes and ingredients to make dinner meals. MFB offers a broad range of products servicing an array of nutritional and budget requirements. Its key brands include My Food Bag, Bargain Box, Fresh Start, and ready made meal offering MADE. Since inception, MFB has delivered 85m meals to over 300,000 New Zealand households.

OUTPERFORM; Target price NZ\$1.85

Following MFB's IPO (initial public offering) last month we initiate coverage with an OUTPERFORM rating. On a 17.5x 12 month forward PE ratio, MFB is trading at a -24% discount to the market median (22.9x). We view valuation as undemanding given 1) attractive near-term earnings growth driven margin expansion from improved procurement contracts, 2) a forward gross dividend yield of 5.6% backed strong cash generation, and 3) future growth opportunities leveraging brand equity in adjacent markets.

Our target price is NZ\$1.85. This implies 12 month forward PE ratio of 20.1x a c. -12% discount to the market median, and a 12 month forward EV/EBITDA ratio of 13.0x. Our valuation is based on our DCF, which uses a WACC of 6.8%, which incorporates a risk free rate of 2.3% and a market risk premium of 5.5%.

Earnings assumptions

- Revenue = average order value (AOV) x deliveries
 - We expect AOV to lift in FY21E as a result of 1) price increases put through, and 2) larger basket size (improvement in brand mix as the portfolio weights toward goal based). We forecast FY20–FY23E AOV CAGR of +1%.
 - COVID-19 provided a significant boost to FY21E deliveries and the customer reservoir with a number of first time users. Although we expect a modest decline in active customers, we believe the focus on customer utilisation will provide an offset. We forecast FY20–FY23E delivery CAGR of +7% with +22% of growth in FY21E.
- We expect significant gross profit expansion following key supply contract negotiations. Gross profit per bag assumptions lifts +NZ\$5.10 (+10%) in FY21E and +NZ\$3.86 (+7%) in FY22E, before moderating at a steady gross margin of c. 50%.
- Contribution margin is a key metric for meal kit providers and represents the profit after bag costs (COGS, direct marketing/ discounts, and assembly & delivery). We expect contribution margin to track towards 30% by FY23E, which is consistent with margin achieved/targeted by global meal kit peers HelloFresh and Marley Spoon.

Key risks

- **Food safety risk** — Products may be subject to contamination, mishandling, or mislabelling, which could cause a customer to become unwell. Highlighting this risk, in November 2020, HFG made headlines after its meal-kit customers across New Zealand were admitted to hospital with histamine fish poisoning.
- **Brand risk** — Brand damage from an operational or marketing misstep could have a significant impact on MFB. It's brand strength (88% brand recognition) is key to continued customer growth and helps maintain lower marketing spend than peers. A brand ambassador could be brought under public scrutiny for adverse reasons, which could impact MFB's brand perception.
- **IT and data security risk** — The information systems used to run MFB's website, app, and operations could suffer a material malfunction, disruption or security breach.
- **Product assembly risk** — Disruptions to MFB's packing facility could occur, resulting in lack of delivery, damage to product, or theft. Assembly disruptions could be caused by fires, outages, or health and safety incidents, and while these are mitigated by internal procedures and operating over three separate sites, they could result in customer losses or brand damage.
- **Competition risk** — A change in the competitive environment could cause customers to switch from MFB's product to competitors products. The discounting strategy is prominent in meal-kit providers, which could cause margin compression or customer losses.
- **Other risks** — Ingredients may be limited due to seasonality. MFB relies on third party distribution through NZ Post which could be disrupted. MFB has a relatively limited trading history.

Valuation

We initiate on MFB with a target price of NZ\$1.85. Our target price is based on our valuation rolled forward at the cost of equity, less dividends forecast for the next 12 months. We value NPH using a discounted cash flow (DCF). We also consider peer multiples but because of the wide disparity between valuation outcomes, various stages of growth, and lack of clean comparable companies we do not incorporate this into our methodology at this time.

Figure 1. Valuation summary (NZ\$)

Valuation method	Weight	NZ\$/share	Rolled forward	Less forward dividend	Target price
DCF	100%	1.80			
Target price		1.80	1.92	(0.07)	1.85
Peer multiples	-	1.54			
Relative dividend yield	-	1.53			

Source: Forsyth Barr analysis

Discounted cash flow

Our DCF calculation values MFB at NZ\$1.80 per share. We assume EBITDA CAGR of +13% from FY21 to FY23, in line with prospectus forecasts. This assumes material margin expansion, attributed to improved procurement and delivery contracts, alongside price increases. Beyond this, we assume earnings growth moderates to a CAGR of +2.0% from FY24 to FY30. Our terminal growth assumption is +1.5%.

Cost of capital

We outline our key cost of capital assumptions for our DCF model in Figure 2 which results in a WACC of 6.8%.

Figure 2. Key cost of capital assumptions

WACC component	Amount
Risk free rate	2.3%
Market risk premium	5.5%
Target gearing	15%
Asset beta	0.85
Equity beta	0.98
Cost of equity	7.0%
WACC	6.8%

Source: Forsyth Barr analysis

Valuation sensitivity

We provide sensitivities for our key variables in our DCF valuation in Figure 3.

Figure 3. Sensitivity analysis of key DCF variables

	Sensitivity	DCF EV impact (NZ\$m)
WACC	+/-0.5%	-55/+58 (-11%/+11%)
Terminal growth rate	+/-0.5%	-36/+45 (-7%/+9%)
Gross margin (per annum)	+/-0.5%	-17/+17 (-3%/+3%)
Annual price growth	+/-0.5%	-53/+56 (-10%/+11%)
Deliveries growth (i.e. volume growth per annum)	+/-0.5%	-24/+25 (-5%/+5%)
Contribution margin (per annum)	+/-0.5%	-18/+17 (-3%/+3%)
Marketing expense (% of revenue)	+/-1.0%	-40/+38 (-7%/+7%)

Source: Forsyth Barr analysis

Relative earnings multiples

Peer comparisons difficult – Relative universe includes global meal kits and traditional grocery companies

There are a number of listed global meal kit companies, with Marley Spoon, HelloFresh, and Goodfood the closest peers in our opinion. However, at various stages of growth and therefore earnings profiles, it makes direct multiple comparisons difficult. We

extend our comparable universe to include pure online retailers and grocery companies. MFB's online offering in combination with a comparatively lower earnings growth profile, limits peer multiple read through.

- **Meal kits:** Applying an average revenue multiple across the three closest peers of 1.8x gives us an MFB EV of NZ\$474m and spot valuation of NZ\$1.29. Given various levels of profitability, we view a revenue multiple as best suited but recognise the lower growth profile of MFB.
- **Grocery:** Applying an average forward PE ratio of 21.2x to MFB, consistent with bricks & mortar grocery retail, provides an implied valuation of NZ\$1.78. We use PE to factor in the difference in the asset base. Whilst grocery retailers are more established and arguably more defensive, we believe MFB offers higher earnings growth.

Applying a blended average of the two approaches provides a spot value for MFB of NZ\$1.54 per share, or a 12 month forward PE multiple of 16.3x.

Other comparisons provide useful reference

We believe the following comparisons provide insight to how MFB may trade, but given the 1) different category exposures, and 2) different time line, we include for reference only.

- **Online retail:** The online retailers tend to trade at higher multiples, as a result of high earnings growth. The majority of the online retailers operate in apparel and therefore provide limited read through.
- **Trade Me vs. NZX50:** While there are a lack of appropriate comps in the current New Zealand market, we believe MFB offers similar characteristics to previously listed company Trade Me. From 2014 to 2018 (when it was acquired), Trade Me traded broadly in line with the NZX50 averaging a 12 month forward PE of 18.6x, a +0.5% premium to the market.

Figure 4. Valuation comparatives (priced as at 6 April 2021)

	Ticker	Currency	Price (LC)	Market Cap (NZ\$m)	12m fwd PE	12m fwd EV/ EBIT	12m fwd EV/ EBITDA	EV/Revenue	Div yld (%)
Meal kits									
Marley Spoon	MMM	AUD	2.71	751	n/a	n/a	n/a	1.6x	-
Hello Fresh	HFG	EUR	64.86	18,876	37.9x	24.6x	21.2x	2.4x	-
Goodfood	FOOD	CAD	8.58	712	n/a	n/a	n/a	1.5x	-
Blue Apron	APRN	USD	6.47	164	n/a	n/a	12.4x	0.2x	-
YouFoodz	YFZ	AUD	0.62	90	n/a	n/a	n/a	0.6x	-
Average					37.9x	24.6x	16.8x	1.2x	-
Grocery									
Woolworths	WOW	AUD	41.17	56,458	25.3x	17.6x	10.5x	1.0x	2.90
Coles	COL	AUD	15.98	23,109	20.5x	16.0x	9.0x	0.8x	4.07
Walmart	WMT	USD	139.43	556,667	25.1x	19.3x	12.9x	0.8x	1.60
Kroger	KR	USD	36.73	39,145	12.9x	14.3x	7.6x	0.4x	2.07
Tesco	TSCO	GBP	2.28	34,714	11.3x	11.7x	6.9x	0.5x	4.65
Average					19.0x	15.8x	9.4x	0.7x	3.06
Online retail									
Ocado	OCDO	GBP	20.92	30,452	n/a	n/a	n/a	5.5x	-
Kogan	KGN	AUD	12.84	1,480	22.8x	14.1x	12.6x	1.6x	3.12
Amazon.com	AMZN	USD	3,226.73	2,302,817	48.9x	49.1x	21.8x	3.5x	-
ASOS	ASC	GBP	57.72	11,350	38.1x	29.8x	16.3x	1.4x	-
BooHoo Group	BOO	GBP	3.48	8,643	31.1x	24.0x	19.4x	2.4x	-
Revolve	RVL	USD	43.78	4,447	56.6x	41.7x	36.0x	4.3x	-
Average					39.5x	31.7x	21.2x	3.1x	0.62
My Food Bag	MFB	NZ	1.61	390	17.6x	13.1x	11.5x	2.3x	5.57

Source: Bloomberg, Forsyth Barr analysis

Strong cash generation with a payout ratio of 70% to 90%

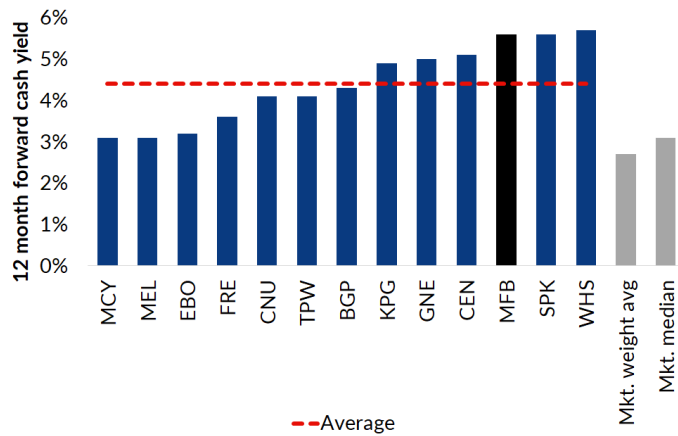
MFB exhibits strong cash generation. It carries negative working capital with an asset light operating model, enabling strong free cash flow (c. 60% of EBITDA). We estimate MFB's dividend payout range to be 70% to 90% of NPAT and assume an 80% payout ratio in FY22E, or a dividend of NZ\$16m.

We face a similar lack of appropriately comparable companies in the New Zealand market. Given the cash generation and less cyclical nature of grocery exposure, we see scope for MFB to trade on a relative dividend yield basis and compare to other "defensive consumer" companies. While there is inherent churn in MFB's active customers, we view the available customer base as relatively

stable and therefore assume average annual customer utilisation is similar to that of other defensive consumer facing companies. By comparison, grocery retailers trade at a lower dividend yield (Figure 6).

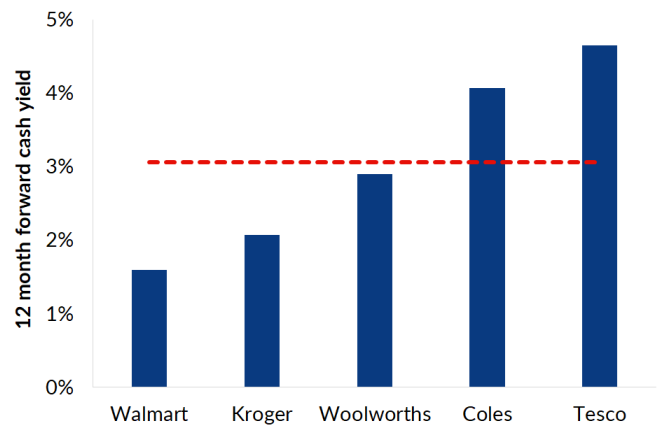
We apply a relative dividend yield of 4.3% (average of our peer set, Figure 5) to our FY22E expected dividend of NZ\$16m to derive a spot value of NZ\$1.53 per share.

Figure 5. New Zealand defensive dividend yield



Source: Bloomberg, Forsyth Barr analysis

Figure 6. Global grocery company dividend yields



Source: Bloomberg, Forsyth Barr analysis

Key issue #1: Framing the addressable market

MFB operates within New Zealand's NZ\$37bn food and beverage market. We estimate its core addressable market at c. NZ\$21bn, which is our estimate of New Zealand household dinner spend. We make further refinements to estimate its current serviceable market based on 1) household demographics, and 2) geographic reach, narrowing the market size to NZ\$7.6bn. The addressable market is likely to expand as MFB develops and expands its product offering. Immediate opportunities exist in both the meal-kit and ready-made meal markets.

The meal-kit proposition has been well accepted in New Zealand (MFB has reached ~17% of domestic households in seven years). Nonetheless the industry is still growing, helped by COVID-19, with structural tailwinds through online grocery adoption and increasing interest from consumers for healthy, convenient meal options.

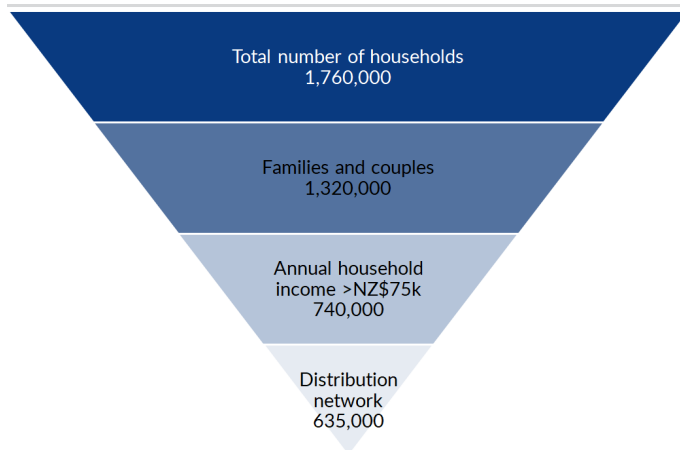
MFB FY21E annual sales represents 2.5% of our estimated current addressable market. After adjusting for a meal-kit utilisation rate (meals per year) of 30% (based on 4 meals a week for 26 weeks of the year), industry market estimates fall to NZ\$2.2bn and MFB sales penetration increases to 9%.

A material market opportunity for dinner meal-kits

MFB offers a service that bridges out-of-home (convenience) and grocery (in home consumption). Its meal kits are currently targeted towards the dinner market, which we estimate is an NZ\$21bn segment in New Zealand.

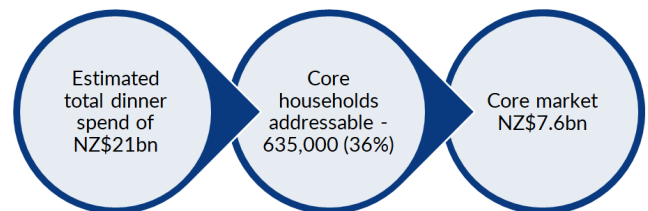
We see scope for MFB to enter into additional meals, and therefore see the total addressable market as total New Zealand food spend. However, we do not expect a meaningful contribution from these growth lines within our explicit forecast period and therefore they are not included within this analysis.

Figure 7. Serviceable household breakdown



Source: StatsNZ, Forsyth Barr analysis

Figure 8. We estimate an addressable market of NZ\$7.6bn



Source: Forsyth Barr analysis

New Zealand dinner estimated at NZ\$21bn

Over NZ\$37bn is spent on food and beverages in New Zealand. Data shows that two thirds (or NZ\$24bn) of this spend takes place in grocery and convenience stores, with most of the remaining spent on food services and out-of-home (OOH) meals (NZ\$11bn).

We reach our dinner market estimate by breaking down household grocery expenditure into discrete categories. Common dinner ingredients (meat, vegetables, and condiments) make up c. 55% (or NZ\$13bn) of grocery spend. We do not have a breakdown of OOH spend, and instead assume a higher incidence towards the evening meal, which we estimate at 70% (or NZ\$8bn).

Families and couples are the core customer set

We believe MFB has two core customer sets, families and (mostly young) couples. Of New Zealand's 1.8 million households c. 75% (1.3 million) households fall into this category.

Although MFB does service single person households, we currently exclude them from our analysis given the more limited offer; two of its 29 meal-kit options are available for one person and they are only available on five night options. Unsurprisingly these bags are also the highest cost per meal at >NZ\$20/per meal.

We estimate MFB bags are priced at a premium to the supermarkets

We estimate that on average MFB's meal-kits are priced c. +15% higher than the same meal replicated in the supermarkets. Its premium price is warranted, in our opinion, with value attributed to 1) convenience, 2) product quality, and 3) attractive recipes. Pricing relative to supermarkets varies week to week depending on products and specials available and we note MFB's internal analysis suggests its bags are priced in line to below supermarkets.

We refine the core market further using household income spread. The premium pricing of MFB, in our opinion, suggests the product is implicitly better suited towards higher income households. Whilst only 40% of households have above average incomes, we note MFB also offers a number of lower priced bags under Bargain Box, and therefore include a lower income bracket to extend suitable households to 56% (annual incomes greater NZ\$75k). Applying these assumptions to the 1.3 million family households gives us 740,000 households that are well suited to MFB's product set.

MFB services 86% of New Zealand through NZ Post

Finally, MFB's distribution network (via NZ Post) provides reach to c. 86% of New Zealand's population. Accounting for this, we estimate that MFB's addressable market consists of 635,000 households (Figure 7), or c. 36% of New Zealand households. This compares to MFB's cumulative individual customer base of 300,000, which would suggest tougher new customer acquisition growth going forward. However, as households age we expect the addressable market to grow given urbanisation and higher online penetration within younger cohorts.

MFB's core addressable market is NZ\$7.6bn

We estimate the core addressable market is NZ\$7.6bn, based on our calculation of dinner spend and assuming full utilisation by addressable households. MFB FY21E sales represent 2.5% of its current addressable market. However, after adjusting for a meal-kit utilisation rate (meals per year) of 30% (based on 4 meals a week for 26 weeks of the year), industry revenue estimates fall to NZ\$2.2bn and an MFB sales penetration of 9%.

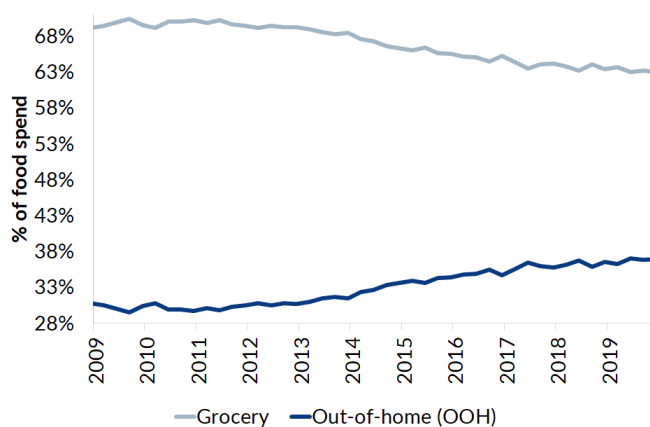
Favourable structural trends for continued growth in meal-kit industry

The landscape for food expenditure in New Zealand is shifting, with more spend being directed away from grocery in favour of OOH (Figure 9). This shift has been influenced by factors including rising disposable incomes, increased online sales penetration, smaller kitchen sizes, lower birth rates, and the emergence of convenient and healthy alternatives. In our view, these enduring dynamics provide a favourable backdrop for increasing adoption of meal-kits.

Growth in Out Of Home likely driven by convenience

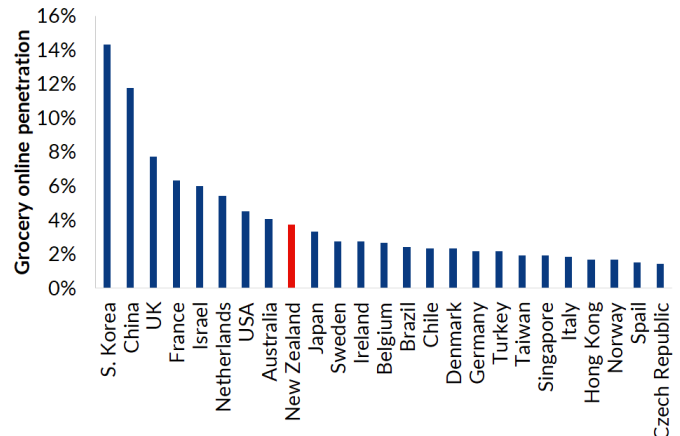
- Pre COVID-19, OOH displayed a clear trend of taking share of wallet, which is driven by a more convenience conscious consumer.
 - Although COVID-19 reversed this trend, with OOH consumption restricted during lockdowns, we expect MFB to continue to benefit from the convenience trend that was driving the shift to OOH.
- From a macro standpoint the meal-kit market is well-placed to take share through the economic cycle, capturing the natural flow from OOH to Grocery into a recession and vice-versa through a recovery.

Figure 9. OOH capturing share of wallet



Source: StatsNZ, Forsyth Barr analysis

Figure 10. Online grocery penetration (pre COVID-19)

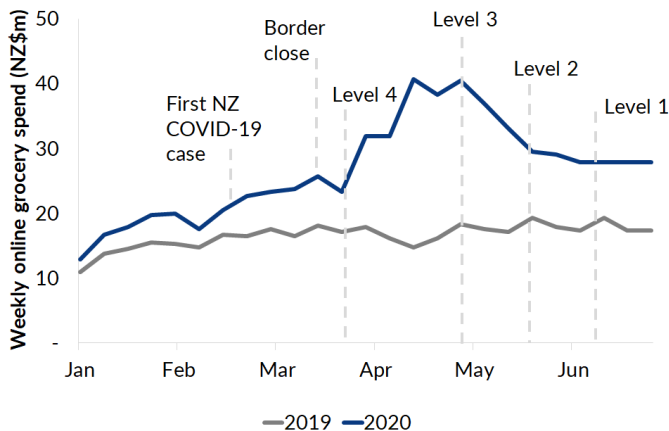


Source: Euromonitor, Statista, Forsyth Barr analysis

Online growth in grocery

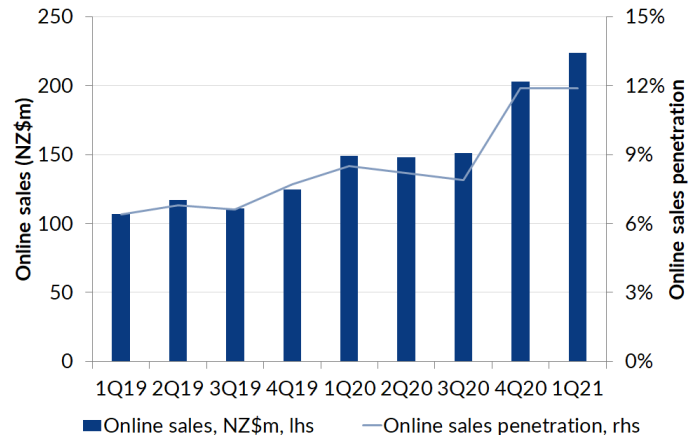
- Barriers to online adoption are diminishing as illustrated by increasing online penetration.
 - ▢ New Zealand online grocery sales peaked in April 2020, with lockdowns resulting in an +82% month on month increase.
 - ▢ In New Zealand the observed annual growth rate in grocery is significantly higher online at +19%, compared to offline at +1%.
- Weekly grocery online penetration in New Zealand reached as high as 12% during lockdown.
- We believe increasing online grocery spend is supportive of adoption of meal kits.

Figure 11. Online grocery spend through COVID-19



Source: Forsyth Barr analysis

Figure 12. Countdown NZ online sales and penetration



Source: Woolworths AU, Forsyth Barr analysis

Ready made meal market

The global ready-made meal market is more than 40 times larger than the meal-kit market. Ready-made meals are a convenient choice for time-poor individuals and have evolved from “TV Dinners” to specialty, nutritional meals. By leveraging its sourcing and distribution capabilities this market presents a key growth opportunity for MFB, although the market is more mature with many competitors.

There are a number of meal options already available to customers depending on their preference and price bracket. Offerings are wide ranging, including high-end specialty, weight loss, health conscious, budget, and frozen. MFB’s MADE brand competes at the higher end of the market, with peers including Farro, eat, and FED., where the cost of a meal ranges from NZ\$13 to NZ\$20 each. MADE is currently only c. 2% of group revenue.

Key issue #2: Leveraging top line drivers

MFB experienced an acceleration of customer reactivation and acquisition in FY21 (FY21E delivery growth +22%, FY18 to FY20 CAGR +2%), following a period of low single digit delivery growth. This was buoyed by COVID-19 and the "mandated" reallocation of consumer budgets away from out-of-home consumption and into grocery. The convenience and online offering is well positioned to benefit from structural tailwinds.

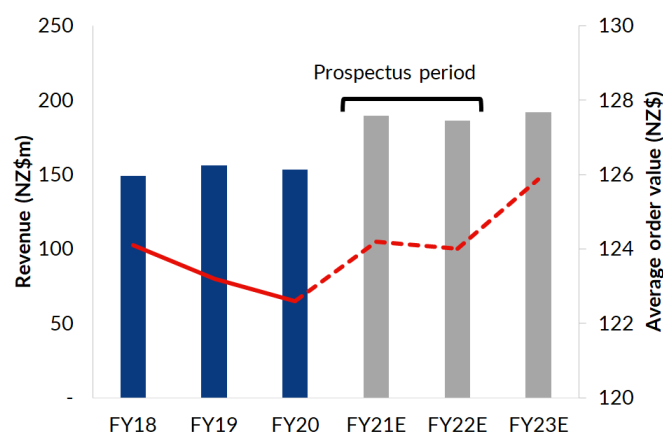
We believe the period of significant customer acquisition is behind MFB and the industry, with the key to driving increased revenue in maximising customer utilisation/value. The introduction of flexible product offerings, My Choice, and health based offer, Fresh Start, are key to this strategy. MFB has serviced over 300,000 unique customers, or 1 in 6 households have tried MFB.

Revenue growth = delivery volume x average order value

There are two key drivers of revenue growth, 1) delivery volume and 2) average order value (AOV).

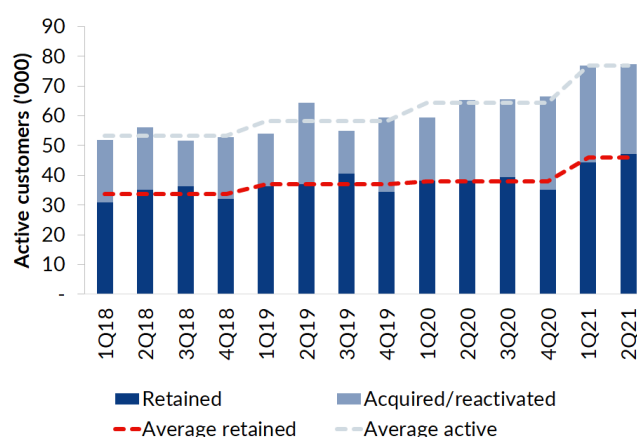
- **Delivery volume** — Volumes are a function of its customer base and utilisation rates (number of weeks/year customers are subscribed). MFB has established an extensive customer database with lockdowns boosting first time adoption and significantly lifting the reservoir.
 - Utilisation rates are driven by product newness (lack of recipe fatigue) and flexibility. While we expect the COVID-19 boost to partially roll off, this is likely to be offset by improved customer utilisation. MFB launched a My Choice Bag in June 2020, which enables customers to select from a range of 10 meals per week. This reduces both fatigue and the competitive pressures from HelloFresh (also offers a choice option).
- **AOV** — Key to improving the average order value are changes to the product mix (brand), bag size (number of meals/nights), and nights selected. The second part of AOV is underlying price changes, which will likely be indexed to general food inflation.
 - MFB put through price increases across >20 of its bags over the past 12-months and feedback suggests limited customer churn in response (similar experience to prior price increases). The lack of churn highlights 1) the lower price sensitivity of MFB customers, 2) the perceived value of convenience, and 3) the more defensive nature of meal kits.

Figure 13. Revenue and AOV growth



Source: MFB, Forsyth Barr analysis

Figure 14. Quarterly active customers



Source: Forsyth Barr analysis

Figure 15. Revenue — Historic and PFI

KPIs	Units	FY18	FY19*	FY20	FY21E	FY22E
Deliveries	'000	1,200	1,244	1,250	1,526	1,503
AOV	NZ\$	124.1	123.2	122.6	124.2	124.0
Revenue	NZ\$m	149.0	153.3	153.3	189.5	186.4

Source: MFB, Forsyth Barr analysis *adjusted to be equivalent 52 week period

Tapping into the reservoir — The three R's: Referral, reactivation, and retention

We expect improving utilisation of the customer reservoir to be the primary driver of meal kit earnings growth beyond the prospectus period.

Growing the customer base

MFB effectively established the meal kit market in New Zealand in 2013. We expect we are now beyond the rapid growth in adoption with a more steady path of new customer growth going forward. COVID-19 accelerated growth in the customer base, with lockdowns driving, 1) a shift in the share of consumption towards the home, and 2) higher adoption of online grocery.

A smaller piece of a bigger pie, do marketing costs need to increase?

While the pie has been growing, MFB has been losing share to competitors, exaggerated by the entry of HelloFresh in 2018. Recent HelloFresh New Zealand (HFG) revenue growth has outpaced MFB (albeit off a lower base), up +159% in the 12 months to December 2020, compared to MFB up c. +25% over the same period. However, we suspect HFG customer growth has been lower quality (lower lifetime value) and note the more aggressive acquisition strategies (discount offers). Although MFB has lost share, we view HFG's aggressive growth of the market as a possible longer-term positive, as discount driven adoption of the meal-kit model may lead to provider churn and benefit MFB through lower customer acquisition costs.

Over the past three years MFB has spent 4% to 6% of net revenue on total marketing spend (includes direct discounts/bonus bags, and indirect marketing/promotional costs). Competitors HelloFresh and other global meal-kit companies are spending closer to 20% of revenue. While we keep indirect marketing cost as a percentage of revenue flat in the forecast period, we see scope that these costs increase in order to defend market share in the face of an increasingly competitive advantage. A 1% increase (as a % of revenue) in marketing spend across the forecast period lowers our DCF -7.1%.

Customer acquisition a focus on referrals

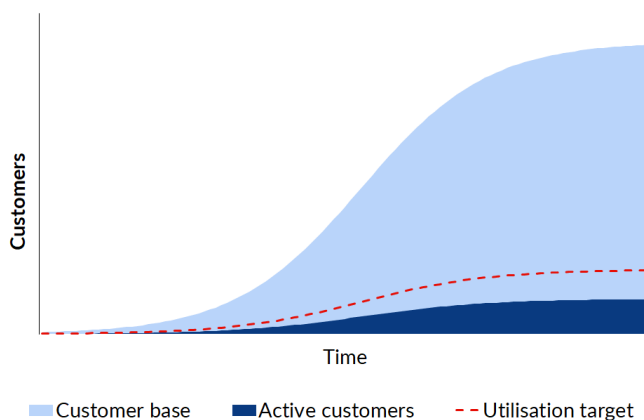
MFB customer acquisition marketing is predominantly through digital channels. In its initial stages MFB offered little to no discounting. In contrast, HFG operates a heavy discount approach to customer acquisition (e.g. first week free if referred, 50% off first two bags). Following HFG's entry, MFB introduced discount promotions, albeit limited. Figures 18 & 19 illustrate the relative customer acquisition strategies, with MFB having lower customer acquisition costs (CAC) and shorter payback periods (c. 50%). MFB's CAC is c. NZ\$60–NZ\$70.

Where MFB does offer discounts is through referrals (refer a friend and both get \$40 off), and limited run promotions. Customer acquisition through referral provides a shorter payback period and higher lifetime value of the customer. We consider referrals as correlated with customer satisfaction and often a proxy. MFB customer ratings have steadily improved (Figure 17) and achieves a customer satisfaction rating of c. 80%, which is above industry average of 76%

Reactivation and retention better bang for buck

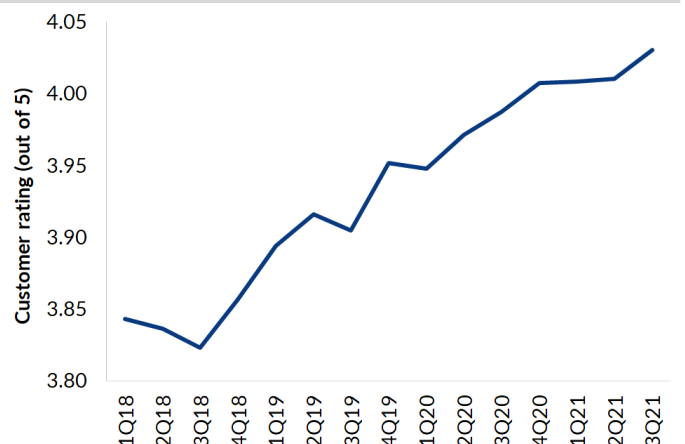
New customer acquisition is a higher cost/lower return method to lift the active base. Marketing effort is targeted towards customer reactivation and retention, which offer better return profiles. MFB is looking to further leverage its customer data through improvements to its outbound capabilities. c.75% of customers come back without any discount, just a reminder. Changes to the cancellation process, including questions to better understand the churn process, have led to improved retention outcomes e.g. bags put on hold.

Figure 16. Filling the reservoir and improving utilisation



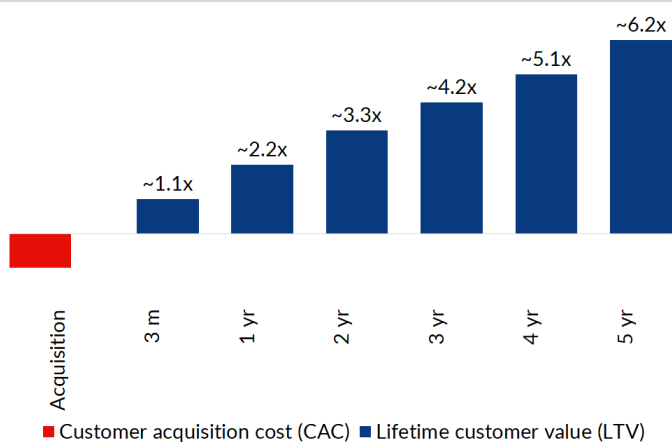
Source: Forsyth Barr analysis, MFB

Figure 17. Customer meal rating (out of 5)



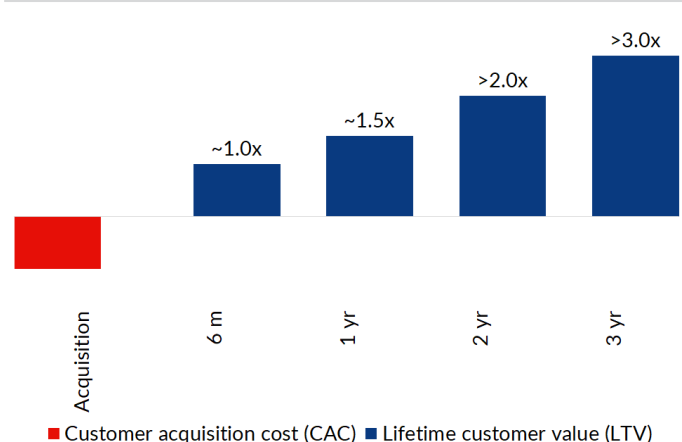
Source: MFB, Forsyth Barr analysis

Figure 18. My Food Bag customer lifetime value



Source: Forsyth Barr analysis, MFB

Figure 19. HelloFresh global customer lifetime value



Source: HelloFresh, Forsyth Barr analysis

Growth opportunities – leveraging the brand into new areas (Horizon Two)

As the addressable meal-kit market matures, MFB has signalled future growth will come from a push into adjacent markets. We expect MFB to leverage its strong brand equity, database of 300,000 customers, and strong distribution networks to expand its value proposition. Opportunities lie in new food categories, distribution channels, beyond food, and within its own supply chain.

Although we recognise the wider market opportunity for Horizon 2 growth opportunities, the strategy is currently without specifics, and we foresee advancement into adjacent markets as likely to attract more intense competition from traditional grocery retailers. Accordingly, we do not factor these opportunities into our valuation until we see tangible external progress, however recognise this offers optionality upside.

Below we explore potential extensions for MFB.

New food categories

Although MFB already offers a far broader selection of meals than domestic competitors, as the market crowds MFB may look to differentiate itself by expanding its offering. This could be done under the MFB brand, or to avoid brand dilution as a subsidiary (e.g. Bargain Box). We outline some potential offerings below and discuss the advantages and disadvantages of these products.

- **Expanding into additional meal times:** MFB could expand its lunch (and or add breakfast) options. While this provides another avenue for growth, we suspect consumers may already use additional dinner portions for lunch the following day, i.e. possible cannibalisation of AOV. In addition, consumers are typically time-poor during the day and may lack the facilities to cook lunch, so these propositions are less appealing than its existing dinner offerings.
- **Staples packs:** Alongside weekly meal-kit deliveries, customers could opt-in to a 'staples pack' which includes items needed for dinner recipes and core items such as bread and milk. This would appeal to many customers but comes with a catch-22; as the meal-kit operators take wallet share from supermarkets, it becomes increasingly likely to attract more intense online competition from the supermarket industry.
- **Baking kits:** MFB active customers typically lull through school holiday periods, and offering holiday based promotions could increase engagement through quiet periods. Baking would translate well to the clear instructional recipes with precisely measured ingredients.
- **Host packs:** MFB may look to introduce platter options (e.g. cheese or charcuterie boards) as well as dinner party packs. This is similar to My Christmas Bag and My BBQ Bag but year round.

New distribution channels

MFB's current sales channel is online, but this could be extended to physical retail, or less customary channels, as outlined below.

- **Physical retail:** In our view it is unlikely MFB would enter traditional grocery through ingredients, however, the ready-made meal market represents a significant opportunity. Prior to COVID-19 the global meal kit market was US\$3.5bn, compared to US\$159bn for the ready-made meal market. MFB may look to partner with traditional/specialty grocers.
- **Meals on Wheels:** Leading aged care operator Ryman currently offers residents the ability to purchase its in-house brand ("Delicious") frozen meals. MFB could partner with another operator to offer a higher quality alternative, which could act as a point of difference to prospective residents.

- **Gym partnerships:** Healthy ready-made meal options could be offered by partnering with major gym chains (such as Les Mills, City Fitness, Snap etc.).

Beyond food

MFB has already made a small foray into this area, offering the option to purchase Allpress coffee with meal-kits. Other categories could include:

- **Pet-food:** Pet ownership is high in New Zealand, category growth attractive and purchases regular – fitting well with MFB's core business.
- **Cleaning and/or personal care:** A useful addition for customers wanting to limit supermarket visitation.

While seemingly a natural extension, SKU (stock keeping unit) management and choice would be an important consideration to ensure efficiencies remain in the supply chain without carrying significant levels of inventory and/or options.

Key issue #3: Near-term margin expansion from improved unit economics

Expansion of the unit economics per bag through the prospectus period is significant and is the key driver of near-term earnings growth. Contribution margin is the profit after direct bag costs (COGS, direct marketing/discounts, and assembly & delivery) and is a key metric for performance across the global meal kit industry. In addition to revenue growth, new produce procurement and delivery contracts negotiated are expected to release significant margin expansion (FY19 contribution margin 21%, FY22E 29%), driving underlying contribution profit FY19–22E CAGR +17%. Beyond the prospectus period, we expect improving utilisation of MFB's customer base will be key to driving earnings growth.

We forecast a relatively steady contribution margin over the medium to long term of 30%. A +/-0.5% change in contribution margin per annum across our explicit forecast period has a +/-3% impact on our DCF value.

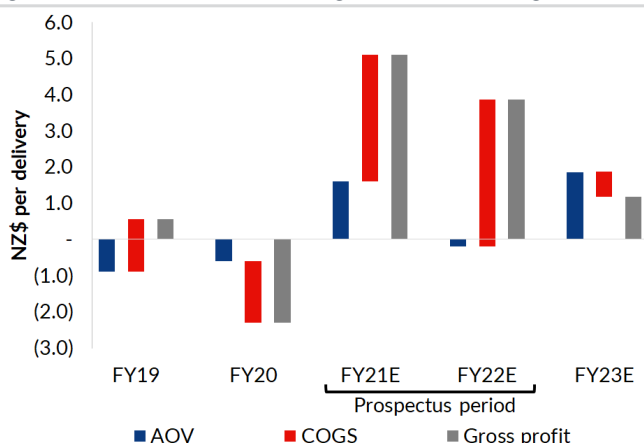
Margin outlook and key drivers

Near-term forecasts for strong margin expansion

MFB forecasts are for strong margin expansion over the prospectus forecast period, primarily underpinned by procurement negotiations. Gross profit per bag is forecast to lift +NZ\$5.10 (+10%) in FY21E and a further +NZ\$3.86 (+7%) in FY22E, bringing gross margins to 50% (from 43% in FY20).

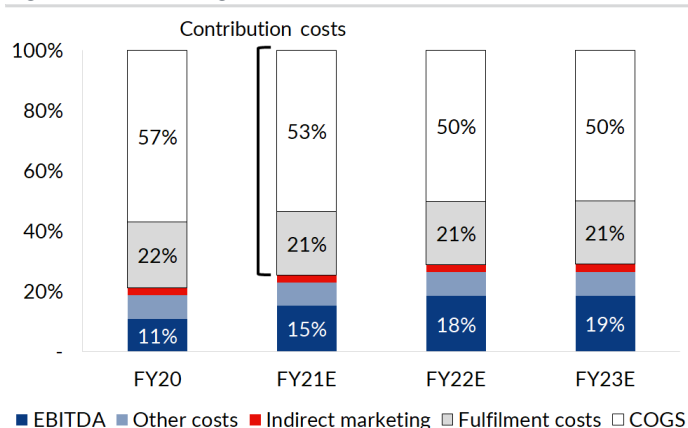
Figure 20 provides a breakdown of drivers, with the largest benefit coming from lower COGS/bag. MFB has renegotiated a significant portion of its supply agreements over recent months and we understand there is further opportunity. In addition, MFB has lifted AOV through price increases across its bags as well as an increase in average bag size. Bag size increases are likely a function of COVID-19, as such we expect some of this to unwind in FY22E.

Figure 20. NZ\$ per delivery change contribution to gross profit



Source: MFB, Forsyth Barr analysis

Figure 21. Cost/margin breakdown over forecast period



Source: MFB, Forsyth Barr analysis

Figure 22. Costs and operating margin – Historic and PFI

	Units	FY18	FY19*	FY20	FY21E	FY22E
COGS	NZ\$m	83.6	84.8	87.3	101.2	93.6
Gross profit margin	%	43.9	44.7	43.0	46.6	49.8
Assembly costs	NZ\$m	19.6	20.3	19.0	22.0	21.5
Distribution costs	NZ\$m	15.9	15.8	14.4	18.3	17.5
Contribution margin	%	20.1	21.3	21.3	25.4	28.9

Source: MFB, Forsyth Barr analysis, *adjusted to be equivalent 52 week period

Contribution margin stabilises around 29% over medium to long term

Whilst there may be further scale benefits, namely delivery growth providing room for further contract negotiations (five year exclusive arrangement with NZ Post), we do not see significant scope for operating leverage beyond the PFI.

The majority of delivery costs (c. 83%) relate to outsourced distribution costs, i.e. variable. Assembly costs are largely variable in nature. These include packaging, payment transaction fees, the cost of recipe cards, and labour (the biggest, c. 43% of assembly costs). Labour costs are also largely variable due to the use of temporary staff which allows for flexibility.

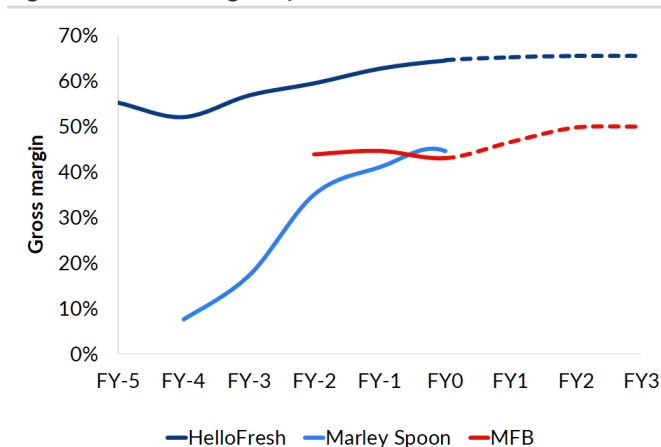
We forecast a relatively steady contribution margin over the medium to long term of 30%. A +/-0.5% change in contribution margin per annum across our explicit forecast period has a +/-3% impact on our DCF value.

Comparison to global competitors

Global meal kit peers contribution margins provides a degree of comfort to MFB's forecast expansion.

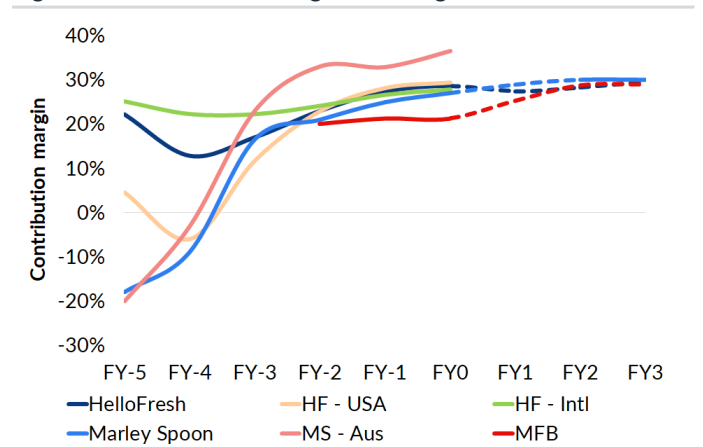
HFG and Marley Spoon (MMM), although exhibiting slightly different paths due to different stages of growth, have both achieved contribution margins in line with that forecast by MFB. HFG consensus forecasts and MMM company targets are also consistent with a moderation of contribution margin expansion, trending towards c. 30% (Figure 24). In Australia, MMM achieves a contribution margin of 37% and is targeting a contribution margin of 30% to 35%.

Figure 23. Gross margin reported and forecast



Source: MFB, Forsyth Barr analysis

Figure 24. Contribution margin following similar trends



Source: MFB, Forsyth Barr analysis NB. For MMM we use company target of 30% rather than consensus forecasts

Competitive landscape

New Zealand meal-kits – three key players

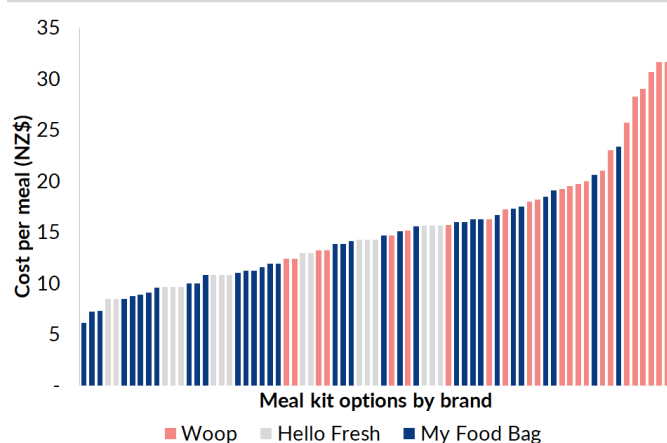
The New Zealand meal-kit industry is dominated by three players; MFB, HelloFresh (HFG) and Woop. Market share is opaque, however, anecdotes suggest that HFG recently surpassed MFB as the largest player by customer numbers, with Woop holding significantly less share.

Figure 25. Competitive landscape 101

	My Food Bag	Hello Fresh	Woop
Year established in NZ	2013	2018	2015
Ownership structure	Listing on the NZX	Listed on Frankfurt Stock Exchange	Privately held
Number of employees	200	8 (FY19, NZ only)	100+
Current markets	NZ only	USA, Canada, UK, Sweden, France, Belgium, Australia, Germany, Netherlands, Australia, NZ	NZ only
Differentiated by	Breadth of offering and quality	Low cost, flexibility	Preparation time and quality
Meal-kit offering	Standard, gourmet, budget, gluten free, vegetarian, plant based, goal based	Standard, vegetarian, family oriented	Standard, gourmet, health oriented, vegetarian, gluten free
Per-meal cost range	NZ\$6.10 - \$23.40	NZ\$7.99 - \$13.99	NZ\$12.44 - \$31.67
Delivery cost	Included	\$9.99	Included
Avg price premium to traditional supermarket	15%	15%	30%
Assembly facility	Auckland x 2, Christchurch	Auckland	Auckland, Wellington, Christchurch
Distribution availability (populations served)	Nationwide (86%)	Nationwide (84%)	Major cities only
Google rating	4.7/5	4.5/5	4.4/5

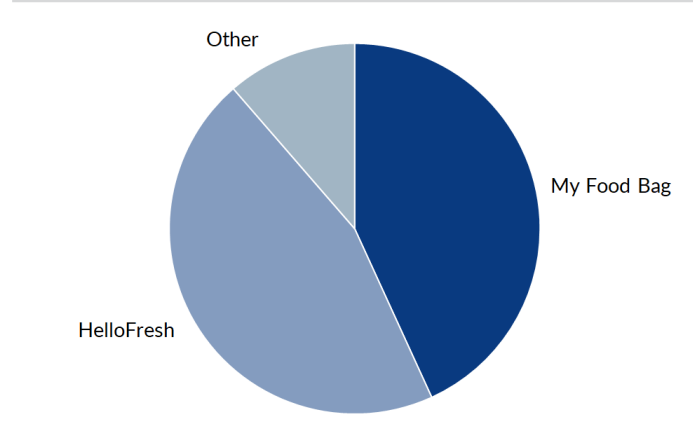
Source: Company websites, Forsyth Barr analysis

Figure 26. Distribution of meal kit options by brand and price



Source: Company websites, Forsyth Barr analysis

Figure 27. Estimated market share of NZ meal kits



Source: Forsyth Barr analysis, Company disclosures, market anecdotes

Price proposition relative to supermarkets

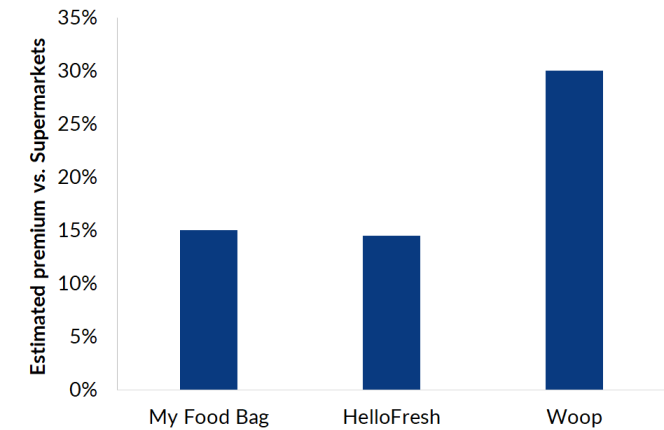
The meal-kit offering commands a premium versus the cost of an equivalent basket of goods from supermarkets, on our analysis. A premium is justified, in our view, with value attached to 1) the convenience, 2) the quality, and 3) the IP attached to the recipes. However, supermarket prices are fluid with the premium varying week to week, and we note MFB's internal analysis suggests its bags are priced in line to below supermarkets.

To understand the relative cost of MFB's products versus supermarkets and peers, we have priced a number of meal-kit recipes by breaking down the ingredients and pricing up the individual unit costs at various supermarkets to determine relative pricing. We have used products of similar quality where exact matches are not available and have also made a number of adjustments for food wastage

and delivery costs. We estimate food wastage for NZ households of 5.3% using Stats NZ data and New Zealand's National Food Waste Audit 2018.

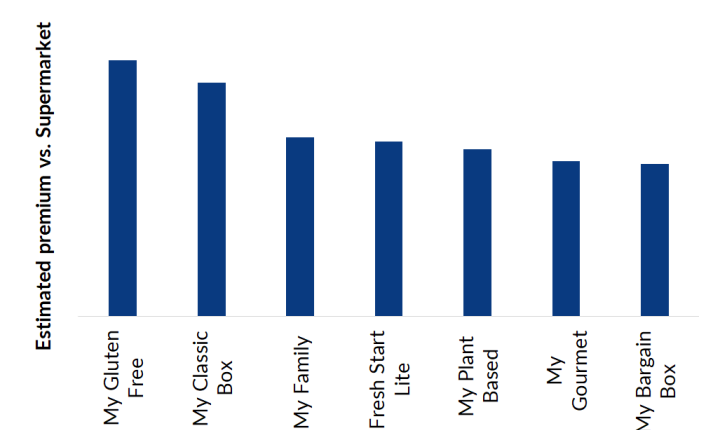
As outlined in Figures 28 and 29, this process suggests that Woop has the highest relative pricing in the market at a c.30% premium over supermarkets, while MFB and HFG are each priced at a comparatively modest premium of c.15%.

Figure 28. Meal kit premium to supermarkets



Source: Company websites, Forsyth Barr analysis

Figure 29. MFB product set premium vs supermarket



Source: Company websites, Forsyth Barr analysis

Broader competition

Competition may come from players in adjacent industries, such as the major supermarket chains who would look to leverage their buying power, distribution networks and store footprints. As outlined in Figure 30, supermarket participation in the meal-kit market has been fairly muted to date. Further, overseas players may look to enter the New Zealand market in a similar fashion to HFG. Australian based MarleySpoon indicated that it may look to enter the New Zealand market in the future.

Figure 30. Supermarket meal-kit offering

Supermarket	Meal -kit offering
Pak N Save	Offer "What's for Dinner" packs containing pre-prepared ingredients to cook a meal for 4-5 for \$20
New World	Offer Simply Dinner kits which contain all of the ingredients necessary to cook a meal for 4 for \$20. Some stores offer Love Food Boxes which offer Beef, Chicken, Specialty and Vegetarian meals that serve 2 or 4 people for between \$23.99 and \$52.99.
Countdown	Previously offered a Produce Box for \$34, a Meat Box for \$65, and a Ready Meals Box for \$68.
Farro	Have previously offered Christmas meal-kits. Introduced a food kit during COVID-19 lockdowns which varied in price from NZ\$80 to NZ\$200.

Source: Forsyth Barr analysis

Ready-made meal market – large TAM, but highly competitive

The global ready-made meal market is more than 40 times larger than the meal-kit market. Ready-made meals are a convenient choice for time-poor individuals, and have evolved from "TV Dinners" to specialty nutritional meals. By leveraging its sourcing and distribution capabilities, this market presents a key growth opportunity for MFB, although the market is mature with many competitors.

There are a number of meal options already available to customers depending on their preference and price bracket. Offerings are wide ranging, including high-end specialty, weight loss, health conscious, budget, and frozen. MFB's MADE brand competes at the higher end of the market, with peers including Farro, eat, and FED., where the cost of a meal ranges from NZ\$13 to NZ\$20 each.

Company overview

MFB operates in the online grocery market. It is the longest standing meal-kit provider in New Zealand and an emerging player in the ready-made meal segment. MFB's offering is underpinned by the convenience of its product, and complimented by health benefits, reduction in food wastage and emissions, and the removal of the imagination that meal preparation requires. The market MFB operates in is still relatively new, but fast developing as evidenced by its progress to date and the trajectory observed during lockdowns in 2020.

Figure 31. SWOT analysis

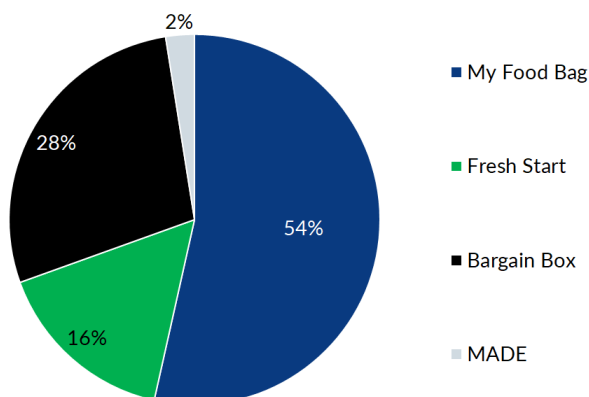
Strengths	Weaknesses
Wide product offering	Lack of track record as listed company
Strong brand	Price conscious target audience
Recyclable packaging	Smaller basket size and more limited choice relative to supermarkets
Customer service	Susceptible to food safety and brand risks
Supports local businesses	
Opportunities	Threats
Online grocery penetration growing	Moderate barriers to entry
Different meals (lunch/breakfast)	Supply chain risks
Society growing increasingly health conscious	Commodity price pressure
Buying power improves with scale	Growth in other alternatives (Uber eats)
Potential to enter other markets or add new products	Competition is large and well capitalised

Source: Forsyth Barr analysis

Business lines

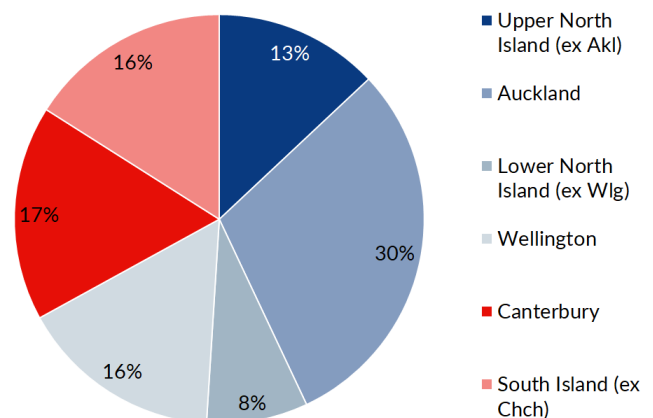
- **My Food Bag (54% of FY21E total deliveries)** – The longest standing meal kit brand in New Zealand, targeted at the general population with products to suit a wide array of households. The product offering ranges from the restaurant quality "My Gourmet Bag" which is NZ\$19.12 per plate, to the family friendly "My Family Bag" which is NZ\$8.75 per plate. My Food Bag also offer options which meet dietary requirements of vegetarian, vegan, and gluten free consumers.
- **Bargain Box (28%)** – MFB's most affordable meal-kit, offered in both standard and vegetarian variations. MFB aims to deliver this box at a price point which is consistently below supermarkets.
- **Fresh Start (16%)** – A low-calorie meal-kit option aimed at customers looking to achieve weight loss goals through diet. Recipes are designed by nutritionists to be sugar free, have unrefined and minimally processed carbohydrates, are naturally lower in gluten and dairy, and provide protein from lean meats and vegetables. Options range from NZ\$10.80 to NZ\$23.40 per plate.
- **MADE (2%)** – MFB's ready-made meal offering, with the key target being customers aged between 20–30 years old that are typically time poor professionals with a higher discretionary spend. MADE meals are available in one, two, and four person portions, and are ready-made from high quality ingredients, only requiring heating via oven or microwave.

Figure 32. FY21E deliveries split



Source: MFB, Forsyth Barr analysis

Figure 33. Customer geographic split



Source: MFB, Forsyth Barr analysis

What is the My Food Bag recipe? A source to order model, with a strong feedback loop

MFB operates a source to order model, meaning just the right amount of ingredients (with some planned buffers) are delivered to MFB assembly centres. Ownership of inventory only occurs once customers have already confirmed orders. Ingredient demand is forecast and communicated with suppliers six weeks in advance, with order forecast refinement occurring regularly as delivery date approaches. This model allows MFB to operate a negative working capital position, minimise waste (food, transport, packaging), and ensure product freshness. Recipe ratings create a feedback loop which allows MFB to improve customer satisfaction.

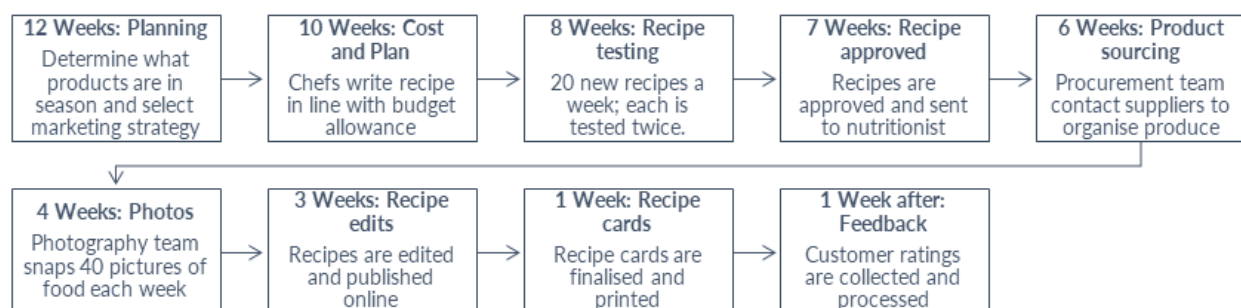
Below we highlight a simplified supply chain, which outlines the back-end functions of customer orders. We also outline the recipe process, which involves MFB's in house team of chefs, nutritionists, and photographers.

Figure 34. Supply chain weekly process

Day	Event
Monday	Billing run is completed and customer money is received. Procurement team reviews customer requirements and places orders with suppliers.
Tuesday	Ingredients from 80 to 100 suppliers begin to arrive at assembly centres in Auckland and Christchurch.
Wednesday	Picking and packing commences on Wednesday through Thursday with c. 30,000 boxes packed each week
Thursday	
Friday	Final ingredients arrive to ensure freshness. Picking and packing concludes. Boxes are picked up from the three distribution centres.
Saturday	Boxes are transported to distribution depots around the country, and delivered to customers who have elected Saturday delivery. Bargain Box and MADE deliveries occur via the NZ Post overnight network
Sunday	My Food Bag and Fresh Start boxes are delivered to customers via NZ Post's exclusive Sunday network. Customers have until 11:59pm to adjust orders for the following week's delivery.

Source: MFB, Forsyth Barr analysis

Figure 35. MFB's recipe process



Source: MFB, Forsyth Barr analysis

Company history

MFB was founded in late 2012 and began trading in 2013. Within five years MFB has grown to be one of the largest food retailers in the country, behind the large supermarket chains (Progressive and Foodstuffs). Both MFB and its closest competitor, HelloFresh NZ, are approaching NZ\$200m in annual revenue. The subscription meal-delivery service was started to provide healthy and easy dinner options. MFB built its brand through targeted social media channels. As brand equity built and it increased its product range, MFB has minimised its use of discounting strategies.

Originally serving Auckland only, MFB began entering new regions of New Zealand and introducing new brands, such as Bargain Box, Fresh Start, and MADE. As at October 2020, MFB had delivered over 80 million meals to over 300,000 households, and employs 200 people.

Past-winner of Masterchef New Zealand and celebrity chef, Nadia Lim, is a co-founder of MFB and has played a pivotal role in building MFB's brand. MFB embraced Nadia's Nude Food philosophy, which encourages eating "real food that comes from the ground, sea and sky, and less from factories". Delivering on this ethos has helped MFB's brand become synonymous with health and quality. Nadia remains a shareholder of MFB, and has a brand ambassador agreement which expires in November 2023. This agreement provides MFB with rights to use Nadia's Nude Food philosophy into perpetuity.

Figure 36. Company history

Date	Event	Description
2013 - March	Founded	MFB commences trading in Auckland
2013 - September	New geography	Expanded to Wellington
2013 - October	New product	My Christmas Bag launched
2014 - November	New geography	Expanded to Christchurch
2015 - September	New product	My Veggie Bag launched
2016 - July	New product	Bargain Box launched
2017 - April	New product	Fresh Start launched
2017 - May	Operations improvement	New purpose-built office and development kitchen
2017 - October	Operations improvement	New assembly centre in Auckland
2019 - May	New product	Made launched
2019 - October	New product	My Plant Based Bag launched
2020 - June	Operations improvement	New ERP system fully implemented
2020 - June	New product	My Choice Bag launched
2021 - March	IPO	To list on the NZX

Source: MFB, Forsyth Barr analysis

Key people

MFB has a new board, with an average tenure of only one year, albeit with a broad range of relevant experience particularly in online, food and brands. Its senior management team are also relatively new with an average tenure of 4 years. However, when you consider the age of the firm, the management team has been in place on average for half its lifetime.

Board of Directors

Figure 37. MFB Board of Directors

Director	Role	Elected	Other directorships/experience
Tony Carter	Independent Chairman	2021	Mr Carter is currently chair of Datacom and TR Group, and also serves as a director of ANZ Bank New Zealand and Vector. He was previously CEO and Managing Director of Foodstuffs, and has also chaired Air New Zealand, Fisher & Paykel Healthcare, Fletcher Building, and the New Zealand Initiative.
Jennifer Bunbury	Independent Director	2021	Ms Bunbury has a background in capital markets, having spent nine years at Craigs Investment Partners. Her most recent role was CFO of Tourism Holdings, where she also served as a director of its subsidiary Togo Group.
Jon Macdonald	Independent Director	2021	Mr Macdonald currently serves as a director of Contact Energy, Mitre 10, NZX, and Sharesies. He also remains on the board of TradeMe, where he previously spent 15 years, including 11 as CEO.
Sarah Hindle	Independent Director	2021	Ms Hindle is the chair of the Executive Council of AgriTech New Zealand, and deputy chair for NZTech. Her background is in the technology and consumer sectors, having founded and managed Tech Futures Lab.
Chris Marshall	Non-executive Director	2016	Mr Marshall is a co-founder and executive director of Waterman Capital; one of New Zealand's leading private equity companies. He is also a director of Healthcare Holdings and Lewis Holdings.

Source: MFB, Forsyth Barr analysis

Senior management

Kevin Bowler, CEO

Mr Bowler joined MFB in June 2018, after previously holding CEO roles at Frucor Suntry Beverages NZ, Tourism NZ, and Yahoo!Xtra. Under his tenure at Tourism NZ international visitors grew by over 30% to be New Zealand's largest export sector.

Mark Winter, CFO

Mr Winter was appointed as CFO in April 2019. Prior to this he spent 10 years at Fonterra, where he held a number of positions including Group Financial Controller, Fonterra Brands.

Other senior management members:

- **Richard Wafer, Chief Operating Officer** — Joined in May 2014 as National Purchasing and Operations Manager.
- **Louise Cunningham, Chief Marketing and Customer Officer** — Joined in May 2017, following several senior roles in the advertising industry.
- **Craig Jordan, Chief Digital Officer** — Joined in March 2018. Previously Chief Digital Officer of The Warehouse Group.
- **Megan Halpin, Head of People and Performance** — Joined in June 2016, following 10 years at McGarryBowen in New York.

- **Polly Brodie, Head of Development Kitchen** — Joined in May 2014, as a Recipe Developer and Test Kitchen Chef.
- **Trish Whitwell, Head of Innovation** — Joined in March 2016 as Head of Marketing before commencing her new role in May 2017.

Figure 38. Price performance


Source: Forsyth Barr analysis

Figure 39. Substantial shareholders

Shareholder	Latest Holding
My Food Bag Group Limited	24.8%
Waterman LP and Waterman	15.7%
Harbour Asset Management & Jarden Securities Limited	11.5%
Milford Asset Management	6.4%
Investment Services Group	5.7%

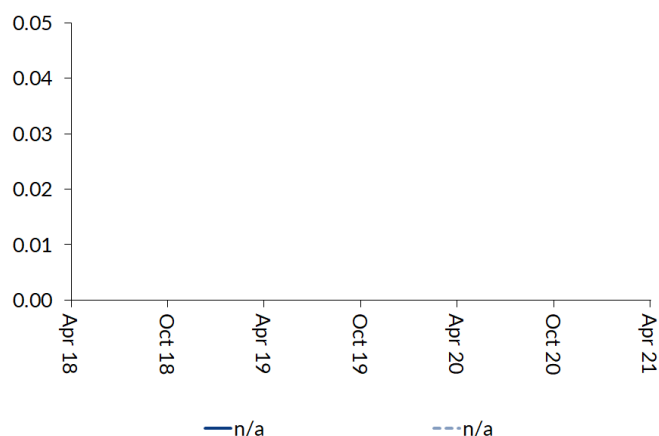
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 40. International valuation comparisons

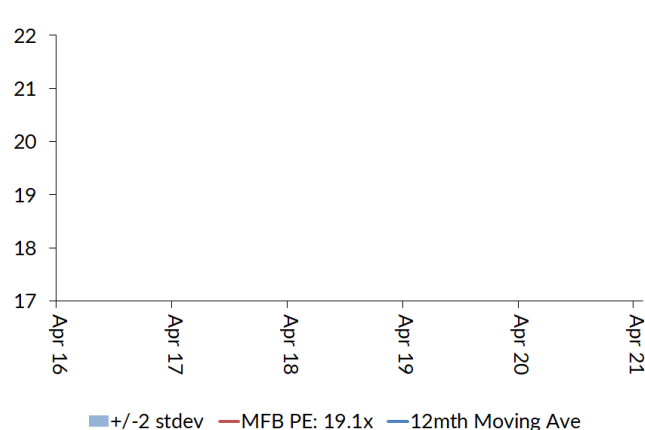
Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
(metrics re-weighted to reflect MFB's balance date - March)										
My Food Bag	MFB NZ	NZ\$1.61	NZ\$390	25.0x	19.3x	14.3x	11.8x	17.5x	13.9x	4.0%
MARLEY SPOON AG-CDI	MMM AU	€2.79	€714	<0x	<0x	<0x	>75x	<0x	>75x	n/a
HELLOFRESH SE	HFG GR	€63.40	€11,023	31.2x	36.4x	22.3x	20.6x	25.0x	23.7x	n/a
YOUFOODZ HOLDINGS	YFZ AU	A\$0.63	A\$85	<0x	<0x	>75x	35.1x	60.0x	<0x	n/a
GOODFOOD MARKET CORP	FOOD CN	C\$8.49	C\$622	<0x	n/a	>75x	n/a	<0x	n/a	n/a
WAITR HOLDINGS INC	WTRH US	US\$2.84	US\$317	17.8x	n/a	9.1x	8.4x	13.6x	18.4x	n/a
BLUE APRON HOLDINGS INC-A	APRN US	US\$6.67	US\$119	<0x	<0x	3.2x	28.0x	n/a	n/a	n/a
Compco Average:				24.5x	36.4x	11.5x	23.0x	32.8x	21.0x	n/a
MFB Relative:				2%	-47%	24%	-49%	-47%	-34%	n/a

EV = Current Market Cap + Actual Net Debt

Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (MFB) companies fiscal year end

Figure 41. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 42. One year forward PE (x)


Source: Forsyth Barr analysis

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