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# AIRR Holdings Limited

**Commentary Note**

## Continuing its record of outperformance

Rural Supplies

**AIRR Holdings Limited (AIRR) was incorporated on 25 February 2008 and acquired 100% of Australian Independent Rural Retailers Pty Ltd which had been operating for 2 years and had a turnover annualised at ~$125m. AIRR is a member- based buying and marketing group that supplies its rural and peri-urban customers with a range of rural merchandise and animal feeds. These customers comprise members, who account for approximately 70% of sales, and wholesale customers. AIRR is not a franchise group. It is a buying group that offers its members buying power and the ability to compete by passing on the benefits of volume purchasing and a way of increasing a members' product range without the need to invest in inventory. With a network of eight warehouses nationally and stocking approximately 6,000 Stock Keeping Units (SKUs), AIRR is a one stop distributor. AIRR also has its own brands; Apparent (crop protection), and Independents Own [iO] (animal health, general merchandise and feed).**

**27 September 2018**

## KEY POINTS

**A long track record of profitable growth** — AIRR has continued its long track record of profitable growth with a 12.6% increase in NPAT in FY18. This was the fifth consecutive year of profitable growth for the company following a dip in profitability in 2013 which was the only year of negative growth for the company in almost a decade due to a dry summer. CAGR in EPS from 2010-2018 was 20% while 2010-2018 DPS CAGR was 16%.

**FY18 result demonstrated strong costs containment** – AIRR reported FY18 revenue growth of 2% and EBITDA growth of 12.2% to $21.4m. The EBITDA margin expanded to 6.0% in FY18 from 5.4% the year before and has grown three-fold in the past nine years. Employment costs were 7% lower year on year due to the payment of a long-term incentive to management in the prior year.

**Management budgeting for strong growth in FY19** – Management is forecasting revenue growth of 3.7% in FY19 and EBITDA growth of 12.8%, demonstrating the benefit of the company's operating leverage and its diversification strategy.

**Diversification strategy** – AIRR has diversified its product offering by introducing its own branded products (Apparent and Independents Own [iO]) and since inception has introduced an additional member category and brand "Tuckers Pet and Produce" to service the pet and hobby farm market. Products are sourced directly from Chinese and local manufacturers, held in AIRR warehouses and supplied to members at competitive prices.

**Acquisitions** – AIRR has acquired, post balance date, Hunter River Company Pty Ltd, which is forecasted by the company's independent valuer, CoggerGurry, to contribute $1.0m to EBITDA in FY19.

**AIRR has superior ROCE** —AIRR recorded a Return on Capital Employed (ROCE) in FY18 of 34%, an increase of 300 basis points over FY17 and compared with the median 12% ROCE of its peer group, Ruralco, Nufarm, Ridley Corp and Elders. AIRR's ROCE has consistently outperformed its peers since 2012.

**Valuation** —AIRR's Board has historically commissioned an independent valuation each year to fix the price for share transfers undertaken in the next 12 months. The most recent valuation was undertaken by CoggerGurry, the Group's independent auditors, at 30 June 2018. The future maintainable earnings method was used and resulted in a valuation of $7.89 per share. In our view, the valuation parameters were conservative, discounting the peer group by 20% and applying a minority interest discount of 10%. We have also utilised a compco valuation, but include NZ company, PGG Wrightson, and US group Nutrien, which owns Landmark, a direct competitor to AIRR. If we apply the current peer EV/EBITDA multiple of 9.99x and the same discount rates as used by CoggerGurry, we arrive at a compco valuation of $9.85 a share. This implies a price to earnings ratio of 10.3x, well below the 15x long term PE of the Australian share market. Under the PrimaryMarkets trading platform, the shares now trade at prices determined by buyer and seller demand and the last traded price was $7.89 per share, putting the company on a PE ratio of 8.2x and at a substantial discount to the broader listed market and its listed peers.

### Company Summary

| | |
|---|---|
| Last traded Price (Sept 18) | $7.89 |
| Compco valuation | $9.85 |
| Shares on issue | 14.5M |
| Market capitalisation | $114.4M |
| Net Debt at 30 Jun 18 | $11.7M |
| Enterprise Value | $126.2M |
| Trading Platform | PrimaryMarkets.com |

### Key Metrics FY18 (FY17)

| | |
|---|---|
| EPS (cents) | 96.0 (85.0) |
| PE Ratio (x) | 8.2 (7.6) |
| DPS (cents) | 48.0 (42.0) |
| Dividend yield (%) | 6.1 (6.5) |
| Grossed up yield (%) | 8.7 (9.3) |
| Pay-out ratio (%) | 50.0 (49.0) |
| ROCE (%) | 34.0 (31.0) |

### Significant Shareholders

| | |
|---|---|
| Top 10 shareholders (inc Peter Law) | 62.9% |
| Founder Peter Law | 23.4% |

### Upside Case

- Well credentialed board and management with skin in the game
- Hunter River Company acquisition will lift FY19 revenues and EBITDA and expand AIRR's operating leverage
- Track record of more than 10 years' consistent growth in revenue, profits and fully franked dividends

### Downside Case

- Currency risk from product sourced offshore, mainly from China
- Not chasing stellar growth, rather solid, consistent growth
- Investment required in working capital (~17% of sales)

### Board of Directors

| | |
|---|---|
| Chairman | Craig Farrow |
| CEO, Founder | Peter Law |
| Non-Executive Director | Lachlan Cox |
| Non-Executive Director | Glen Pearsall |
| Non-Executive Director | Graeme Jolly |

### PrimaryMarkets' Contact Details


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# COMPANY OVERVIEW

## What is AIRR

AIRR is a wholesaler of rural merchandise sold to members and other wholesale customers located throughout Australia. AIRR has eight distribution warehouses located nationally, in Shepparton (head office), Melbourne, Wagga, Tamworth, Sydney, Brisbane, Adelaide and Perth servicing all states and territories. Product extension, diversification and the development of a line of branded products have been the key planks in AIRR's business strategy. This has enabled AIRR to relatively "drought-proof" the business and to achieve consistent growth in revenue and earnings and achieve improvements in gross margin.

## AIRR offers a one-stop shop and one account

AIRR offers its members the benefit of being able to have access to thousands of products from more than 650 suppliers at a national or group price and to receive one monthly statement from AIRR. Products are either supplied direct from the supplier to the customer (AIRR is the conduit to the transaction, being the account holder for both the debtor and creditor) or supplied via the network of AIRR's eight locally operated warehouses (~6,000 products). The benefits for members are lower prices, reduced inventory holding costs, access to a wide range of products and administrative simplicity.

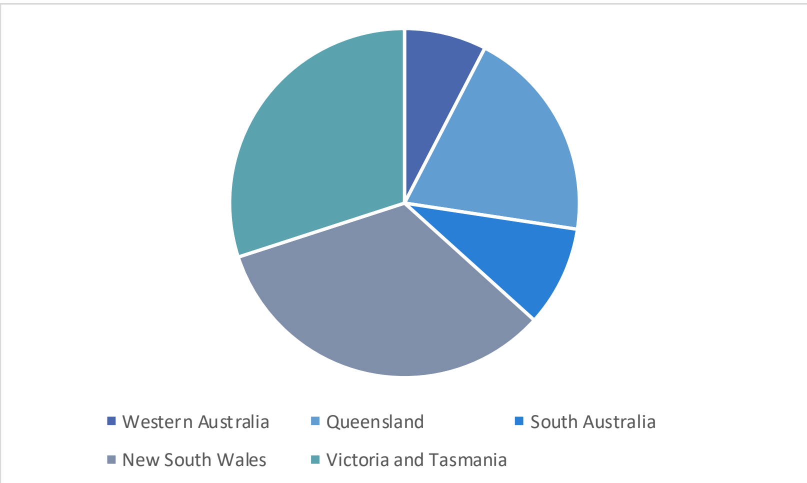
## Key business proposition is locally-based customer-oriented service

AIRR's motto is to *earn business from its members rather than dictate to them.* Members are permitted to purchase goods from other suppliers but a combination of competitive discount and rebate structures, a comprehensive product offering, locals serving locals and well-located warehouses enables AIRR to offer its members superior service and access to a significantly wider product range than its competitors. AIRR's service offering is supported by skilled local staff, and a sophisticated inventory management system. As at 30 June 2018 there were approximately 140 AIRR members (which includes 49 dual Tuckers members (additional member fee charged to be a dual member) and approximately 100 Tuckers members.

## Diversified by state and by product lines

AIRR's revenues are well diversified by geography and product lines and this has underpinned the drought proof nature of its business. We have set out the spread of revenues by region generated in FY18 in the following exhibit.

**Exhibit 1: Geographic spread of sales revenues**




Source: Company data

## FY18 results discussion

AIRR delivered its sixth consecutive year of profit growth in FY18, with a 12.6% increase in NPAT to $13.85m. EPS increased to $0.96 a share from $0.85 a share a year before while total dividends declared for the year increased to $0.48 a share from $0.42 in FY17. CAGR in EPS from 2010 to 2018 was 20% and CAGR in DPS over the same period was 16%. This is particularly notable as the company experienced one year of negative growth over the period, in FY13 when revenues declined 6.7% due to a dry summer, resulting in a 30% decline in NPAT on that year. Note that employment costs reduced in FY18 due to the payment of a long-term incentive to senior management in FY17. Growth in other expenses was contained to 3.0%. We have set out the P&L in detail in the following exhibit.

**Exhibit 2: P&L FY18 versus FY17**

| $m | 30- Jun-17 | 30-Jun-18 | % chg |
|---|---|---|---|
| Revenue | 351.4 | 358.3 | 2.0% |
| COGS | 318.1 | 323.2 | 1.6% |
| Gross Margin | 33.3 | 35.1 | 5.6% |
| Less: Members' profit share | 5.0 | 5.4 | 7.4% |
| Gross Margin | 28.3 | 29.8 | 5.3% |
| Commissions/Other income | 8.0 | 8.3 | 4.5% |
| Total Income | 36.2 | 38.1 | 5.1% |
| Employment Expenses | 9.9 | 9.2 | (6.9%) |
| Other Expenses | 7.2 | 7.5 | 3.0% |
| Total Expenses | 17.2 | 16.7 | (2.7%) |
| EBITDA (normalised) | 19.1 | 21.4 | 12.2% |
| EBITDA (reported) | 19.1 | 21.5 | 12.1% |
| Depreciation and amortisation | 0.6 | 0.6 | (4.0%) |
| EBIT | 18.5 | 20.9 | 12.7% |
| Interest received | 0.1 | 0.0 | (52.9%) |
| Interest cost | (1.1) | (1.2) | 11.4% |
| Net Profit before tax | 17.6 | 19.8 | 12.4% |
| Income tax | (5.3) | (5.9) | 11.9% |
| NPAT | 12.3 | 13.9 | 12.6% |

Source: Company Data

### Financial statements 2010 to 2018

We have set out the detailed financial statements for 2010 to 2018. A snapshot of the key metrics in these results is highlighted in the following exhibit and we have also included management's forecasts for revenue, gross margin and normalised EBITDA. Apart from 2013 which we have already highlighted as a difficult trading year, AIRR has consistently increased revenues, EBITDA, NPAT and EPS over the past 8 years. Gross margin has grown consistently throughout this time. Net debt has been reduced to $11.7m in 2018 while net working capital as a percentage of revenue has been relatively consistent at around 16-17% of sales.

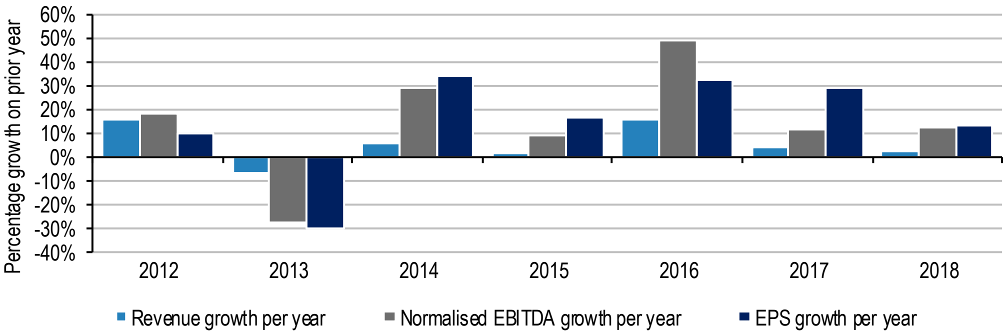
**Exhibit 3: Snapshot of operating performance from 2010 to 2018 (in $m)**

| Year ended June | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019(f) |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 197.9 | 250.1 | 289.4 | 269.8 | 285.7 | 290.6 | 336.4 | 351.4 | 358.3 | 371.5 |
| Gross Margin | 11.8 | 15.7 | 20.0 | 19.1 | 22.2 | 24.9 | 29.1 | 33.3 | 35.1 | 45.4 |
| EBITDA (normalised) | 4.1 | 9.5 | 11.3 | 8.1 | 10.5 | 11.5 | 17.1 | 19.1 | 21.4 | 24.2 |
| NPAT | 2.7 | 6.1 | 6.7 | 4.7 | 6.3 | 6.3 | 9.6 | 12.3 | 13.9 | |
| EPS (cents per share) | 19.0 | 42.0 | 46.0 | 32.0 | 43.0 | 50.0 | 66.0 | 85.0 | 96.0 | |
| | | | | | | | | | | |
| Net working capital | 12.9 | 27.6 | 36.5 | 41.7 | 38.5 | 39.7 | 54.9 | 57.1 | 60.9 | |
| Net WC as a % of revenue | 6.5% | 11.0% | 12.6% | 15.5% | 13.5% | 13.7% | 16.3% | 16.3% | 17.0% | |
| Net debt | -1.9 | 8.1 | 14.9 | 21.9 | 16.9 | 15.0 | 20.4 | 15.3 | 11.7 | |
| Operating cashflow | 2.6 | -7.7 | -3.0 | -0.3 | 10.7 | 5.3 | -2.8 | 12.9 | 10.6 | |

Source: Company accounts FY19f has been derived from the CoggerGorry valuation report

We have set out the company's revenue, EBITDA and EPS growth performance from 2012-2018 in the graphic format in the following exhibit.

**Exhibit 4: Revenue, EBITDA and EPS growth by year from 2012-2018**




Source: Company data

## PEER COMPARISON

We have examined the listed peers to AIRR and include in this analysis Ruralco, Nutrien, Nufarm, Elders, and PGG Wrightson, the NZ-based agricultural supply group. The median trailing EV/EBITDA multiple that this group is trading on is 9.99 times. The current trailing Price to earnings ratio for the group is 13.2 times while the forward PE based on FY18 consensus forecasts is 21.2 times as the following exhibit sets out.

**Exhibit 5: Peer Comparison**

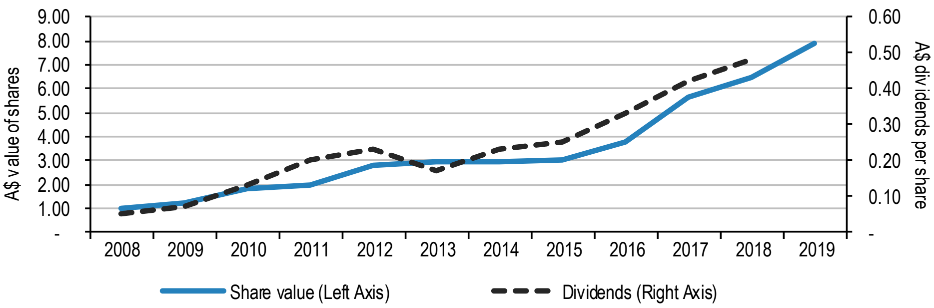
| Company | Code | Currency | Price | Market Cap ($M) | Enterprise Value ($M) | FY18 EBITDA | FY17 EPS (c) | FY18 EPS (c) | FY18 EV/ EBITDA (x) | FY17 P/E (x) | FY18 P/E (x) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Elders | ELD | AU | 6.98 | 808 | 903 | 70 | 51.6 | 51.9 | 12.90 | 13.53 | 13.45 |
| Nufarm | NUF | AU | 6.77 | 2,218 | 2,898 | 439 | 52.4 | 29.9 | 6.60 | 12.92 | 22.64 |
| Nutrien | NTR | US | 58.62 | 36,080 | 44,530 | 2,660 | 39.0 | 234.0 | 16.74 | 150.31 | 25.05 |
| PGG Wrightson | PGW | NZ | 0.62 | 468 | 666 | 70 | 6.1 | 2.4 | 9.48 | 10.18 | 25.51 |
| Ridley Corp | RIC | AU | 1.46 | 449 | 501 | 58 | 8.1 | 7.4 | 8.64 | 18.05 | 19.73 |
| Ruralco | RHL | AU | 2.88 | 301 | 392 | 70 | 29.3 | 25.3 | 5.60 | 9.83 | 11.38 |
| **Median** | | | | | | | | | **9.99** | **13.22** | **21.19** |

Source: Thomson Reuters, Bloomberg, RaaS Advisory analysis (prices as at 20 September 2018)

## INDEPENDENT VALUATION DISCUSSION

The Board has commissioned an independent valuation each year to set the share price for any share transfers that take place during the ensuing 12 months. A valuation as at 30 June 2018 prepared by the company's independent auditors, CoggerGurry, valued the business at $127.1m or $7.89 per share. The chart below shows annual valuation and dividends paid. The value of shares has increased from $1.00 in 2008 to the current valuation of $7.89 per share.

**Exhibit 6: Share value and dividends**




Source: Company data

## Valuation methodology

The independent valuation undertaken by CoggerGurry used the capitalisation of future maintainable earnings approach. It considered but discarded other valuation methodologies as not appropriate for the following reasons: 1) the asset approach ignores any value of goodwill; 2) the discounted cash flow method requires long term forecasts which are not available; and 3) there were no industry specific measures available.

Maintainable earnings were estimated to be $22.6m being the average of normalised EBITDA for FY18 and the budgeted EBITDA for FY19.

The appropriate EBITDA multiple was selected using the average of a group of listed companies – Nufarm, Ridley, Elders and Ruralco – and adjusting the average multiple down by 19-24% to take into account 1) size; 2) greater product diversity; and 3) ownership structure (noting that private companies generally trade at a discount to listed companies). In this case, the valuer used the average FY19f EBITDA multiple of this group and applied the above discount.

**Exhibit 7: Peer group EBITDA multiples considered in CAPM valuation**

| Company | FY18f | FY19f |
|---|---|---|
| Nufarm | 8.6 | 6.7 |
| Ridley | 8.5 | 8.2 |
| Elders | 15.3 | 12.1 |
| Ruralco | 6.7 | 6.3 |
| **Average** | **9.8** | **8.4** |
| **Median** | **8.6** | **7.5** |

Source: CoggerGurry Valuation Report at 30 June 2018

The valuer's conclusion was that it was not unreasonable to use a multiple in the range of 6.4 to 6.8x. After deducting net debt, the valuer applied a 10% discount to reflect the value applicable to the trading of a minority shareholding. The result, set out below, was a value per share of between $7.61 and $8.16 and a mid-point of $7.89.

**Exhibit 8: Capitalisation of future maintainable earnings – valuation steps**

| | |
|---|---|
| **Step 1 - determine maintainable earnings** | |
| FY18 adjusted EBITDA ($m) | 21.1 |
| FY19 adjusted EBITDA ($m)* | 24.2 |
| Average ($m) | 22.6 |
| **Step 2 determine multiples from peer group** | |
| Average FY19 | 8.4 |
| Less 24% discount | 2.0 |
| Multiple range (from) | 6.4 |
| Average FY19 | 8.4 |
| Less 19% discount | 1.6 |
| Multiple range (to) | 6.8 |
| **Step 3** | |
| Deduct net debt ($m)* | 22.2 |
| **Step 4 - apply discount** | |
| Minority interest discount (%) | 10.0% |

Source: CoggerGurry Valuation Report as at 30 June 2018 **includes impact of acquisition of Hunter River Company

**Exhibit 9: Valuation range**

| | From | To |
|---|---|---|
| Maintainable earnings ($m)* | 22.6 | 22.6 |
| Multiple (x) | 6.4 | 6.8 |
| Enterprise value ($m) | 144.8 | 153.9 |
| Net debt ($m)* | 22.2 | 22.2 |
| Equity value ($m) | 122.6 | 131.7 |
| Number of shares (m) | 14.5 | 14.5 |
| Equity per share | $8.46 | $9.08 |
| Less Minority discount | $0.85 | $0.91 |
| Value per share | $7.61 | $8.16 |
| **Midpoint** | **$7.89** | |

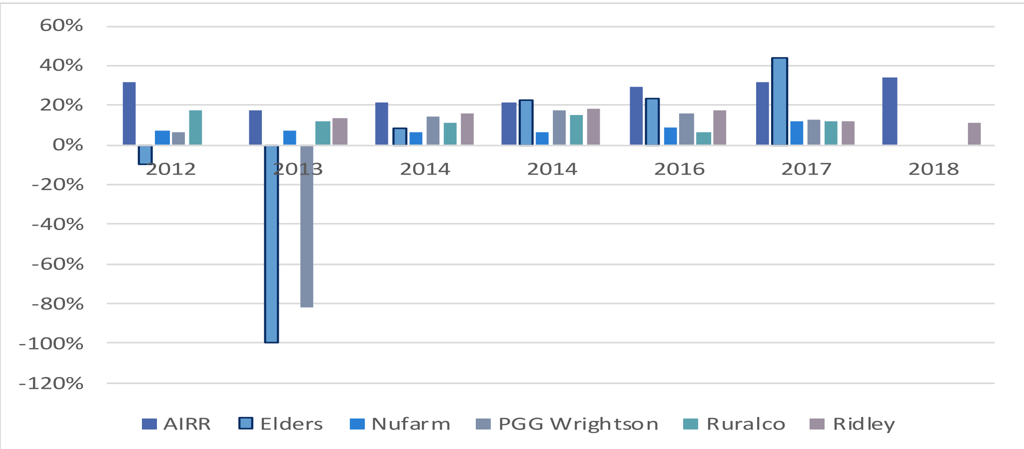
Source: CoggerGurry Valuation Report as at 30 June 2018 * includes impact of acquisition of Hunter River Company

In our view, the valuation is still somewhat conservative for the following reasons:

- Applying discount of ~20% to comparative company multiples is somewhat arbitrary and does not necessarily take into account the track record of the peer group that has a history of inconsistent earnings and in some cases significant losses and asset write downs, compared with AIRR which has a consistent record of revenue and earnings growth.

- Valuation does not take into account comparative ROCE which is one of the factors that colours the market's view. AIRR has not had any material write-downs of assets and has a ROCE of 34%. At this point, only one of the peers, Ridley, has reported its FY18 result, delivering a ROCE of 11%. The peer group delivered a median ROCE of 12% in FY17 and, as the following exhibit demonstrates, AIRR has outperformed its peers in terms of ROCE over the past several years.

**Exhibit 10: ROCE performance by peer group since 2012**




Source: Thomson Reuters, Bloomberg, Company Data, RaaS Analysis

- A minority interest discount of 10% is again somewhat arbitrary, although we note that in the 2017 valuation, the minority interest applied was 15%. The KPMG Valuation Practices Survey 2017 stated that for a 1-24% stake the median discount applied for a minority interest was 25%, for a stake of 25-49% the median discount applied was 15% and for a 50/50 JV the median discount applied was 5%.

In our view, if AIRR was a listed company we believe there is a strong case to support it trading at a market multiple for the following reasons:

- CAGR rates in Net Profit Before Tax achieved since 2010 of 19.9% are in excess of the market which has grown at a CAGR of 3.3%[1] during the same period

1 MarketIndex, Market-cap weighted earnings yield for the Australian stock market

- There is a clear growth strategy which is designed to achieve steady consistent growth with a focus on increased margins and profitable growth
- Product diversification and the range of products offered allows AIRR to avoid weather related cycles which usually plague the rural sector
- AIRR offers superior ROCE of ~34%
- Over the last six years AIRR has improved ROCE from 18% in 2013 to 34% in 2018
- The company is an attractive yield play, paying out approximately 50% of earnings to dividends each year and, based on year end valuations, delivering an attractive yield of approximately 7.0%. Dividends per share have grown at a CAGR of 16% from 2010 to 2018.

If we applied a market multiple to AIRR and we yet still applied a 20% discount for size and a 10% minority interest discount the valuation would increase from $7.89 to $9.85 a share. We have set this out in the exhibit on the following page.

**Exhibit 11: Compco valuation**

| Method | Outcome |
|---|---|
| Peer EV/EBITDA multiple (x) | 9.99 |
| Adjusted multiple after applying a 20% discount (x) | 7.99 |
| EV ($m) | 180.9 |
| Less net debt ($m) (from CoggerGorry valuation) | 22.2 |
| Equity value ($m) | 158.7 |
| Adjusted for10% minority discount ($m) | 142.9 |
| **Equity value per share** | **$ 9.85** |

Source: RaaS estimates

**Exhibit 12: Income Statement from 2010 to 2018 (in A$m unless otherwise stated)**

| Year Ended June 30 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 197.9 | 250.1 | 289.4 | 269.8 | 285.7 | 290.6 | 336.4 | 351.4 | 358.3 |
| COGS | 186.1 | 234.4 | 269.4 | 250.7 | 263.6 | 265.6 | 307.3 | 318.1 | 323.2 |
| Gross Margin | 11.8 | 15.7 | 20.0 | 19.1 | 22.2 | 24.9 | 29.1 | 33.3 | 35.1 |
| Less Members Profit share | 4.5 | 4.6 | 5.2 | 4.4 | 4.4 | 4.6 | 4.9 | 5.0 | 5.4 |
| Adjusted Gross Margin | 7.3 | 11.1 | 14.8 | 14.7 | 17.7 | 20.3 | 24.2 | 28.3 | 29.8 |
| Commissions (real estate)/Other income | 3.0 | 5.8 | 6.0 | 6.0 | 6.5 | 6.5 | 8.2 | 8.0 | 8.3 |
| Total Income | 10.4 | 16.9 | 20.8 | 20.7 | 24.3 | 26.9 | 32.4 | 36.2 | 38.1 |
| Employment | 3.3 | 4.6 | 5.5 | 6.6 | 7.5 | 8.7 | 8.9 | 9.9 | 9.2 |
| Rent | 0.6 | 0.8 | 1.6 | 1.7 | 2.0 | 2.3 | 2.3 | 2.8 | 3.2 |
| Other Expenses | 1.9 | 1.9 | 2.5 | 2.9 | 3.3 | 3.9 | 3.8 | 4.2 | 4.1 |
| Provision for doubtful debts | 0.5 | 0.1 | - | 1.4 | 0.9 | 0.5 | 0.3 | 0.2 | 0.2 |
| Total Expenses | 6.2 | 7.4 | 9.6 | 12.5 | 13.7 | 15.4 | 15.2 | 17.2 | 16.7 |
| **EBITDA (normalised)** | **4.1** | **9.5** | **11.3** | **8.1** | **10.5** | **11.5** | **17.1** | **19.1** | **21.4** |
| Less - one off costs | | | | | | | | | |
| Goodwill impairment | 0.0 | 0.0 | 0.0 | | | | (0.5) | | |
| Profit/(loss) on sale of assets | 0.0 | 0.0 | 0.0 | | | (1.0) | (0.0) | 0.1 | 0.0 |
| Loss on disposal of business | | | | | | | (0.7) | (0.1) | (0.0) |
| **EBITDA (reported)** | **4.1** | **9.5** | **11.3** | **8.1** | **10.5** | **10.5** | **15.9** | **19.1** | **21.5** |
| Depreciation and amortisation | 0.2 | 0.3 | 0.5 | 0.5 | 0.5 | 0.6 | 0.5 | 0.6 | 0.6 |
| EBIT | 3.9 | 9.2 | 10.8 | 7.6 | 10.0 | 9.9 | 15.4 | 18.5 | 20.9 |
| Interest received | 0.1 | 0.0 | 0.0 | 0.4 | 0.3 | 0.6 | 0.1 | 0.1 | 0.0 |
| Interest cost | (0.0) | (0.5) | (1.2) | (1.3) | (1.3) | (1.0) | (1.2) | (1.1) | (1.2) |
| Net Profit before tax | 3.9 | 8.7 | 9.6 | 6.7 | 9.1 | 9.4 | 14.3 | 17.6 | 19.8 |
| Income tax | 1.2 | 2.6 | 2.9 | 2.1 | 2.8 | 3.2 | 4.7 | 5.3 | 5.9 |
| NPAT | 2.7 | 6.1 | 6.7 | 4.7 | 6.3 | 6.3 | 9.6 | 12.3 | 13.9 |
| **Year Ended June 30** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** |
| EPS ($) | 0.19 | 0.42 | 0.46 | 0.32 | 0.43 | 0.50 | 0.66 | 0.85 | 0.96 |
| DPS ($) | 0.13 | 0.20 | 0.23 | 0.17 | 0.23 | 0.25 | 0.33 | 0.42 | 0.48 |
| Gross margin (before members share) | 6.0% | 6.3% | 6.9% | 7.1% | 7.8% | 8.6% | 8.6% | 9.5% | 9.8% |
| Gross margin (after members share) | 3.7% | 4.4% | 5.1% | 5.4% | 6.2% | 7.0% | 7.2% | 8.0% | 8.3% |
| EBITDA normalised | 2.1% | 3.8% | 3.9% | 3.0% | 3.7% | 4.0% | 5.1% | 5.4% | 6.0% |
| EBITDA reported | 2.1% | 3.8% | 3.9% | 3.0% | 3.7% | 3.6% | 4.7% | 5.4% | 6.0% |
| EBIT (reported) | 2.0% | 3.7% | 3.7% | 2.8% | 3.5% | 3.4% | 4.6% | 5.3% | 5.8% |
| Employment (% of revenue) | 1.6% | 1.8% | 1.9% | 2.4% | 2.6% | 3.0% | 2.6% | 2.8% | 2.6% |
| Employment (% gross margin) | 44.5% | 41.6% | 37.1% | 44.9% | 42.3% | 42.7% | 36.7% | 35.1% | 31.0% |
| Total costs (% gross margin) | 85.1% | 66.9% | 64.6% | 85.4% | 77.4% | 75.5% | 63.1% | 60.7% | 56.1% |
| Increase in EPS per year | | 121.1% | 9.5% | -30.4% | 34.4% | 16.3% | 32.0% | 28.8% | 12.9% |
| Increase in DPS per year | | 53.8% | 15.0% | -26.1% | 35.3% | 8.7% | 32.0% | 27.3% | 14.3% |
| Dividend yield (%) | 6.5% | 7.1% | 7.8% | 5.8% | 7.7% | 6.6% | 5.8% | 6.5% | 6.1% |
| Grossed up dividend yield (%) | 9.3% | 10.2% | 11.2% | 8.3% | 11.0% | 9.4% | 8.3% | 9.3% | 8.7% |
| Implied PE Ratio (x) | 6.48 | 4.74 | 6.11 | 9.16 | 6.81 | 6.0 | 5.74 | 7.61 | 8.22 |
| Increase in revenue pa | | 26.4% | 15.7% | -6.8% | 5.9% | 1.7% | 15.8% | 4.5% | 2.0% |
| Increase in EBITDA normalised pa | | 131.3% | 18.5% | -27.7% | 29.2% | 9.2% | 49.1% | 11.4% | 12.2% |

Source: Company Accounts, RaaS analysis on ratios

**Exhibit 13: Balance Sheet from 2010 to 2018**

| Year Ending June | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|
| Current assets | | | | | | | | | |
| Cash | 2.0 | 0.0 | 0.0 | 0.0 | 0.3 | 0.3 | 0.1 | 0.0 | 0.3 |
| Trade and other receivables | 32.5 | 37.9 | 38.3 | 35.7 | 39.5 | 36.6 | 46.1 | 48.0 | 47.7 |
| Inventories | 11.8 | 17.0 | 21.3 | 27.7 | 24.8 | 36.1 | 52.3 | 44.5 | 47.5 |
| Derivative financial instruments | | | | 0.3 | (0.1) | 0.1 | 0.2 | 0.2 | 0.1 |
| Other | 0.2 | 0.1 | 0.2 | 0.3 | 0.3 | 1.7 | 0.5 | 0.2 | 0.5 |
| **Total Current Assets** | **46.6** | **55.0** | **59.8** | **64.0** | **64.8** | **74.8** | **99.3** | **92.8** | **96.2** |
| Non-Current Assets | | | | | | | | | |
| Receivables | | | | 2.9 | 1.0 | 1.4 | 1.5 | 0.9 | 0.7 |
| PPE | 0.8 | 0.9 | 1.6 | 1.6 | 2.7 | 2.0 | 2.1 | 2.5 | 2.3 |
| Intangible | 1.4 | 1.3 | 1.3 | 1.3 | 4.4 | 4.0 | 2.2 | 2.4 | 2.5 |
| Deferred tax | 0.3 | 0.3 | 0.3 | 0.7 | 0.6 | 0.4 | 0.6 | 0.7 | 0.9 |
| **Total Non-Current Assets** | **2.4** | **2.6** | **3.2** | **6.5** | **8.7** | **7.8** | **6.3** | **6.5** | **6.4** |
| **Total Assets** | **49.0** | **57.6** | **63.0** | **70.6** | **73.5** | **82.6** | **105.6** | **99.3** | **102.6** |
| Current liabilities | | | | | | | | | |
| Trade and other payables | 31.4 | 27.3 | 23.1 | 21.7 | 25.8 | 33.1 | 43.6 | 35.4 | 34.3 |
| Borrowings | 0.0 | 7.9 | 14.4 | 21.3 | 16.1 | 13.6 | 20.0 | 14.5 | 0.3 |
| Income tax | 0.9 | 1.4 | 0.5 | 0.6 | 0.9 | 1.0 | 1.9 | 1.8 | 1.3 |
| Employee benefits | | | 0.2 | 0.4 | 0.6 | 0.7 | 0.9 | 1.0 | 1.0 |
| Other | | 0.3 | 0.0 | | | | 0.7 | 0.8 | 1.8 |
| **Total Current Liabilities** | **32.4** | **36.9** | **38.3** | **44.0** | **43.4** | **48.3** | **67.0** | **53.5** | **38.7** |
| Non-Current Liabilities | | | | | | | | | |
| Borrowings | 0.1 | 0.2 | 0.5 | 0.6 | 1.1 | 1.7 | 0.5 | 0.8 | 11.7 |
| Deferred tax | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 |
| Employee benefits | | | | 0.1 | 0.2 | 0.2 | 0.4 | 0.2 | 0.2 |
| **Total Non-Current liabilities** | **0.1** | **0.2** | **0.6** | **0.8** | **1.4** | **2.0** | **1.0** | **1.0** | **12.1** |
| **Total Liabilities** | **32.5** | **37.1** | **39.0** | **44.8** | **44.8** | **50.3** | **68.0** | **54.5** | **50.8** |
| **Net Assets** | **16.5** | **20.5** | **24.1** | **25.8** | **28.7** | **32.3** | **37.6** | **44.8** | **51.8** |
| Equity | | | | | | | | | |
| issued Capital | 13.1 | 13.1 | 13.1 | 13.1 | 13.1 | 13.1 | 13.1 | 13.1 | 13.1 |
| Hedge reserve | | (0.1) | (0.0) | (0.0) | (0.1) | (0.1) | (0.0) | 0.4 | 0.0 |
| Retained profits | 3.4 | 7.6 | 11.0 | 12.7 | 15.7 | 19.3 | 24.6 | 31.4 | 38.7 |
| **Total Equity** | **16.5** | **20.5** | **24.1** | **25.8** | **28.7** | **32.3** | **37.6** | **44.8** | **51.8** |
| | | | | | | | | | |
| Net working capital | 12.9 | 27.6 | 36.2 | 41.7 | 38.5 | 39.7 | 54.9 | 57.1 | 60.9 |
| Net working capital % of revenue | 6.5% | 11.0% | 12.5% | 15.5% | 13.5% | 13.7% | 16.3% | 16.3% | 17.0% |
| Net debt | (1.9) | 8.1 | 14.9 | 21.9 | 16.9 | 15.0 | 20.4 | 15.3 | 11.7 |
| EBIT interest cover | (41.1) | 20.9 | 9.3 | 8.4 | 16.7 | 23.7 | 19.0 | 27.1 | 18.6 |

Source: Company Accounts RaaS analysis on ratios

**Exhibit 14: Cashflows from 2010 to 2018**

| Year ending June | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|
| Operations | 2.6 | (7.7) | (3.0) | (0.3) | 10.7 | 5.3 | (2.8) | 12.9 | 10.6 |
| Investing | (0.5) | (0.3) | (1.1) | (0.8) | (4.3) | 0.6 | 1.5 | (1.1) | (0.4) |
| Financing | (1.5) | (1.8) | 8.2 | (4.5) | 0.2 | (5.1) | (5.4) | (6.4) | (6.6) |
| Net change in cash | 0.6 | (9.8) | 4.1 | (5.7) | 6.5 | 0.8 | (6.6) | 5.4 | 3.5 |
| Cash/equivalents beginning of year | 1.5 | 2.0 | (7.8) | (3.6) | (9.3) | (2.8) | (1.9) | (8.6) | (3.2) |
| Cash/equivalents end of year | 2.0 | (7.8) | (3.6) | (9.3) | (2.8) | (1.9) | (8.6) | (3.2) | 0.3 |

Source: Company Accounts

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