

Founders First Ltd

Crafting a unique beverage portfolio

Founders First Ltd (ASX:FFL) is an investor in and operator alongside founders in the alcoholic beverage space, predominantly craft beer but recently expanding into spirits. The group has a portfolio approach to investments, holding varying equity stake holdings in (13) businesses, typically early- to mid-stage in nature. Current holdings include Jetty Road Brewery (64%), Foghorn Brewery (75%), Slipstream Brewery (45%), Ballistic Beer Company (10%), Sauce Co Brewery (15%) and Brogan's Way (45%). Along with equity funding, FFL offers support and expertise in sales, account management, back office and brand/business plans. Listed in December 2019 following two private capital raisings, the group has wasted no time in deploying funds with the acquisition of Potters Brewery and the Kangaroo Island Distillery. The current COVID trading disruptions are offering up further opportunities for industry consolidation, but at the same time impacting FFL investments in disrupted venues such as Jetty Road in Victoria. The business has positioned itself for growth and as a result the company has room to grow into its cost base, which is part of the reason for current reported operating losses. There are few if any genuinely comparable listed businesses, while assessing the progress of each individual investment as an investor will be difficult without management commentary given the range of activities and ownership of each investment.

Business model

FFL has (13) current investments with varying levels of ownership. Those businesses that are >50% owned are consolidated into their accounts with minorities, while those <50% ownership are equity accounted. Revenues from most investments comprise revenues from wholesale/retail sales, venue revenue (food & beverage) and direct revenue from sales team commissions. Asset revaluations will also from time to time be recorded as revenue. For most of these investments FFL provides support services such as sales & marketing, account management and back office given these early stage companies lack such expertise. Most investments have a pathway to control built into contracts.

Recent company commentary

Since listing FFL has made three further investments, acquiring 100% of the Potters Brewery & Brasserie in the Hunter Valley for \$1.5m (with the aim to brand and upgrade under the Foghorn brand), 100% of the Kangaroo Island Distillery for \$1.5m and 65% of Green Ant Gin for \$0.4m. The company has also converted debt into equity via a convertible note to move to 64% of Jetty Road and exercised options to increase shareholdings in Ballistic. FFL ended the financial year with \$11.4m cash Despite COVID impacts over Q4, with wholesale revenue growth of 112% across the portfolio offsetting venue revenue declines.

Hybrid approach to peer comparison

When looking at peers investors should consider a sum of the parts or hybrid approach for FFL given the mix of operating assets and investments. Getting enough information on the earnings of each investment for valuation purposes may be problematic. Digital Wine Ventures (ASX:DW8) may be a loose comparison given its goal of digitising the order flow between consumers (both wholesale & retail) and suppliers.

Historical earnings and ratios

Year end	Revenue (A\$m)	EBITDA Adj.* (A\$m)	NPAT Adj.* (A\$m)	NPAT Rep. (A\$m)	EPS Adj.*(c)	EPS Rep. (c)	EV/Sales (x)
06/19a	7.56	(1.29)	(1.51)	(1.51)	nm	nm	5.03
06//20a	9.20	(7.80)	(5.90)	(9.20)	nm	nm	4.13

Source: Company data *EBITDA and NPAT adj for one-time, non-cash items

Food & beverage

4 September 2020

Share details

ASX Code	FFL
Share price (2-Sep in trading halt at time of publication)	\$0.40
Market Capitalisation	\$49.4M
Shares on issue	123.6M
Net cash at 30/06/2020	\$11.4M
Free float	43.8%

Share performance (since listing)



Upside Case

- Significant ownership of a "killer" brand
- Export success of brand portfolio
- Accretive acquisition

Downside Case

- Complex and opaque accounting/disclosure
- Brand building takes time and funding
- Fail to integrate acquisitions

Catalysts/upcoming events

- September quarter update (Late Oct-2020)
- Interim results FY21

Comparable companies (Aust/NZ)

Digital Wine Ventures (ASX:DW8)

Top 5 shareholders

Greencape Capital	8.1%
Warren Randall	6.2%
Stuart Morton (Co-Founder/Finance Dir)	5.7%
Daniel Wales (Co-Founder/GM-Beer)	4.6%
Mark Haysman (MD)	3.7%

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FINANCIAL SERVICES GUIDE

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