

Blooms The Chemist Management Services

Offering an attractive yield opportunity

Blooms The Chemist Management Services Ltd is a wholesale service provider and lender for a network of 107 pharmacies across six Australian states. The company is offering, by way of a prospectus, up to 42.7m at \$1.17/share to raise up to \$50m. The minimum offer is for 28.6m shares, to raise \$33.5m. At the minimum raising, the company intends to retire \$16m in debt, and use remaining proceeds to advance funds to Consulting Partners to acquire new stores, explore freehold opportunities and provide working capital. Eligible participants to the offer include any person or entity to whom a transfer of shares would, at the board's determination, be in the best interests of the company. Priority will be given to existing Blooms The Chemist pharmacists, employees and their families. Suppliers to Blooms The Chemist can apply for Class A non-voting shares. The offer closes 5 May. While there is no guarantee that future dividends will be paid, the company has for the past three years paid fully franked dividends to shareholders. Based on the last issue price of \$1.00/share, these have provided an attractive yield, with the FY20 dividend yield of 11.25% (18.8% grossed up) well ahead of listed peers.

Business model

Blooms The Chemist Management Services generates income from member services and from its loan book. The Member Services division provides a range of services to the Blooms The Chemist network pharmacies including payroll, bookkeeping, merchandising, marketing & communications, human resources, legal & regulatory, information technology and pharmacy and retail services. It also acts as a buying agent for the network, delivering buying power and economies of scale to the group. The Loan Book division generates income from the profit on interest payments from loans it extends to pharmacists (Consulting Partners) to acquire Blooms The Chemist pharmacies. The current loan book comprises approximately 100 limited recourse loans and other financial assets with a combined value at June 30, 2020 of \$156m. Consulting Partners pay interest, monthly in arrears, on the loans. The profit generated from the loan book has enabled the company to pay dividends to shareholders for the past three years. The company delivered a 47.3% increase in revenue, 41.7% uplift in EBITDA and 27.6% increase respectively in NPAT and EPS in FY20.

Raise price derived from valuation range of \$0.91-\$1.31/share

The company is seeking to raise up to \$50m at \$1.17/share. The capital raise price of \$1.17 was the mid-point of a valuation undertaken by PKF Corporate Finance in July 2020 for the board. PKF provided a range of \$0.91 to \$1.31 using the forecasted FY20 EBITDA at the time, applying a 9.0x-11.0x EBITDA multiple, netting off expected debt and working capital and a minority and marketability discount of 25-15%.

Reverse DCF implies a 10-year free cashflow CAGR of 1.9%

We have applied a reverse DCF to determine the growth rate implied in the prospectus offer price of \$1.17/share. Using the company's FY20 EBIT of \$18.2m and applying a discount rate of 10.0% with a terminal growth rate of 2.2%, we calculate that the company only needs to grow free cashflow at a compound annual growth rate of 1.9% over the next 10 years to achieve the offer price. We have also given regard to comparable peers, Australian Pharmaceutical Group, EBOS and Sigma Healthcare, although these companies also have other divisions beyond pharmacy retail. These three listed peers are trading on a median EV/EBITDA multiple of 15.0x, delivering a median dividend yield of 2.2% based on their last reported results. In comparison, Blooms The Chemist delivered a dividend yield of 11.25% (18.8% grossed up) in FY20 on an EV/EBITDA multiple of 9.2x.

Historical earnings and ratios

Year End	Revenue (A\$m)	EBITDA (A\$m)	NPAT (A\$m)	EPS (c)	DPS (c)	Dividend Yield % [^]	EV*/Sales (x)	EV*/EBITDA
06/18a	30.872	14.580	9.854	8.4	9.00	9.0%	5.6	11.9
06/19a	32.894	13.382	8.274	7.0	10.75	10.8%	5.3	13.0
06/20a	48.460	18.964	10.564	9.0	11.25	11.3%	3.6	9.2

Source: Company data derived from prospectus and RaaS analysis *EV based on \$1.17 share price and pre-capital raise shares on issue (117.4m) [^]based on the \$1.00/share price at which shares were previously issued

Pharmacy/Retailing

1st April 2021

Share details

Capital raise price	\$1.17
Implied Market Capitalisation pre raise	\$136.9M
Shares pre raise	117.4M
Shares post raise (max)	159.8M
Performance rights	3.2M
Net debt at 30/06/2020	\$36.3M
Implied Enterprise Value pre raise	\$173.2M
Directors' holdings	17.1%
ROE FY20	7.8%
ROIC FY20	8.2%
ROA FY20	13.5%

Upside Case

- Highly experienced board and management specialising in pharmacy and retail
- Ageing population and shift to health-conscious living presenting strong tailwinds for pharmacies
- Delivering an attractive dividend yield

Downside Case

- Pharmacy sector highly regulated
- Consumers increasingly buying over the counter medicines from supermarkets
- As a group, accounts for just 2% of Australia's pharmacy sector

Comparable companies (Aust/NZ)

Australian Pharmaceutical Group (ASX:API), EBOS Group (NZX:EBO), Sigma Healthcare (ASX:SIG)

Board of Directors

John Thorne	Chairman
Phillip Smith	Director/CEO
Peter Green	Director
Gary Kent	Director
Patrick Matthews	Director
David Ratcliffe	Director
Sally Whiting	Director

Company contacts

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FINANCIAL SERVICES GUIDE

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AFSL 456663

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- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

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 - Securities
- deal on behalf of retail and wholesale clients in relation to
 - Securities

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Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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