

Youfoodz Holdings Limited (ASX: YFZ): Changes in the revenue mix towards a favorable B2C segment will drive revenue growth in FY21



Reading Time: 5 Mins

By Team Ace Investors

Stock Code	ASX: YFZ
Shares O/S	134.43 million
Closing Price	AUD 0.550
Market Cap	73.94 million
52 W H/L	1.320/0.540
One Year Stock Performance	-47.62%
Avg. Volume(TTM)	0.16 million
EPS(TTM)	-0.05
P/E	-11.93
Annual Dividend Yield	0.00%
Franking	-
Last Dividend Ex-Date	-
Last Dividend Pay Date	-
DPS (AUD)	-
ROE (%)	-

(Source: ASX)

Company Overview

Youfoodz Holdings Limited (YFZ) is operating within the ready-made meals market and generates revenue from the sale of its fresh, ready-made meals, snacks, and drinks. The Company specializes in the production and distribution of high quality and affordable fresh, ready-made meals and other convenience food products for residential (home delivery), retail and corporate customers. Since its inception in 2012, Youfoodz has delivered over 60 million ready-

made meals to its home delivery, retail and corporate customers. Youfoodz operates three production facilities in Brisbane, Australia, and has developed a scalable, proprietary manufacturing technology to optimize production and supply-chain management. The Company's three facilities produce more than 350,000 ready-made meals, 80,000 snacks, and 25,000 drinks per week on average. Products are marketed and distributed through an Omni-channel sales model to a database of more than 850,000 home delivery customers via a direct-to-consumer offering (**B2C**) and via a business-to-business offering via supply to supermarkets, grocery retailers, petrol and convenience stores and corporate customers (**B2B**).

Investment Rationale

Favorable industry dynamics

The food market includes several product categories, including meals out and fast foods, and products bought for home consumption, including meat, fish and seafood, fruit and vegetables, bakery products, non-alcoholic beverages, dairy products, and other foods (which includes ready-made meals). As per the ABS data, households in Australia have allotted an increased portion of their food spending to out-of-home eating and fast food. By type, the largest expenditure category is meals out and fast foods, which was approximately 34% of the total household food expenditure in 2016. This is also the fastest-growing category and increased by 4.1% CAGR between 2010 and 2016. As per the Frost & Sullivan report, the total consumer food market size in Australia and New Zealand is estimated to be approximately \$153 billion. This trend has been growing because of the increased preference for spending on 'experiences' rather than 'things, the rapid growth in the use of food delivery services, increased focus on convenience, and growing consumer demand for new food options.

Substantial organic growth opportunities exist within the ready-made meals

Strong underlying growth in the uptake of fresh ready-made meals is expected to continue in the medium-term, driven by a shift in consumer preferences away from traditional home-cooking and the increased accessibility of healthy, convenient, and high-quality food products. The Australian and New Zealand chilled ready-made meal market is forecast to grow at a CAGR of 11.3% from FY2016 to FY2022F. Youfoodz is currently in discussions with developers to construct a new Purpose-built ready-made meal manufacturing facility. The Company intends to consolidate its three manufacturing facilities into the new purpose-built manufacturing facility to increase capacity and provide enhanced manufacturing capabilities, automation, and operating efficiencies. Youfoodz expects to achieve substantial operating leverage by consolidating existing operations into the new, purpose-built manufacturing facility. Youfoodz will rent the new purpose-built manufacturing facility and provided a capital investment of ~ \$15 million for new equipment which has the potential to generate material further annual EBITDA benefits through enhanced manufacturing capabilities. In June 2020, Youfoodz implemented a 'set and forget' home delivery subscription model. The subscription model is aligned with Youfoodz's core values of providing maximum customer flexibility and can be canceled at any time. The subscription model is expected to promote increased customer retention and improve B2C channel unit economics. Youfoodz has a demonstrated track record of customer and revenue growth. The strategy of the company is to grow its revenue organically by capturing a greater market share in both the B2C and B2B segments of the ready-made meal market. Youfoodz is focused on executing five key growth initiatives, comprising:

- Capturing underlying market and category growth;
- Growing segment market share and Average Order Value through new offerings;
- Customer retention with subscription model and loyalty program;
- Manufacturing automation and other efficiencies; and
- Selectively targeting new geography

Changes in the revenue mix towards a favorable B2C segment will drive revenue growth in FY21

Despite a drag on the B2B segment, the company has delivered a solid performance in 3Q21, with Net revenue growth of 18.2% to A\$35.3m compared to A\$29.8m in the PCP supported by a solid B2C (Home Delivery)

performance. B2C segment has registered a growth of 41.2% to A\$34.6 due to the increased number of orders and value per order. During the quarter, the number of orders increased 27% to 357,514 and the Average order value also increased from \$87.6 in the PCP to \$96.8 per order, representing a 10.4% growth compared to the PCP. Youfoodz believes that investment in above and below-the-line marketing activities and customer acquisition initiatives to support continued new customer growth. Investments in customer acquisitions are expected to support Youfoodz's future growth profile, as newly acquired customers will support repeat orders in the future. Youfoodz expects to deliver FY2021 gross revenue of \$201.0-\$205.0 million versus its prospectus forecast of \$199.8 million and EBITDA in the range of \$1.0-2.0 million (vs prospectus forecast of \$2.9 million), reflecting changes in the revenue mix towards favorable B2C segment. The company is well-positioned to pursue its growth strategy with A\$32.49m Cash& cash equivalents and A\$7.37m unused financing facility as of 25 Mar 2021.

	Unit	Q3 FY2021	Q3 FY2020	Variance (%)	
Group					
Total meals prepared	(000's)	4,941	3,998	⬆️	23.6%
Gross revenue	(A\$m)	50.2	40.7	⬆️	23.3%
Net revenue	(A\$m)	35.3	29.8	⬆️	18.2%
B2C (Home Delivery)					
Gross revenue	(A\$m)	34.6	24.5	⬆️	41.2%
Average order value	(\$ per order)	96.8	87.6	⬆️	10.4%
Number of orders ²	(#)	357,514	279,623	⬆️	27.9%
Number of active customers ³	(#)	145,366	123,694	⬆️	17.5%
Number of new customers	(#)	56,294	46,906	⬆️	20.0%

(Source: Company Reports)

ACE's Recommendation

Youfoodz Holdings Limited (YFZ) is a producer and distributor of high-quality and affordable fresh, ready-made meals with a highly scalable integrated business model. Since its inception in 2012, Youfoodz has delivered over 60 million ready-made meals to its home delivery, retail, and corporate customers and is now constructing a new Purpose-built ready-made meal manufacturing facility to capitalize on the growing demand for ready-made meals. Youfoodz expects to achieve substantial operating leverage by consolidating existing operations into the new, purpose-built manufacturing facility. The company's strategy is to grow its revenue organically by capturing a greater market share in both the B2C and B2B segments of the ready-made meal market. Youfoodz expects to deliver FY2021 gross revenue of \$201.0-\$205.0 million versus its prospectus forecast of \$199.8 million.

We believe that investments in marketing activities and changes in the revenue mix will drive the stock's price higher from its current level. The stock is now trading near to its 52-week low price at A\$0.550/share and offers an attractive opportunity. So, we would like to recommend a **SPECULATIVE BUY** rating on the stock.

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