



Support Services



Source: Refinitiv

Market data

EPIC/TKR	FLTA
Price (p)	157
12m High (p)	282
12m Low (p)	146
Shares (m)	29
Mkt Cap (£m)	46
EV (£m)	44
Free Float*	33%
Market	AIM

*As defined by AIM Rule 26

Description

Filta Group provides cooking oil filtration, fryer and drain management services in North America and Europe to commercial kitchens.

Company information

CEO	Jason Sayers
CFO	Brian Hogan
Chairman	Tim Worledge
	+44 1788 550100
	www.filtapl.com

Key shareholders

Directors	66.4%
Gresham House	12.6%
Blackrock	5.6%
Cannacord Genuity	4.5%

Diary

Apr'20	Prelims
Sep'20	Interims

Analyst

Jason Streets	020 7194 7622
	js@hardmanandco.com

FILTA GROUP

FY19 interim results

Filta Group (Filta) provides cleaning services to commercial kitchens in North America, the UK and, more recently, mainland Europe. The company reported EBITDA for 1H19 marginally below our expectations – it has taken a little longer to get the benefit of cost savings following the Watbio acquisition. Our EBITDA expectations for 2020 are scarcely altered. At the EPS level, we have put through some additional non-cash related costs: share-based payments, IFRS16 impacts and higher amortisation than expected.

- **Forecast changes:** We have cut our FY19E EBITDA expectations from £4.85m to £4.2m and trimmed FY20E from £5.35m to £5.25m. The cuts to EPS – FY19E 5.1p (from 9.9p) and FY20E 8.1p (11.2p) – are more substantial, taking account of higher non-operating costs below the EBITDA line. The cuts do not reflect any weakening in the business prospects, which we still see as very attractive.
- **1H19 results and outlook:** Filta delivered adjusted EBITDA of £1.7m, up on £1.3m in 1H18. PBT was £0.5m down from £1m last year due to higher growth-related costs and before the full benefits of the Watbio acquisition have begun to flow. The 1p interim dividend was up 39% and reflects management's confidence in the prospects for the business.
- **Valuation:** Filta has no directly comparable companies. We have used a DCF to derive a value range of 219p to 285p per share, using a 10% discount rate and a mid-term (2021-25) growth rate of between 6% and 12%. Our central estimate is 262p. No account is taken of future added-value acquisitions.
- **Risks:** In addition to normal commercial risks, Filta is dependent on the behaviour of its franchisees, which it cannot control but can help to influence by means of thorough training. The risks in the Watbio acquisition are now fully understood but any future deals will inevitably involve managing some unknowns. It is exposed to FX risk, too, although most costs are local.
- **Investment summary:** Filta is an attractive business, in our view, combining the capital-light franchise model in North America and Europe with company-owned operations in the UK. With only a tiny proportion of the market currently served and with little or no competition, we see potential for years of profitable growth ahead.

Financial summary and valuation

Year-end Dec (£000)	2015	2016	2017	2018	2019E	2020E
Revenue	7,925	8,469	11,547	14,213	25,000	27,500
EBITDA	594	1,193	2,116	2,642	4,200	5,250
Underlying EBIT	450	1,011	2,059	1,941	2,200	3,300
Reported EBIT	450	(249)	1,699	1,782	1,900	3,300
Underlying PTP	376	932	1,968	1,900	1,900	3,100
Statutory PTP	376	(329)	1,608	1,742	1,600	3,100
Underlying EPS (p)	1.39	3.66	5.05	5.39	5.07	8.11
Statutory EPS (p)	1.39	-1.51	3.85	4.88	4.05	8.11
Net (debt)/cash	-619	3,271	2,992	2,040	1,435	3,487
Shares issued (m)	22	23	27	29	29	29
P/E (x)	113.1	42.9	31.1	29.1	31.0	19.4
EV/EBITDA (x)	58.6	27.1	18.8	16.4	10.5	8.0

Source: Hardman & Co Research

Interims

Organic revenue grew 21%, which, added to the £4.2m contributed by Watbio, led to an 86% increase in reported revenue to £12.2m. Watbio is a lower margin business so gross profit grew at a more modest 50% to £5.0m. Adjusted EBITDA rose to £1.7m from £1.3m a year earlier. And, adjusted PBT increased 14% to £1.3m. The interim dividend was raised from 0.72p to 1p per share.

The original Filta business, Fryer Management, continued its strong growth while the less important Franchise Sales had a slow start to the year but has subsequently picked up. The European franchise business continued to grow with five new franchises added in 1H19 bringing the total to 17.

Watbio has now been fully integrated and the savings should start to flow through fully in the fourth quarter. One non-profit making business was shut, which lowered the revenue below our expectations. Filta has introduced more efficient business practices – both in buying and scheduling – and reduced the number of premises.

The enlarged business is now well positioned to grow on the back of tighter hygiene regulations and natural organic expansion.

Forecasts

Our forecasts are largely unchanged at the EBITDA level. The FY19E shortfall is effectively all in 1H19 and was mostly down to the slower-than-expected Watbio savings benefits coming through. We trim our FY20E EBITDA from £5.35m to £5.25m.

There are, however, more significant changes below the EBITDA line. These effectively fall into three categories. The first is share-based payments. We had not previously allowed a significant sum for these. All new Watbio employees have been issued with shares. The US employee shares have to be marked to market too. We now expect this to total £550k each year.

The second is acquisition costs, which we treat as exceptional; we now estimate £300k (from £150k).

Thirdly, the amortisation charge is significantly higher by approximately £400k, which is mostly due to the treatment of leases under IFRS16. This is obviously ongoing.

The impact of these changes (combined with the reduced EBITDA estimate for FY19E) is to cut our PBT estimates for FY19 to £1.9m (from £3.75m) and for FY20 to £3.1m (from £4.3m) and our EPS numbers (fully-diluted, adjusted for exceptional costs) for FY19E to 5.1p (from 9.9p) and for FY20E to 8.1p (from 11.3p).

Profit & Loss

Income statement, 2015-20E						
Year-end Dec (£000)	2015	2016	2017	2018	2019E	2020E
Revenue	7,925	8,469	11,547	14,213	25,000	27,500
Cost of sales	-4,208	-4,449	-5,870	-7,131	-14,250	-15,300
Gross profit	3,718	4,019	5,677	7,083	10,750	12,200
Other income	36	25	38	25		
Distribution costs	-84	-80	-125	-151	-200	-200
Admin. expenses	-3,220	-2,953	-3,532	-5,015	-8,350	-8,700
Operating profit	450	1,011	2,059	1,941	2,200	3,300
<i>EBITDA</i>	<i>594</i>	<i>1,193</i>	<i>2,116</i>	<i>2,642</i>	<i>4,200</i>	<i>5,250</i>
Finance expenses	-74	-80	-91	-40	-300	-200
PBT	376	932	1,968	1,900	1,900	3,100
Exceptional costs		-1,261	-360	-159	-300	
Tax	-74	-101	-590	-422	-400	-700
PAT	302	-430	1,017	1,320	1,200	2,400
Discontinued ops.		87	33	19		
Net profit	302	-343	1,050	1,339	1,200	2,400
Exchange differences	-45	-186	-94	-29		
Comprehensive income	257	-528	956	1,309	1,200	2,400
Avg. no. of shares (fully-dil., m)	21.8	22.7	27.3	27.4	29.6	29.6
EPS (p)	1.4	-1.5	3.9	4.9	4.14	8.28
Statutory EPS (fully-dil., p)	1.4	-1.5	3.9	4.9	4.05	8.11
Underlying EPS (fully-dil., adj., p)	1.4	3.7	5.1	5.4	5.07	8.11
DPS (p)			1.3	1.6	3.30	3.80
GP margin	47%	47%	49%	50%	43%	45%
Admin. as % of revenue	41%	35%	31%	35%	34%	31%
EBIT margin	6%	12%	18%	14%	9%	12%
Tax rate	20%	11%	30%	22%	21%	23%
Growth YoY						
Revenue	20%	7%	36%	23%	76%	10%
Operating profit	45%	125%	104%	-6%	13%	50%
PBT	64%	148%	111%	-3%	0%	63%
EPS	63%	164%	38%	7%	-6%	60%

Source: Hardman & Co Research

Balance sheet

Balance sheet, 2015-20E						
@ 31 Dec (£000)	2015	2016	2017	2018	2019E	2020E
Non-current assets						
Property, P&E	1,121	1,191	1,216	1,493	1,043	643
Intangible assets	90	167	485	7,186	6,586	5,986
Goodwill			631	1,640	3,640	3,640
Contract acquisition costs	170		157	343	343	343
Deposits	2	3	2	2	2	2
Trade receivables	215	379	302	325	357	393
Deferred tax assets	520	756	652	755	905	1,105
Total non-current assets	2,117	2,495	3,446	11,744	12,876	12,112
Current assets						
Trade receivables	1,591	1,961	2,311	4,821	5,544	6,376
Contract acquisition costs			38	52	52	52
Inventories	299	288	438	1,386	1,525	1,678
Cash	979	4,392	4,031	6,790	5,185	6,337
Total current assets	2,870	6,641	6,818	13,049	12,306	14,442
Assets held for sale		88	74			
Total assets	4,987	9,224	10,339	24,793	25,182	26,554
Current liabilities						
Trade payables	-1,726	-1,990	-2,143	-6,510	-7,161	-7,878
Borrowings	-597	-104	-108	-841	-841	-841
Due to directors/deferred consideration	-1,522					
Deferred income	-194	-401	-533	-869	-869	-869
Total current liabilities	-4,039	-2,495	-2,783	-8,220	-8,871	-9,587
Non-current liabilities						
Borrowings*	-1,001	-1,018	-932	-3,909	-2,909	-2,009
Deferred income	-1,555	-2,310	-2,405	-2,791	-2,991	-2,991
Deferred tax			-95	-1,291	-1,291	-1,291
Total non-current liabilities	-2,556	-3,328	-3,432	-7,992	-7,192	-6,292
Liabilities held for sale		-33	-66			
Total liabilities	-6,595	-5,856	-6,281	-16,211	-16,063	-15,879
Net assets	-1,609	3,368	4,057	8,582	9,120	10,676
Equity						
Share capital	380	2,695	2,713	2,892	2,892	2,892
Share premium		3,480	131	3,372	3,522	3,722
Accumulated losses/profits	-1,914	-2,257	1,863	2,711	3,099	4,455
Other reserves	-75	-551	-650	-394	-394	-394
Total equity	-1,609	3,368	4,057	8,582	9,120	10,676

* Note: the "borrowings" do not include the lease liabilities

Source: Hardman & Co Research

Cashflow

Cashflow, 2015-20E						
Year-end Dec (£000)	2015	2016	2017	2018	2019E	2020E
Operating activities						
PBT	376	-218	1,641	1,760	1,600	3,100
Finance costs	74	80	91	42	300	200
Depreciation	90	119	110	187	650	600
Amortisation	54	63	100	212	800	800
Other	9	49	97	310	-150	-200
Working capital changes	17	-53	-197	-490	-243	-304
Cash from operations	620	40	1,842	2,021	2,957	4,196
Tax paid	-54		-510	-1,216	-400	-700
Net cash from operations	566	40	1,332	805	2,557	3,496
Investing activities						
Purchase of P,P&E	-180	-43	-113	-316	-200	-200
Purchase of intangibles	-60	-154	-55	-105	-200	-200
Sales of assets	64		25	49		
Acquisitions			-1,138	-3,738	-1,800	
Net investing cash	-176	-197	-1,281	-4,110	-2,200	-400
Financing activities						
Issue of shares		3,999	149	2,870	150	200
Net borrowings	291	-146	-47	3,538	-1,000	-900
Interest paid	-70	-105	-91	-42	-300	-200
Dividends paid			-226	-372	-812	-1,044
Net financing cash	221	3,748	-215	5,994	-1,962	-1,944
Net change in cash	611	3,591	-165	2,689	-1,605	1,152
Cash at beginning of year	452	979	4,392	4,031	6,790	5,185
FX	-84	-178	-196	70		
Cash at end of year	979	4,392	4,031	6,790	5,185	6,337

Source: Hardman & Co Research

Disclaimer

Hardman & Co provides professional independent research services and all information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. However, no guarantee, warranty or representation, express or implied, can be given by Hardman & Co as to the accuracy, adequacy or completeness of the information contained in this research and they are not responsible for any errors or omissions or results obtained from use of such information. Neither Hardman & Co, nor any affiliates, officers, directors or employees accept any liability or responsibility in respect of the information which is subject to change without notice and may only be correct at the stated date of their issue, except in the case of gross negligence, fraud or wilful misconduct. In no event will Hardman & Co, its affiliates or any such parties be liable to you for any direct, special, indirect, consequential, incidental damages or any other damages of any kind even if Hardman & Co has been advised of the possibility thereof.

This research has been prepared purely for information purposes, and nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell any security, product, service or investment. The research reflects the objective views of the analyst(s) named on the front page and does not constitute investment advice. However, the companies or legal entities covered in this research may pay us a fixed fee in order for this research to be made available. A full list of companies or legal entities that have paid us for coverage within the past 12 months can be viewed at <http://www.hardmanandco.com/legals/research-disclosures>. Hardman may provide other investment banking services to the companies or legal entities mentioned in this report.

Hardman & Co has a personal dealing policy which restricts staff and consultants' dealing in shares, bonds or other related instruments of companies or legal entities which pay Hardman & Co for any services, including research. No Hardman & Co staff, consultants or officers are employed or engaged by the companies or legal entities covered by this document in any capacity other than through Hardman & Co.

Hardman & Co does not buy or sell shares, either for their own account or for other parties and neither do they undertake investment business. We may provide investment banking services to corporate clients. Hardman & Co does not make recommendations. Accordingly, they do not publish records of their past recommendations. Where a Fair Value price is given in a research note, such as a DCF or peer comparison, this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. Hardman & Co may publish further notes on these securities, companies and legal entities but has no scheduled commitment and may cease to follow these securities, companies and legal entities without notice.

The information provided in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Hardman & Co or its affiliates to any registration requirement within such jurisdiction or country.

Some or all alternative investments may not be suitable for certain investors. Investments in small and mid-cap corporations and foreign entities are speculative and involve a high degree of risk. An investor could lose all or a substantial amount of his or her investment. Investments may be leveraged and performance may be volatile; they may have high fees and expenses that reduce returns. Securities or legal entities mentioned in this document may not be suitable or appropriate for all investors. Where this document refers to a particular tax treatment, the tax treatment will depend on each investor's particular circumstances and may be subject to future change. Each investor's particular needs, investment objectives and financial situation were not taken into account in the preparation of this document and the material contained herein. Each investor must make his or her own independent decisions and obtain their own independent advice regarding any information, projects, securities, tax treatment or financial instruments mentioned herein. The fact that Hardman & Co has made available through this document various information constitutes neither a recommendation to enter into a particular transaction nor a representation that any financial instrument is suitable or appropriate for you. Each investor should consider whether an investment strategy of the purchase or sale of any product or security is appropriate for them in the light of their investment needs, objectives and financial circumstances.

This document constitutes a 'financial promotion' for the purposes of section 21 Financial Services and Markets Act 2000 (United Kingdom) ('FSMA') and accordingly has been approved by Capital Markets Strategy Ltd which is authorised and regulated by the Financial Conduct Authority (FCA).

No part of this document may be reproduced, stored in a retrieval system or transmitted in any form or by any means, mechanical, photocopying, recording or otherwise, without prior permission from Hardman & Co. By accepting this document, the recipient agrees to be bound by the limitations set out in this notice. This notice shall be governed and construed in accordance with English law. Hardman Research Ltd, trading as Hardman & Co, is an appointed representative of Capital Markets Strategy Ltd and is authorised and regulated by the FCA under registration number 600843. Hardman Research Ltd is registered at Companies House with number 8256259.

(Disclaimer Version 8 – Effective from August 2018)

Status of Hardman & Co's research under MiFID II

Some professional investors, who are subject to the new MiFID II rules from 3rd January, may be unclear about the status of Hardman & Co research and, specifically, whether it can be accepted without a commercial arrangement. Hardman & Co's research is paid for by the companies, legal entities and issuers about which we write and, as such, falls within the scope of 'minor non-monetary benefits', as defined in the Markets in Financial Instruments Directive II.

In particular, Article 12(3) of the Directive states: 'The following benefits shall qualify as acceptable minor non-monetary benefits only if they are: (b) 'written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public...'

The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: <http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf>

In addition, it should be noted that MiFID II's main aim is to ensure transparency in the relationship between fund managers and brokers/suppliers, and eliminate what is termed 'inducement', whereby free research is provided to fund managers to encourage them to deal with the broker. Hardman & Co is not inducing the reader of our research to trade through us, since we do not deal in any security or legal entity.

