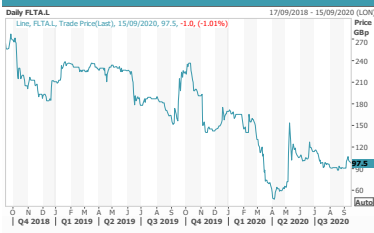




16 September 2020

Support Services



Source: Refinitiv

Market data

EPIC/TKR	FLTA
Price (p)	95
12m High (p)	245
12m Low (p)	42
Shares (m)	29
Mkt Cap (£m)	28
EV (£m)	30
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	16.5%
Cannacord Genuity	4.5%

Diary

Feb'21	Final results
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Analyst

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FILTA GROUP

FOG is lifting

Filta Group (Filta) announced that it remained EBITDA-positive in 1H'20, despite most of its customers closing for part of the period. Business is returning as customers reopen, with sports stadia expected to be the last to resume catering. Filta has used the period to reduce costs and improve its business model. We expect it to emerge as an even better business when COVID-19 is tamed. Our 2020 forecasts remain suspended.

- ▶ **1H'20 results:** Revenue was down 32%, at £8m, and adjusted EBITDA came in at £200k, after a £300k bad debt provision. The company ended the half year with net debt of £1.9m, a small improvement on the year-end, showing the effectiveness of its cash management in a very tricky period.
- ▶ **2H'20 outlook:** Business is picking up month-on-month, and is back to around 70% of pre-COVID-19 levels. Strong franchisees will prosper and weaker ones may not survive, but an economic downturn tends to lead to increased interest in franchise businesses, and Filta's recurring revenue model is an attractive one. Filta has maintained its 40% gross margin and reduced fixed overheads.
- ▶ **Valuation:** Along with our forecasts, we have suspended our valuation.
- ▶ **Risks:** The clear risk for Filta is that COVID-19 returns aggressively and its customers are unable to stay open. In the UK-owned operations, the business is heavily weighted towards 20 large operations that are well positioned to survive. Its balance sheet is relatively strong, with cash balances and low net debt.
- ▶ **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. As businesses continue to reopen, the focus on cleanliness, efficiency and environmental friendliness is unlikely to be abated.

Financial summary and valuation

Year-end Dec (£000)	2015	2016	2017	2018	2019	2020E
Revenue	7,925	8,469	11,547	14,213	24,923	
Adjusted EBITDA	594	1,193	2,116	2,642	3,163	
Underlying EBIT	450	1,011	2,059	1,941	1,504	
Reported EBIT	450	-249	1,699	1,782	1,208	
Underlying PTP	376	932	1,968	1,900	1,233	
Statutory PTP	376	-329	1,608	1,742	936	Forecasts suspended
Underlying EPS (p)	1.39	3.66	5.05	5.39	2.40	
Statutory EPS (p)	1.39	-1.51	3.85	4.88	1.39	
Net (debt)/cash	-619	3,271	2,992	2,040	-879	
Shares issued (m)	22	23	27	29	29	
P/E (x)	139.7	53.0	38.4	36.0	44.5	
EV/EBITDA (x)	72.1	34.2	23.6	20.5	10.1	

Source: Hardman & Co Research

Profit & Loss

Income statement, 2015-20E						
Year-end Dec (£000)	2015	2016	2017	2018	2019	2020E
Revenue	7,925	8,469	11,547	14,213	24,923	
Cost of sales	-4,208	-4,449	-5,870	-7,131	-14,756	
Gross profit	3,718	4,019	5,677	7,083	10,166	
Other income	36	25	38	25	191	
Distribution costs	-84	-80	-125	-151	-203	
Admin. expenses	-3,220	-2,953	-3,532	-5,015	-8,650	
Operating profit	450	1,011	2,059	1,941	1,504	
<i>Adjusted EBITDA</i>	<i>594</i>	<i>1,193</i>	<i>2,116</i>	<i>2,642</i>	<i>3,163</i>	
Finance expenses	-74	-80	-91	-40	-271	
Underlying PBT	376	932	1,968	1,900	1,233	
Exceptional costs		-1,261	-360	-159	-296	
Tax	-74	-101	-590	-422	-532	
PAT	302	-430	1,017	1,320	404	
Discontinued operations		87	33	19		
Net profit	302	-343	1,050	1,339	404	
Exchange differences	-45	-186	-94	-29	-149	
Comprehensive income	257	-528	956	1,309	255	Forecasts suspended
Avg. no. of shares (fully-dil., m)	21.8	22.7	27.3	27.4	29.0	
EPS (p)	1.4	-1.5	3.9	4.9	1.4	
Statutory EPS (fully-dil., p)	1.4	-1.5	3.9	4.9	1.4	
Underlying EPS (fully-dil., adj., p)	1.4	3.7	5.1	5.4	2.4	
DPS (p)			1.3	1.6	2.0	
Gross profit margin	47%	47%	49%	50%	41%	
Admin. as % of revenue	41%	35%	31%	35%	35%	
EBIT margin	6%	12%	18%	14%	6%	
Tax rate	20%	11%	30%	22%	43%	
Growth YoY						
Revenue	20%	7%	36%	23%	75%	
Operating profit	45%	125%	104%	-6%	-23%	
PBT	64%	148%	111%	-3%	-35%	
EPS	63%	164%	38%	7%	-55%	

Source: Hardman & Co Research

Balance sheet

Balance sheet, 2015-20E						
@ 31 Dec (£000)	2015	2016	2017	2018	2019	2020E
Non-current assets						
P,P&E	1,121	1,191	1,216	1,493	1,336	
Intangible assets	90	167	485	7,186	1,270	
Right of use assets					6,515	
Goodwill			631	1,640	1,640	
Contract acquisition costs	170		157	343	416	
Deposits	2	3	2	2	5	
Trade receivables	215	379	302	325	412	
Deferred tax assets	520	756	652	755	678	
Total non-current assets	2,117	2,495	3,446	11,744	12,272	
Current assets						
Trade receivables	1,591	1,961	2,311	4,821	4,065	
Contract acquisition costs			38	52	57	
Inventories	299	288	438	1,386	1,760	
Cash	979	4,392	4,031	6,790	2,891	
Total current assets	2,870	6,641	6,818	13,049	8,773	
Assets held for sale		88	74			
Total assets	4,987	9,224	10,339	24,793	21,045	
Current liabilities						
Trade payables	-1,726	-1,990	-2,143	-6,510	-3,261	
Borrowings	-597	-104	-108	-841	-793	Forecasts suspended
Due to directors/deferred consideration	-1,522					
Deferred income	-194	-401	-533	-869	-534	
Lease liability					-333	
Total current liabilities	-4,039	-2,495	-2,783	-8,220	-4,921	
Non-current liabilities						
Borrowings	-1,001	-1,018	-932	-3,909	-2,977	
Deferred income	-1,555	-2,310	-2,405	-2,791	-2,496	
Deferred tax			-95	-1,291	-1,159	
Lease Liability					-882	
Total non-current liabilities	-2,556	-3,328	-3,432	-7,992	-7,515	
Liabilities held for sale		-33	-66			
Total liabilities	-6,595	-5,856	-6,281	-16,211	-12,435	
Net assets	-1,609	3,368	4,057	8,582	8,610	
Equity						
Share capital	380	2,695	2,713	2,892	2,909	
Share premium		3,480	131	3,372	3,659	
Accumulated losses/profits	-1,914	-2,257	1,863	2,711	2,548	
Other reserves	-75	-551	-650	-394	-506	
Total equity	-1,609	3,368	4,057	8,582	8,610	

Source: Hardman & Co Research

Cashflow

Cashflow, 2015-20E						
Year-end Dec (£000)	2015	2016	2017	2018	2019	2020E
Operating activities						
Statutory PBT	376	-218	1,641	1,760	936	
Finance costs	74	80	91	42	271	
Depreciation	90	119	110	187	217	
Amortisation	54	63	100	212	1,180	
Other	9	49	97	310	272	
Working capital changes	17	-53	-197	-490	-2,078	
Cash from operations	620	40	1,842	2,021	799	
Tax paid	-54		-510	-1,216	-486	
Net cash from operations	566	40	1,332	805	313	
Investing activities						
Purchase of P,P&E	-180	-43	-113	-316	-288	
Purchase of intangibles	-60	-154	-55	-105	-177	
Sales of assets	64		25	49	40	Forecasts suspended
Acquisitions			-1,138	-3,738	-1,800	
Net investing cash	-176	-197	-1,281	-4,110	-2,225	
Financing activities						
Issue of shares		3,999	149	2,870	32	
Net borrowings	291	-146	-47	3,538	-1,168	
Interest paid	-70	-105	-91	-42	-227	
Dividends paid			-226	-372	-558	
Net financing cash	221	3,748	-215	5,994	-1,921	
Net change in cash	611	3,591	-165	2,689	-3,834	
Cash at beginning of year	452	979	4,392	4,031	6,790	
FX	-84	-178	-196	70	-65	
Cash at end of year	979	4,392	4,031	6,790	2,891	

Source: Hardman & Co Research

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