

Brisk sales growth sustained

12th October 2020

Brisk retail sales growth, an accelerated online performance and new store openings were key features of Cake Box's trading statement, issued today. Moreover, the company continues to see strong momentum across the business and is confident of further progress in the second half.

Like-for-like sales revenue growth remains encouraging for Cake Box. Despite the loss of six weeks of trading, group sales in the half ending 30th September 2020 were £8.6m, which was only slightly down from £8.8m in the same period a year earlier. More importantly, in the 20 weeks since re-opening like-for-like sales increased at an impressive **12.1%** pace. The specialist fresh cream cakes retailer's FY2021 H1 results are due for release 23rd November.

Cake Box's online business continues to perform well with the rate of growth now at 81%, an acceleration from 74% early last month. As we highlighted in a 1st September 2020 update [Cake Box – Underlying trading strength pays dividends](#) the company is benefiting significantly from the implementation of its delivery service through the use of Uber Eats, Just Eat and Deliveroo. In our view, online strength is a further vindication of the underlying strength of the Cake Box brand.

Furthermore, the core franchised retail estate is expanding. Cake Box added 6 new franchise stores in the six month period to end-September 2020 and 3 more are expected to open imminently. Additionally, the company is holding deposits on a further 47 outlets. Growth prospects for the franchised retail estate remain strong in our view. In particular, the company is currently under-represented in a number of key regions.

The company expresses confidence in its outlook. New store applications are at a record high, which augurs well for the national roll-out mentioned above. In addition, not only was sales momentum strong going into the second half, but also end-period cash on hand was at a robust level of £5.0m.

In our opinion, Cake Box's valuation remains attractive for a robust growth story based on a strong financial model. In particular, we believe it right to champion the positive **free cash flow** and **high return on capital** characteristics of a predominantly franchised business. Consequently, a share price above 200p, reflecting a premium rating to peer group, seems deserved in our view.

Key financials

Y/E 31st March	2018A	2019A	2020A	2021E	2022E
Sales revenue (£m)	12.7	16.9	18.7	19.6	24.4
EBITDA adj (£m)	3.7	4.0	4.3	4.8	6.4
EV/sales (x)	5.0	3.8	3.4	3.3	2.6
EV/EBITDA (x)	17.3	16.0	19.3	13.3	10.0
EPS basic adj (p)	7.0	7.9	7.8	9.0	12.1
P/E (x)	23.7	20.9	21.1	18.4	13.7

Sources: Company accounts data and Equity Development estimates

Company Data

EPIC	CBOX
Price (last close)	165p
52 week Hi/Lo	188p/100p
Market cap	£66m

Share Price, p



Source: ADVFN

Description

Cake Box Holdings is a franchise retailer and manufacturer of egg-free cakes with a growing store base across the UK.

The company specialises in making high quality, affordable, bespoke and personalised fresh cream cakes for immediate purchase and for advanced orders, both on-premise and online.

Chris Wickham (Analyst)

0207 065 2690
chris@equitydevelopment.co.uk

Hannah Crowe

0207 065 2692
hannah@equitydevelopment.co.uk

Trading statement highlights

Cake Box’s interim trading statement, which was released today, refers to the six months which ended 30th September 2020. Clearly, this included a period which was badly hampered by Covid-19 and the associated lockdown. Cake Box’s retail estate was closed for six weeks.

Despite this closure, the group made significant progress which the company argues, in our opinion rightly, reflects well on the dedication, agility and entrepreneurial spirit of the broader “family” – notably franchisees and their employees. In particular, like-for-like sales advanced by 12.1% and online sales increased by 81% from a year earlier.

Figure 1 summarises the key sales revenue data from today’s release. It should be noted that the actual figure refers to full six month trading periods to end-September for both FY2020 (last year) and FY2021 (the current year) and includes six weeks of store closure in the current financial year.

The +12.1% like-for-like sales number refers to the performance of the group’s stores in the 20-week period to end-September 2020 (i.e. since re-opening) and only includes those retail outlets which were trading for at least one full financial year prior to 30th September 2020.

Figure 1 - Cake Box - FY2021 H1 trading statement highlights

£m	FY2020 H1	FY2021 H1	Change
Y/E 31st March			
Sales revenue (6 months)	8.8	8.6	-2.3%
Sales revenue (20 weeks)	6.6	8.6	30.3%

Source: ED estimates

The 81% online growth number is important in our view both as a confirmation of the group’s distribution flexibility and as an indicator of underlying brand strength.

Online business does not have the location and convenience benefits of traditional retailing. Cake Box’s fresh cream egg free cakes remained popular and relevant throughout lockdown.

Cake Box enjoys substantial headroom to grow franchise numbers. As we highlighted in our 25th November 2019 initiation report [Cake Box - Growth outlook remains sweet](#), there are a number of UK regions with large populations where the company’s franchised retail estate appears **under-represented**. Notable examples are East England, North West England, South West England, Scotland, Wales and Yorkshire.

Relative valuation

Based on our current forecasts, Cake Box trades on 3.3x EV/sales, which rounds to broadly in line with peer average – i.e. three times. However, using valuation measures based on profitability the shares trade at a discount.

There is a sensible argument that the group's franchised model and early successes with online should push the company to a premium to the peer group which we use.

Despite the challenges associated with Covid19 both sales revenue and financial performance were strong in FY2021 H1. We note that despite repayment of furlough monies, cash on hand at the end of the half year was £5.0m.

A share price above 200p seems perfectly reasonable in our view.

Figure 2 - Cake Box - Relative Valuation

Company	Share price, p	Shares o/s	Market cap £m	Debt £m	EV £m	Sales	EV/	EBITDA	EV/EBITDA	EPS	EPS	P/E	P/E
						£m	sales x	£m	x	p	p	x	x
						2021	2021	2021	2021	2021	2022	2021	2022
Cake Box	165	40.0	66	-2	64	19.6	3.3	4.8	13.3	9.0	12.1	18.4	13.7
Domino's Pizza	369	462.2	1706	206	1912	562	3.4	119	16.1	16.0	17.0	23.1	21.7
Greggs	1407	101.2	1423	206	1629	1054	1.5	184	8.9	48.0	90.0	29.3	16.4
Hotel Chocolat	346	112.8	390	4	394	142	2.8	18.1	21.8	12.0	n/a	28.8	n/a
Average							2.7		15.0			24.9	17.2

Note: share prices refer to closing price 9th October 2020,
Source: Company data, ED, ADVFN, marketscreener.com



Investor Access

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

Equity Development Limited is regulated by the Financial Conduct Authority

Equity Development Limited ('ED') is retained to act as financial adviser for various clients, some or all of whom may now or in the future have an interest in the contents of this document and/or in the Company. In the preparation of this report ED has taken professional efforts to ensure that the facts stated herein are clear, fair and not misleading, but make no guarantee as to the accuracy or completeness of the information or opinions contained herein.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom ('FSMA'). Any person who is not a relevant person under this section should not act or rely on this document or any of its contents. Research on its client companies produced and distributed by ED is normally commissioned and paid for by those companies themselves ('issuer financed research') and as such is not deemed to be independent, as defined by the FCA, but is 'objective' in that the authors are stating their own opinions. This document is prepared for clients under UK law. In the UK, companies quoted on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies.

This report is being provided to relevant persons by ED to provide background information about Cake Box Holdings. This document does not constitute, nor form part of, and should not be construed as, any offer for sale or purchase of (or solicitation of, or invitation to make any offer to buy or sell) any Securities (which may rise and fall in value). Nor shall it, or any part of it, form the basis of, or be relied on in connection with, any contract or commitment whatsoever.

ED may in the future provide, or may have in the past provided, investment banking services to the Company. ED, its Directors or persons connected may have in the future, or have had in the past, a material investment in the Company.

More information is available on our website

www.equitydevelopment.co.uk