

## Underlying trading strength pays dividends

1<sup>st</sup> September 2020

**Cake Box has started FY2021 positively with strong same store sales growth, new store openings and an excellent online performance. The company is not only able to repay its furlough monies, but also reward shareholders with a special dividend. Cake Box released a trading statement as such this morning.**

**Like-for-like franchised outlet sales growth in the 3 months since its stores reopened was a brisk 14.1%.** Today's statement refers to the first five months of FY2021, which included April and May, during which the group's shops were closed due to lockdown. As mentioned in our 15<sup>th</sup> June 2020 report ["Cake Box - Stores reopened and a positive outlook"](#) 131 of the company's 133 stores had reopened with a limited menu by 1<sup>st</sup> June 2020. Moreover, the company opened 5 new stores since the relaunch date.

**Cake Box's online strategy is clearly working, as the channel delivered 74% growth from the same period a year earlier in the 3 months to end August.** In addition the company is benefiting from the implementation of its delivery service through the use of Uber Eats, Just Eat and Deliveroo, which arguably gives the business added resilience in the event of any future toughening up of anti-Covid measures.

**Their franchise model benefits both free cash flow and returns on capital.** Recent trading strength leaves the company in a position not only to repay the £156K which it received under the government's "furlough" Job Retention Scheme but also to pay a special dividend. In October shareholders will receive a payment of 3.2p per share, which replaces the suspended final FY2020 dividend.

**Furthermore, the company is in position to resume guidance on financial forecasts with the knowledge that the total lockdown period in FY2021 was six weeks.** We include our updated numbers for both FY2021 and FY2022 in this report. We also provide a relative valuation for Cake Box shares on the revised numbers.

**Based on the company's resumption of guidance, the valuation looks attractive enough to argue for investors to support what is clearly not only a robust growth story, but also one based on a strong financial model.** We see a good argument for the shares to move to a premium valuation relative to its peer group and thus a share price above 200p seems perfectly reasonable in our view.

### Company Data

|                    |            |
|--------------------|------------|
| EPIC               | CBOX       |
| Price (last close) | 176p       |
| 52 week Hi/Lo      | 180p / 98p |
| Market cap         | £71m       |

### 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.

### 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)       | 5.4   | 4.1   | 3.7   | 3.5   | 2.8   |
| EV/EBITDA (x)      | 18.5  | 17.2  | 15.9  | 14.3  | 10.7  |
| EPS basic adj (p)  | 7.0   | 7.9   | 7.8   | 9.0   | 12.1  |
| P/E (x)            | 25.3  | 22.4  | 22.6  | 19.6  | 14.5  |

Sources: Company accounts data and Equity Development estimates

### Chris Wickham (Analyst)

0207 065 2690  
[chris@equitydevelopment.co.uk](mailto:chris@equitydevelopment.co.uk)

### Hannah Crowe

0207 065 2692  
[hannah@equitydevelopment.co.uk](mailto:hannah@equitydevelopment.co.uk)

## Revised FY2021 forecasts

Aside from brisk growth the central message from today's trading update is that Cake Box management **remains confident** about its near-term business outlook. This confidence is reflected in the resumption of forecasts, the planned repayment of furlough monies and the payment of a special dividend in October this year.

Our resumed FY2021 forecasts are shown in Figure 1 which includes our previous, pre-lockdown and store closure expectations. The salient impact of Covid-19 measures on forecasts was the closure of the company's franchised retail estate for 6 weeks of FY2021. Since re-opening growth resumed. Covid-19 has not, in our view, impaired the business's longer-term growth outlook. Note that the "old" forecasts refers to those published in our 25<sup>th</sup> November 2019 report pre-Covid [\*"CakeBox - Growth outlook remains sweet"\*](#)

Regarding the special dividend, shareholders on the register on 9<sup>th</sup> October 2020 will receive a 23<sup>rd</sup> October payment of 3.2p per share, which is equivalent to last year's final dividend and clearly reflects management confidence in the business's outlook.

| Cake Box FY2021 and FY2022 forecast highlights |              |              |        |
|--|--------------|--------------|--------|
| All figures in £m                              | FY2021 (Old) | FY2021 (New) | FY2022 |
| Y/E 31st March                                 |              |              |        |
| Sales revenue                                  | 23.6         | 19.6         | 24.4   |
| EBITDA   | 6.2          | 4.8          | 6.4    |
| EPS - adjusted (pence)                         | 11.5         | 9.0          | 12.1   |

Source: ED estimates

## Relative valuation

Based on our revised numbers Cake Box trades on 3.0x sales, which is broadly in line with peer average. 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 notable premium. A share price above 200p seems perfectly reasonable in our view.

### Cake Box - Relative Valuation

| Company        | Share price (p) | Shares o/s (m) | Market cap (£m) | Debt (£m) | EV (£m) | Sales 2021 (£m) | EV/sales 2021 x | EBITDA 2021 (£m) | EV/EBITDA 2021 x | EPS 2021 (p) | EPS 2022 (p) | P/E 2021 x | P/E 2022 x |
|----------------|-----------------|----------------|-----------------|-----------|---------|-----------------|-----------------|------------------|------------------|--------------|--------------|------------|------------|
| Cake Box       | 176             | 40.0           | 71              | -2        | 68      | 20              | 3.5             | 4.8              | 14.3             | 9.0          | 12.1         | 19.6       | 14.5       |
| Domino's Pizza | 335             | 462.2          | 1550            | 199       | 1749    | 573             | 3.1             | 118              | 14.8             | 18.0         | 19.0         | 18.6       | 17.7       |
| Greggs         | 1417            | 101.2          | 1433            | 181       | 1614    | 1065            | 1.5             | 190              | 8.5              | 54.0         | 90.0         | 26.2       | 15.7       |
| Hotel Chocolat | 364             | 112.8          | 411             | 0         | 411     | 141             | 2.9             | 14               | 30.2             | 12.0         | 12.9         | 30.3       | 28.2       |
| Average        |                 |                |                 |           |         |                 | 2.7             |                  | 16.9             |              |              | 23.7       | 19.1       |

*Note: share prices refer to closing price 28th August 2020,  
Source: Company data, ED, ADVFN, marketscreener.com*



## Investor Access

**Hannah Crowe**

Direct: 0207 065 2692

Tel: 0207 065 2690

[hannah@equitydevelopment.co.uk](mailto: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. Self-certification by investors can be completed free of charge at [www.fisma.org](http://www.fisma.org)

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](http://www.equitydevelopment.co.uk)