

21 October 2022

Mad Paws Holdings (MPA)**BUY****Share Price: A\$0.13****Purring its way to EBITDA break-even in mid-CY23****Target Price: A\$0.30**

MPA's 1Q23 results and commentary suggest that the company remains on-track to report positive operating EBITDA by mid-CY23 (i.e., 1H24). While our forecasts are unchanged, we remain impressed by MPA's sales trajectory and operating leverage to date and expect this growth to continue, underpinned by its first-mover advantage becoming more entrenched. Reiterate Buy.

Positive momentum continues in 1Q23

- MPA has confirmed another strong quarter, with 1Q23 sales up 301% on pcp to \$5.4m. While both segments made positive contributions relative to pcp, eCommerce & Subscription was the key driver during the period.
- MPA was able to convert the strong sales growth to incremental EBITDA, with the 1Q23 operating loss falling to \$1.4m, from \$2.2m in pcp and \$1.8m in 4Q22, due primarily to lower (i.e., -8%) CACs.
- Marketplace was the key driver of operating leverage despite a lower incremental sales contribution, reporting a sequential margin gain of 11% to 20%, versus the 6% margin gain to -22% for eCommerce & Subscription.
- While operating cash outflows were broadly consistent with 4Q22, higher capex and lease costs more than offset the benefit from lower WC, with this translating to net cash of \$3.5m, down from \$5.6m in 4Q22.

On-track for break-even by mid-CY23

- While still early days from a market penetration point-of-view, MPA's progress to date has been positive, with Marketplace having now delivered two consecutive quarters of positive operating EBITDA.
- Having optimised Dinner Bowl and initiated a company-wide re-branding programme to enhance cross-sales and lower CACs, we remain confident that MPA can transition to positive operating EBITDA by mid-CY23.

Earnings forecasts unchanged

- Our earnings forecasts are unchanged and consistent with MPA's (i) annualised revenue for FY23, based on a quarterly run rate of ~20%, and (ii) target to transition to positive operating EBITDA by mid-CY23.

Reiterate Buy rating and \$0.30ps TP

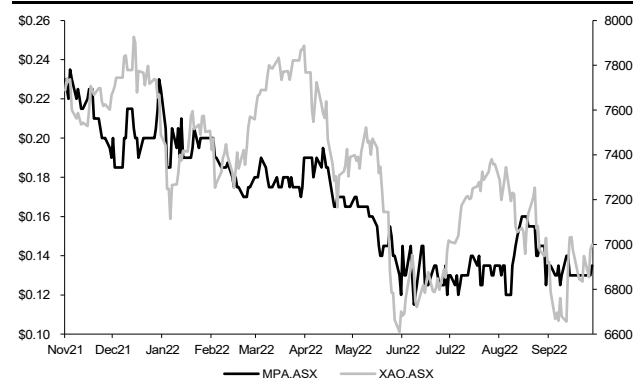
- Solid growth in Mad Paws' customer base over the last five years, combined with the continued execution of its growth strategy suggests that the company is on-track to become a key participant in the pet services market.
- Based on our earnings estimates and DCF analysis, we derive a fair value estimate of \$0.30 per MPA share. This equates to an FY23 EV/revenue multiple of 3.3x, which is reasonable given our forecast growth profile.

Company Data

Shares – ordinary (M)	321.6
Dilution (M)	7.0
Total (fully diluted) (M)	328.6
Market capitalisation (\$M)	40.2
12-month low/high (\$)	0.11 - 0.26
Average monthly turnover (\$M)	0.1
GICS Industry	Internet & Direct Marketing Retail

Financial Summary (fully diluted/normalised)

Year End June	2021A	2022A	2023F	2024F	2025F
Revenue (A\$m)	2.9	9.8	28.0	42.0	52.4
Costs (A\$m)	14.4	19.6	31.7	40.2	47.4
EBITDA (A\$m)	-11.6	-9.7	-3.7	1.8	5.0
NPAT (A\$m)	-11.9	-10.3	-4.1	1.3	4.6
EPS (¢)	-9.9	-3.7	-1.3	0.4	1.4
EPS Growth (%)	-100.0	62.7	65.9	+100.0	+100.0
PER (x)	NM	NM	NM	30.5	8.8
FCF (A\$m)	-3.8	-6.6	-2.2	4.0	6.7
FCF per share (cps)	-3.2	-2.4	-0.7	1.2	2.1
Price to FCF (x)	-3.9	-5.3	-18.4	10.2	6.1
EV (A\$m)	16.2	35.7	38.3	34.6	28.2
EV/EBITDA	-1.4	-3.5	-9.2	25.7	6.1
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Dividend (¢)	0.0	0.0	0.0	0.0	0.0
Net Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0

MPA – performance over one year**Disclosure and Disclaimer**

This report must be read with the disclosure and disclaimer on the final page of this document. Petra Capital was joint lead manager and bookrunner for this Company's placement of shares to raise \$5.6m at \$0.18/sh on 21 February 2022, for which a fee was received.

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Analysis

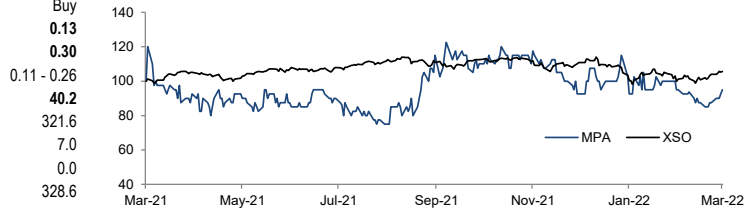
Mad Paws

Year End June

MARKET DATA

Recommendation		Buy
Price	\$	0.13
Price target (12-month)	\$	0.30
52 week high / low		0.11 - 0.26
Market capitalisation	\$m	40.2
Shares on issue (basic)	no.	321.6
Options	no.	7.0
Other equity	no.	0.0
Shares on issue (diluted)	no.	328.6

12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS

	2021A	2022A	2023F	2024F	2025F
Reported net profit	\$m (11.9)	(10.3)	(4.1)	1.3	4.6
Underlying net profit	\$m (11.9)	(10.3)	(4.1)	1.3	4.6
Underlying NPATA	\$m (11.9)	(10.3)	(4.1)	1.3	4.6
Reported EPS (diluted)	¢ (9.9)	(3.7)	(1.3)	0.4	1.4
Underlying EPS (diluted)	¢ (9.9)	(3.7)	(1.3)	0.4	1.4
....Growth	% -100.0	62.7	65.9	+100.0	+100.0
Underlying PER (diluted)	x NM	NM	NM	30.5	8.8
Operating cash flow per share	¢ (3.1)	(2.3)	(0.7)	1.2	2.1
Free cash flow per share	¢ (3.2)	(2.4)	(0.7)	1.2	2.1
Price to free cash flow per share	x (3.9)	(5.3)	(18.4)	10.2	6.1
Free cash flow yield	% (25.4)	(18.8)	(5.4)	9.8	16.4

Dividend per share	¢	0.0	0.0	0.0	0.0
Payout ratio	%	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0
Franking	%	0.0	0.0	0.0	0.0

Enterprise value	\$m	16.2	35.7	38.3	34.6	28.2
EV/EBIT	x	(1.4)	(3.5)	(9.2)	25.7	6.1
Price to book (NAV)	x	2.6	1.8	2.3	2.2	1.8
Price to NTA	x	2.6	(97.3)	(8.9)	(12.7)	28.7

KEY RATIOS

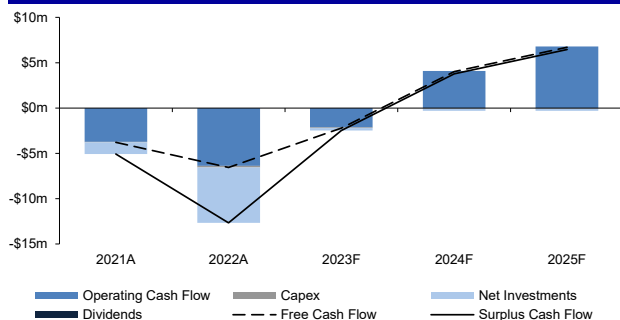
	2021A	2022A	2023F	2024F	2025F
EBITDA margin	% (404.9)	(99.1)	(13.2)	4.3	9.6
EBIT margin	% (413.6)	(105.3)	(14.8)	3.2	8.8
Underlying net profit margin	% (418.1)	(105.3)	(14.8)	3.2	8.8
Return on average equity	% (158.7)	(58.2)	(21.1)	7.4	21.9
Return on average assets	% (124.0)	(43.3)	(13.2)	3.9	11.0

Net tangible assets per share	¢	4.7	(0.1)	(1.4)	(1.0)	0.4
Net debt /(cash)	\$m	(12.5)	(5.4)	(2.8)	(6.5)	(12.8)
Interest cover (EBIT / net interest)	x	(92.1)	(300.5)	n/a	128.9	n/a
Leverage (net debt / EBIT)	x	n/a	n/a	n/a	n/a	n/a
Gearing (net debt / equity)	%	n/a	n/a	n/a	n/a	n/a

DUPONT ANALYSIS

	2021A	2022A	2023F	2024F	2025F	
Net Profit Margin	% (418.1)	(105.3)	(14.8)	3.2	8.8	
Asset Turnover	x	0.3	0.4	0.9	1.2	1.3
Return on Assets	% (125.3)	(43.3)	(13.2)	3.9	11.1	
Financial Leverage	x	1.3	1.3	1.6	1.9	2.0
Return on Equity	% (158.7)	(58.2)	(21.1)	7.4	21.9	

CASH FLOW SUMMARY



PROFIT AND LOSS

	2021A	2022A	2023F	2024F	2025F
Total revenue	\$m 2.9	9.8	28.0	42.0	52.4
EBITDA	\$m (11.6)	(9.7)	(3.7)	1.8	5.0
Depreciation & amortisation	\$m 0.2	0.6	0.4	0.5	0.5
EBIT	\$m (11.8)	(10.3)	(4.1)	1.3	4.6
Net interest	\$m 0.1	0.0	(0.0)	0.0	(0.0)
Non-operating income	\$m 0.0	0.0	0.0	0.0	0.0
Pretax Profit	\$m (11.9)	(10.4)	(4.1)	1.3	4.6
Tax expense *	\$m 0.0	(0.0)	0.0	(0.0)	(0.0)
Minorities	\$m 0.0	0.0	0.0	0.0	0.0
Underlying NPAT	\$m (11.9)	(10.3)	(4.1)	1.3	4.6
Significant items	\$m 0.0	0.0	0.0	0.0	0.0
Reported NPAT	\$m (11.9)	(10.3)	(4.1)	1.3	4.6

GROWTH PROFILE

	2021A	2022A	2023F	2024F	2025F
Operating revenue	% 42.8	244.2	184.5	50.4	24.7
EBITDA	% -100.0	15.8	62.0	+100.0	+100.0
EBIT	% -100.0	12.4	59.9	+100.0	+100.0
Underlying NPAT	% -100.0	13.3	60.1	+100.0	+100.0
Underlying EPS	% -100.0	62.7	65.9	+100.0	+100.0
DPS	% 0.0	0.0	0.0	0.0	0.0

BALANCE SHEET

	2021A	2022A	2023F	2024F	2025F
Cash	\$m 12.5	5.6	3.0	6.7	13.0
Receivables	\$m 0.1	0.2	1.7	2.5	3.1
Inventory	\$m 0.2	0.9	2.8	4.2	5.2
Other	\$m 0.4	0.7	0.7	0.7	0.7
Current	\$m 13.2	7.4	8.2	14.1	22.2
Prop. plant & equip	\$m 0.1	0.2	0.2	0.2	0.2
Goodwill	\$m 2.8	20.4	20.4	20.4	20.4
Other	\$m 0.8	2.8	2.8	2.9	2.9
Non current	\$m 3.7	23.5	23.5	23.5	23.6
Total assets	\$m 16.8	30.9	31.7	37.7	45.7
Accounts Payable	\$m 1.3	4.1	8.9	13.5	16.8
Borrowings	\$m 0.0	0.2	0.2	0.2	0.2
Other	\$m 1.5	5.0	5.1	5.2	5.3
Total liabilities	\$m 2.9	9.3	14.2	18.9	22.3
Net assets	\$m 14.0	21.6	17.5	18.8	23.4
Equity	\$m 14.0	21.6	17.5	18.8	23.4
Minorities	\$m 0.0	0.0	0.0	0.0	0.0
Shareholder's equity	\$m 14.0	21.6	17.5	18.8	23.4
Shares on issue	m 218.5	318.1	321.6	325.1	328.6

CASH FLOW

	2021A	2022A	2023F	2024F	2025F
EBITDA	\$m (5.0)	(8.3)	(3.7)	1.8	5.0
Change in working capital	\$m 0.7	2.0	1.5	2.3	1.7
Net interest	\$m 0.0	(0.0)	0.1	0.0	0.1
Tax paid *	\$m 0.0	(0.0)	0.0	0.0	0.0
Other	\$m 0.5	(0.0)	0.0	0.0	0.0
Operating cash flow	\$m (3.7)	(6.4)	(2.2)	4.1	6.8
Capital expenditure	\$m (0.1)	(0.2)	(0.1)	(0.1)	(0.1)
Acquisitions/divestment/other	\$m (1.3)	(6.1)	(0.3)	(0.3)	(0.3)
Investing cash flow	\$m (1.3)	(6.3)	(0.3)	(0.3)	(0.3)
Free cash flow	\$m (3.8)	(6.6)	(2.2)	4.0	6.7
Equity	\$m 16.6	5.9	0.0	0.0	0.0
Increase / (decrease) in borrowings	\$m 0.0	(0.1)	0.0	0.0	0.0
Dividend/other	\$m (0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Financing cash flow	\$m 16.6	5.8	(0.1)	(0.1)	(0.1)
Net cash flow	\$m 11.5	(6.9)	(2.6)	3.7	6.4

Source: Petra Capital



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