

Heritage Brands Limited

Maiden dividend declared

Heritage Brands Ltd (HBA) owns, manufactures and markets more than 20 household Australian names in the beauty and health sector including Le Tan, Mode, Cedel and Australis. It also holds the licence to sell the Innoxo range of products and Revlon Lash in Australia. The company listed on the NSX in January 2007 under the name of Soda Brands, raising \$5m at that time to acquire the Salon Only brand of hair care products, pay down debt and have funds for branding and marketing. In August 2010, the company acquired Creative Brands in exchange for 217.7m shares in a company changing deal which delivered it the Australis, Mode Cosmetics, Nailene fingers and Revlon Lash brands. At that time, it also changed its name to Heritage Brands. After delivering growth in revenue and operating profit in FY18 in a challenging retail environment, Heritage Brands has declared a maiden dividend of \$0.005 per share.

Business model

Heritage Brands owns or licenses 27 health and beauty brands which it sells through domestic and international retail channels and direct to the public online and from its warehouse in Melbourne. Its international focus has seen the Australis brand of beauty products launched into the United Kingdom, Philippines and Malaysian markets in FY18. In February 2018, the company acquired the iconic Australian hair products brand, Cedel, which expanded its distribution footprint into China and surrounding markets.

FY18 result and Outlook

Heritage Brands delivered 7% growth in gross revenue and 7% growth in EBITDA in FY18, despite a challenging domestic retail environment. HBA noted that its investment in online and export sales together with a pharmacy drive had yielded positive results. Sales into these channels increased 30% or \$6.7m on the prior period while the cost of acquiring these additional sales was \$1.74m. The company reported EBITDA before one-time items and stand rentals of \$6.0m up 7% on the previous year NPAT declined 33% to \$2.6m due to the company paying the full 30% corporate tax rate in FY18 against a 6% rate in FY17 due to prior year tax losses. The company has declared a maiden dividend of \$0.005 per share, representing a dividend yield of 15% and payout ratio of 34%.

The board said the outlook for the Group remains positive and the key focus of management for 2019 would be to capitalise on the investment Heritage Brands had made in ecommerce and export markets while maintaining its local business position.

Earnings history (A\$m)

Year ended	Net Revenue	EBITDA reported	EBITDA Adj	NPAT	EPS (c)	DPS (c)	P/E (x)	EV/EBITDA adj
Jul-15	31.7	2.6	2.6	1.5	0.32	n/a	4.7	4.83
Jul-16	49.7	5.9	6.0	4.7	0.26	n/a	12.7	11.07
Jul-17	54.3	5.5	5.6	3.9	0.21	n/a	14.3	11.28
Jul-18	59.0	5.7	6.0	2.6	0.14	0.005	25.0	12.30

Source: Company data

Shares Summary

Share Code	HBA
Share Price	\$0.034
Market Capitalisation	\$61.2M
Number of Shares	1,801.1M
Net Debt at 31 July 2018	\$10.7M
Share Registry	Boardroom Pty Ltd

RaaS 5-Point Score* = 2/5

Revenue increasing (1); EPS increasing (0); Return on Capital Employed [ROCE] (0); EBIT interest cover >3x (1) Gross Operating cash flow/EBITDA >90%(0)

Upside Case

- Revenue and EBITDA growing in a challenging retail environment
- Owns brands more likely to benefit from the "lipstick effect" in an economic downturn
- Longstanding and supportive major shareholder

Downside Case

- Limited liquidity, director-controlled entities own 55.57% and the chairman is associated with the largest shareholder, Soul Private Equity (25.12%)
- Competing with international brands for discretionary dollar
- Local market still accounts for almost 90% of sales and under pressure from the retail environment

Board of Directors

Chairman	David Fairfull
CEO/Executive Director	Constantinos Gendis
Non-Executive Director	Maxim Krok
Non-Executive Director	Stephen Mason
Non-Executive Director	William McCartney

Catalysts

- Trading update at company's AGM on November 22

Comparative Companies

BWX, ZNO

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* The RaaS 5-Point score is based on the company's performance in its last reported full year. Past performance is not a reflection of future performance.

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FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 1st November 2018



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- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

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 - Securities
- deal on behalf of retail and wholesale clients in relation to
 - Securities

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Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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