Edison investment research

7 September 2011

Global Brands S.A.

Year End	Revenue (CHFm)	PBT* (CHFm)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/09	11.8	(3.0)	(8.0)	0.0	N/A	0.0
12/10	13.8	(2.1)	(1.4)	0.0	N/A	0.0
12/11e	15.0	(0.7)	(0.3)	0.0	N/A	0.0
12/12e	17.1	0.1	0.1	0.0	28.5	0.0

Note: *PBT and EPS are normalised, excluding intangible amortisation and exceptional items. £0.79/CHF.

Investment summary: Next stop Austria

With its interim figures, Global Brands has announced that it has signed a Letter of Intent with Domino's Pizza to secure the Master Franchise rights for Austria. This is at the very least an indication of the brand owner's confidence in Global Brands' ability to deliver; at best, a major opportunity to substantially increase the scale of the group. H111 results from Switzerland were marginally disappointing, largely down to the warm weather in Q2, but we expect stronger growth through the autumn.

Q2 progress slower than hoped

Sales growth across the Swiss business was good, but not up to best expectations mainly due to the warmer than normal weather. The conversions of Pizza Taxi sub-franchise stores (bought in with the acquisition of Pagonia in late FY10) are running a little behind schedule, with one to be relocated and one under review. However, the roll-out of the sub-franchise model is set to accelerate in H2. On the plus side, own-store sales benefited from a strong take-up in internet orders, now accounting for nearly a quarter of own-store sales. Early indications for September show more normal trading patterns resuming in the run up to the heaviest trading months. We have made a precautionary trim to our numbers (details overleaf) and now expect around break-even EBTIDA for FY11, moving more strongly into profit in FY12.

Team restructured

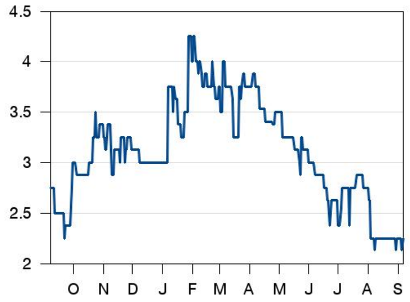
The management team has been reconfigured with the departure of COO Fyl Newington and the appointment of a country manager for Austria, Ueli Santchi. The main board consists of Bruce Vandenberg, CEO, and two non-executives.

Valuation: No benefit of doubt

Global Brands is still at an early stage of its corporate development, so traditional valuation methodologies are not yet fully applicable. However, there is a small cohort of international franchise developers, some of whom are also pre-profitability. Our view is that those without a mixed history are more likely to be given the benefit of the doubt and that Global Brands' discount (on EV/Sales and EV/store) is overdone.

Price	2.25p
Market Cap	£5m

Share price graph



Share details

Code	GBR
Listing	AIM
Sector	Travel & Leisure
Shares in issue	204m

Price

	High	Low
52 week	4.25p	2.08p

Balance Sheet as at 30 June 2011

Debt/Equity (%)	N/A
NAV per share (c)	0.6
Net cash (CHm)	0.2

Business

Global Brands S.A. is an international company developing branded food operations in Europe. It owns and operates the exclusive master franchise of Domino's Pizza in Switzerland, Luxembourg and Liechtenstein.

Valuation

	2010	2011e	2012e
P/E relative	N/A	N/A	348%
P/CF	N/A	20.3x	4.6x
EV/Sales	0.2x	0.3x	0.3x
ROE	N/A	N/A	5%

Geography based on revenues (2011)

UK	Europe	US	Other
0%	100%	0%	0%

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Global Brands S.A. is a research client of Edison Investment Research Limited

Adjustments to numbers

The company is at an early stage of its corporate development and therefore relatively small changes to timings or overheads can have a disproportionate effect on the outturn. We are encouraged that much of the interim statement tallies with our expectations. At this juncture we are not making any alterations to the financial model for the planned expansion into Austria. This will be incorporated when the potential has been fully evaluated and the business plan finalised. Completion is anticipated before 1 November, by when any funding requirement will also have been quantified.

Exhibit 1: Adjustments to numbers

Note: Figures in CHm except per share data in c.

	EPS			PBT			EBITDA		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2010	(1.4)	-	-	(2.1)	-	-	(1.6)	-	-
2011e	0.0	(0.3)	N/A	(0.1)	(0.7)	N/A	0.5	(0.1)	N/A
2012e	0.3	0.1	-67	0.6	0.1	-83	1.2	0.8	-34

Source: Company/Edison

The slower opening programme for the sub-franchises has an implication beyond revenue/franchise income in that it also delays revenues and profits to be earned on food supplies into those operators. Much as all management teams in the consumer sector try to avoid references to unfavourable weather patterns, there is no denying that unseasonably hot weather over the summer months is unlikely to have tempted marginal customers to order pizza. However, the impact of these factors is partially offset by lower administration and general costs expected for H211 after the reorganisation of operational management. Despite the element of disappointment contained within the statement, we expect the group will deliver just below break-even EBITDA for the year, even on the current opening programme. Ex- the Austrian deal, financing is sufficient to fund the planned expansion programme.

Austria represents an ideal opportunity to build the group at a faster pace. The two markets have many similarities in terms of culture, language and customer expectations and the contiguous geography will mean that the bulk of the management can be done from the existing infrastructure in Zurich. The grant of a Letter of Intent is testament to the US parent’s confidence in Global Brands’ ability to provide it with a good return, as well as looking after the Domino’s brand identity.

Exhibit 2: Financials

CHF'000s	2008	2009	2010	2011e	2012e
Year end 31 December	UK GAAP	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	11,693	11,780	13,791	15,042	17,079
Cost of sales	(2,799)	(2,990)	(3,775)	(4,238)	(5,183)
Gross profit	8,893	8,790	10,016	10,804	11,896
EBITDA	(1,948)	(2,057)	(1,558)	(55)	771
Operating profit (before amort. and except.)	(2,604)	(3,018)	(2,027)	(675)	121
Intangible amortisation	(37)	(42)	(28)	(35)	(35)
Exceptionals	0	0	0	0	0
Other	0	0	0	0	0
Operating profit	(2,641)	(3,060)	(2,055)	(710)	86
Net interest	77	56	(56)	3	1
Profit before tax (norm)	(2,526)	(2,962)	(2,083)	(672)	122
Profit before tax (FRS 3)	(2,563)	(3,004)	(2,111)	(707)	87
Tax	(496)	(10)	443	125	51
Profit after tax (norm.)	(3,022)	(2,972)	(1,640)	(547)	173
Profit after tax (FRS 3)	(3,059)	(3,014)	(1,667)	(582)	138
Average number of shares outstanding (m)	22.9	37.1	114.3	180.0	206.0
EPS - normalised (CHFc)	(13.2)	(8.0)	(1.4)	(0.3)	0.1
EPS - normalised fully diluted (CHFc)	(13.2)	(8.0)	(1.4)	(0.3)	0.1
EPS - FRS 3 (CHFc)	(13.3)	(8.1)	(1.5)	(0.3)	0.1
Dividend per share (c)	0.0	0.0	0.0	0.0	0.0
Gross margin (%)	76.1	74.6	72.6	71.8	69.7
EBITDA margin (%)	-16.7	-17.5	-11.3	-0.4	4.5
Operating margin (before GW and except.) (%)	-22.3	-25.6	-14.7	-4.5	0.7
BALANCE SHEET					
Fixed assets	3,318	2,800	3,813	5,446	6,486
Intangible assets	140	99	95	848	813
Tangible assets	3,178	2,702	3,718	4,598	5,673
Investments	0	0	0	0	0
Current assets	1,983	1,301	1,699	1,654	1,275
Stocks	245	277	283	308	350
Debtors	113	148	275	300	340
Cash	1,625	877	1,142	1,046	585
Other	0	0	0	0	0
Current liabilities	(4,153)	(4,122)	(3,471)	(3,794)	(4,284)
Creditors	(4,114)	(4,088)	(3,399)	(3,707)	(4,209)
Short-term borrowings	(39)	(34)	(72)	(87)	(75)
Long-term liabilities	(48)	(24)	(32)	(50)	(50)
Long-term borrowings	(48)	(24)	(32)	(50)	(50)
Other long-term liabilities	0	0	0	0	0
Net assets	1,100	(45)	2,009	3,255	3,427
CASH FLOW					
Operating cash flow	(1,871)	(2,093)	(2,436)	254	1,275
Net interest	20	(4)	(36)	320	1
Tax	0	0	0	0	0
Capex	(423)	(603)	(174)	(1,500)	(1,725)
Acquisitions/disposals	0	0	(783)	762	0
Equity Financing	88	1,981	3,649	36	0
Dividends	0	0	0	0	0
Net cash flow	(2,186)	(719)	219	(128)	(449)
Opening net debt/(cash)	(3,723)	(1,537)	(818)	(1,038)	(909)
HP finance leases initiated	0	0	0	0	0
Other	0	0	0	0	0
Closing net debt/(cash)	(1,537)	(818)	(1,038)	(909)	(460)

Source: Edison Investment Research, Company accounts