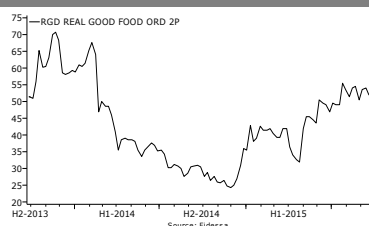


FTSE sector



Market data

EPIC/TKR	RGD
Price (p)	52.0
12m High (p)	58.0
12m Low (p)	24.0
Shares (m)	69.5
Mkt Cap (£m)	36.1
EV (£m)	34.1
Free Float* (%)	63%
Market	AIM

*As defined by AIM Rule 26

Description

Food manufacturing with an emphasis on specialties and premium routes to market. Principally UK and an element of exports.

Company information

Exec Chair	Pieter Totte
CFO	David Newman

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Next Event

23 Sept 2015	AGM
Dec 2015	Interims
June 2016	Trading update
July 2016	Full year results

Analyst

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Real Good Food

EBITA margin doubles in two years, then more

Current trading is encouraging, as announced with full year results on 7th August, and at the AGM convened today. Real Good Food has transformed its prospects through corporate action over the past nine months. The market has yet to catch up with this. Even more importantly, the mix of business is biased to higher margin and growth markets – added to which export markets are being more systematically addressed recently. We therefore see significant long term growth prospects after the initial significant margin expansion for FY16E and FY17E.

- **Strategy:** Real Good Food's focus is towards premium product segments and towards routes to market via specialists who bring premium pricing opportunities. This includes, for example, growth derived through social media marketing. With a cash rich balance sheet, the strategy includes judicious acquisitions.
- **Significant margin potential:** Margins are rising and have some way to go. At 2.9% (year to March 2015 continuing businesses), we estimate 6% EBITA margin in 2017E but this should by no means prove to be a ceiling. The largest business, Renshaw, currently achieves 11.0% (pre central costs) and is on a rising trend.
- **Valuation:** Real Good Food stands at a 42% PE discount to the peer group on our year two forecast (2017E). As it holds cash on the balance sheet, the EV/EBITDA discount is even greater. Currently Real Good Food pays no dividend but is moving towards doing so when appropriate, given its cash flow and also the opportunities it has for investment.
- **Risks:** The history of Real Good Food has been one of high financial gearing and we do not expect this to be replicated. Real Good Food is cautious on exposure to multiple grocers' pricing pressure but some 15% (estimated) profits are derived from this area. Garrett Ingredients' markets are commodity related.
- **Investment summary:** Many of the food manufacturing sectors in which Real Good Food operates offer attractive growth opportunities, through their premium pricing nature. As a function of significant and positive changes in the Group this year, earnings enhancements have resulted in its rating being anomalously low compared to its peer group and to the broader market.

Financial summary and valuation

Year end March (£m) [1]	2012	2013	2014	2015	2016E	2017E
Sales	305.5	265.8	272.6	232.9	112.0	125.2
EBITDA	8.6	10.0	2.7	1.1	7.5	9.6
Underlying EBIT	6.2	8.0	0.5	-1.2	5.7	7.5
Underlying PTP	4.5	6.5	-1.2	-3.2	5.2	7.3
Statutory PTP	4.4	6.3	-1.5	-3.5	14.9	7.0
Underlying EPS (p)	5.3	7.0	-0.4	-4.1	5.1	7.4
Statutory EPS (p)	5.1	6.4	-1.0	-4.9	18.1	6.9
Net (debt)/cash	-28.7	-25.0	-31.1	-30.1	2.0	5.1
Dividend (p)	0.0	0.0	0.0	0.0	0.0	0.2
Ave Shares issued	65.0	68.4	69.5	69.6	69.6	69.6
P/E (x)	9.9	7.5	n.a.	n.a.	10.2	7.2
EV/sales (x)	0.21	0.23	0.25	0.28	0.31	0.28

[1] 15 months end December 2012. 2016 continuing businesses only
 Source: Real Good Food Accounts, Hardman & Co Estimates

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Executive summary

Trading in the early months of the new financial year within the continuing operations has begun well

Current trading is encouraging, as announced at AGM and with full year results on 7th August. Cake decoration, premium bakery and food ingredients businesses constitute Real Good Food's portfolio. We illustrate why Real Good Food has chosen businesses in these sectors and what Real Good Food adds through its ownership. The model is working. As stated, "Trading in the early months of the new financial year within our continuing operations has begun well." With this confident start and some important months coming in the last trading weeks of the calendar year, we are confident to initiate FY 2017 estimates.

Margins and sales estimated to register good growth to forecasting horizon, EBITA margins rising to 6% 2017E

2017 forecasts show strong profit growth at +40% for the continuing businesses. This is driven by 12% sales growth and EBITA margins rising from 5.1% to 6.0%, following on from good growth in the current year, based on a conservative interpretation of current trading advances. Our estimates of course take no account of one of the Board's stated objectives: namely to "look at potential bolt-on acquisitions which will help build our presence in our chosen markets, but only where there is a sensible financial and operational investment case." Given the current absence of debt, any such acquisitions would be most likely to enhance EPS.

£44.4m received for Napier Brown, a £128m turnover business....

The group is cash positive and cash generative – steps towards considering dividend payments in the future. See also page 14. The disposal of Napier Brown has significant impact on the Group. A total of £44.4m has been received, taking the Group to a cash positive balance sheet. Free cash flow is improved significantly. We estimate 5.4p and 4.6p for 2016E and 2017E respectively. This does facilitate expansion through judicious acquisitions, which we would expect to be carefully selected and which would be likely to be immediately earnings enhancing, given the cash-positive nature of the balance sheet.

.... this tells us the overarching focus on the value of Real Good Food's constituent businesses has paid off

This Group strategy is dedicated to pursuit of customer sectors which offer a target-rich environment in both premium pricing and growth. This is hand-in-hand with a strategy to build businesses which are significantly attractive to third parties as well as within the Real Good Food group. This attention to 'capital' value as well as profits and ultimate cash generation is important in assessing the value of Real Good Food. Real Good Food builds business brands and adds value through the strategic choices it makes regarding the types of customers it nurtures. Napier Brown was built into creating a key route for global sugar producers to access the UK market. This 'route-to-market' construction made Napier Brown strategically attractive to a large sugar producer, as proven by the exit price.

Renshaw is also a prime example of premium customers creating premium value

Renshaw (67% Group profits) illustrates the benefits of securing specialist retail as principal routes to market. The strategy of biasing towards premium customers, customised for each business, is very much to the fore. For Renshaw, for example, it has carefully crafted a focus on customers who are specialists and, furthermore, crossover into kitchen and hobbyist retail, driven in part by social media. This generates premium pricing and margins, in turn creating an attractive positioning for investors (in terms of the appropriate premium rating Renshaw is worth). As to acquisition potential, this also capitalises both on management's deep sector knowledge in specialist food manufacturing and on the fragmented nature of that industry. We do not necessarily anticipate further acquisitions in the short term.

The Napier Brown story is an important one in order to understand Real Good Food's philosophy of creating shareholder value – and it worked. Under Real Good Food ownership, Napier Brown had made specific targeted investments to position itself to optimise its route to market. This made it attractive to buyers. On 29th April the Napier Brown disposal was proposed. The disposal price achieved (including

Real Good Food

Understanding how Real Good Food manufactures businesses with high worth

release of working capital) was 10.2x peak operating profit, this for a business which at the time was loss-making. This reflects how Real Good Food built Napier Brown into a strategically attractive business. It is the only independent distributor of refined sugar in Europe of any size, which makes it attractive both to customers and to Tereos' (the buyer, who is the world's fifth largest sugar group) ambitions to expand volume.

Although some businesses are still in the process of fully maximising their potential, the strategy is to gain exposure to businesses which are predominantly exposed to higher margin sales and have scope to either expand. Expansion is also into new territories/ sales channels or to optimise underperforming assets, primarily through brand investment.

Renshaw, the largest constituent, has strong premium routes to market

Renshaw and Haydens Bakery, as two of the larger businesses within Real Good Food, are highlighted (page 9, 11, 12) as examples of how Real Good Food focuses on premium products and premium customers. The benefits of the work already done at Haydens has only partly come through – strong momentum is established.

11% margins and rising

Renshaw is currently the largest Group constituent. It continues to benefit from premium products, modest exposure to multiple grocers and much more significant exposure to specialists. These latter are the kinds who reward Renshaw with shelf space and resultant price premium. This is enriched on the basis of its profile in events, social media and other brand-specific profiles. Renshaw is achieving 12% margins 2016E, up from 11.0% 2015.

Benefiting from the wider group

Renshaw, as part of the broader Real Good Food group, is beginning to benefit from Real Good Food's initiative to expand sales into Continental Europe. This is through its 2014 new Brussels marketing office and distribution centre. Renshaw is already benefiting from its earlier strategic positioning to specialist sales channels. The Rainbow Dust Colours acquisition, is a distinct business but has great synergy with Renshaw, as it supports and enhances Real Good Food's position in cake decoration.

Haydens Bakery has a different customer mix compared to volume food manufacturers and margin rises have only recently begun

Haydens Bakery also has focused on premium customers. It is incrementally enriching its mix of products and end-customers. Bakery as a sector is moving towards premium and service. This dictates how Haydens has positioned itself, including its dedicated distribution centre. It has expanded clients from Waitrose and M&S, who dominated three years ago. Newer customers include high street outlets - not simply rolling out to more multiple grocers. Some of the fast-growing grocers have also come to Haydens. We consider this is to support the clients' stocking of quality lines. Indeed there is an overlap in the baker's and the grocers' models in that Haydens has rationalised the breadth of its offering. It gives a good range and a quality range but not such a wide spread as to generate inefficiencies. This has similarities, we consider, to the model of the likes of Aldi. Haydens seeks to achieve pricing strength and also very much to secure this whilst achieving greater internal production efficiencies. This latter is through optimising the way labour utilisation is scheduled on the basis of more targeted product lines, and is improving strongly.

Encouraging Group-wide profit growth metrics are set to continue

The ongoing businesses achieved a rise in EBITDA, with a Group-wide rise of 9%. EBITDA of the two largest businesses rose 16% in FY15. We estimate that our 13% 2016E EBITDA rises in these two businesses indicates of the medium term potential.

In summary: Real Good Food's strategic positioning is thus 1) to maximise premium priced products in order to 2) create businesses which are highly valued. Renshaw's 11.0% historic (and rising) operating margins support 1) whilst the disposal of Napier Brown illustrates and supports the premium valuations warranted in point 2).

FY results and future trading

FY15 saw a 9% advance in EBITDA pre central costs and excluding Napier Brown, now sold

Real Good Food continuing businesses achieved an underlying (pre central costs) rise in EBITDA in FY15, of 9%. We consider this to be a relatively modest figure compared to the potential as, within the figure, there was stronger and sustainable growth in the larger operations' profits.

AGM

Trading remains positive

At today's AGM, Real Good Food states that the Chairman's comments will include:

"Overall we are very satisfied with the way that the trading has started during the early part of our new financial year. Pleasingly, our cake decorating businesses continue to perform well showing good EBITDA growth with our most recent acquisition, Rainbow Dust, making a healthy contribution."

"Total Group Revenue is currently down on a like-for-like annual basis, but this is attributable to continued commodity price deflation, particularly in both the dairy and sugar markets, which affected our Garretts Ingredients subsidiary."

"We look forward to the key autumn and Christmas season with confidence."

"Despite this, the three pillar business strategy we announced at the time of our year end results is working well and overall trading for the Group is currently in line with market expectations."

"We look forward to the key autumn and Christmas season with confidence."

Fiscal 2015 results

FY 2015 a year of transition, where performance at the larger operations and the acquisition did better than the Group as a whole

In FY15, core larger businesses and the RDC acquisition performed well. There were some soft spots in smaller operations. Group sales fell 5% (in continuing businesses) as a result of a 40% fall at Garrett Ingredients driven by commodity price falls.

FY 2015 operating margins 2.9%; cash flow £1.2m

- ▶ **Group operating margins of 2.9% were achieved within the continuing businesses in FY15.** (i.e. excluding Napier Brown, now sold). Renshaw posted a useful advance but the commodity cycle impacted Garrett, which is now a relatively smaller business in Group context.
- ▶ Operating cash flow was modest at £1.2m, with £3.8m from operating activities.
- ▶ Renshaw operating margins achieved 11.0%. It continues to scale up and this generates geared benefits to the bottom line.
- ▶ Strong action at Garrett has already underpinned performance – a modest profit was recorded – and work to reduce exposure to pricing cycles is advanced.
- ▶ RDC makes a material positive difference, with a full year contribution in FY 2016.

FY16E operating margins rise to 5.1%; cash flow £7.5m

Current and future trading

- ▶ We estimate Group operating margins at 5.1% (4.8% post amortisation) 2016E, with the AGM reporting that an encouraging start is already achieved.
- ▶ We estimate 2016E £7.5m operating cash flow and £9.5m cash flow from operations, with more to come in 2017E.
- ▶ After above-trend capex investing for growth and good working capital generation from Napier Brown, we estimate free cash flow for 2016E of £4.0m or 5.4pps.

Summary Group results			
March Year end (£m)	2015	2016E	2017E
Continuing Revenue	104.6	112.0	125.2
Stated operating profit pre central costs post amortisation	2.3	n.a.	n.a.
Add back Napier Brown loss	4.0	n.a.	n.a.
Continuing operating profit pre central costs post acquisition related amortisation (on Renshaw)	6.2	8.8	10.4
Central costs	-3.0	-3.1	-3.2
Restructuring items	-0.5	-0.3	0.0
Operating profit (post amort.)	2.7	5.4	7.2
Operating profit (pre amort.)	3.1	5.7	7.5
Interest (incl. pension finance)	-1.1	-0.5	-0.2
Pre-tax profit adjusted	1.9	5.2	7.3

Source: Hardman & Co, Real Good Food accounts

Group EBITDA growth 55% and 27% for FY16E and 2017E

Growth rates are impressive. We estimate a 55% growth rate for Group EBITDA in 2016E and 27% for 2017E. The 2016E the 55% Group EBITDA growth is generated by 31% growth at the level of the individual businesses. Group growth is ahead of this as a result of its expansion, which covers central overheads more efficiently. For 2017E, the businesses grow EBITDA 17%, again with gearing on central costs enhancing this to 27% at the level of Group total.

In FY 2015, the two largest constituents saw profit growth faster than Group – and we consider their growth sustainable into future years
RDC is material to 2016E growth

In FY 2015, the larger businesses achieved encouraging profit growth, which is sustainable into future years. It is relevant to note that EBITDA at the two largest businesses (Renshaw and Haydens Bakery) rose 15% in 2015 and we anticipate these two to be material in driving Group-wide advances this year again. We consider estimates of 14% 2016E EBITDA rises in these two businesses to be conservative and indicative of medium term potential.

.....and full year benefit of RDC will be seen this year

On 20th January 2015, Rainbow Dust Colours Ltd (RDC) was acquired, for an initial £4.0m. This business is estimated to contribute circa 15% of 2016E EBITDA. This is calculated pre Group central overheads but it should be noted that the incremental cost to central overheads is de minimis. The acquisition has settled in very well, with the founders remaining driving forces and a new appointment at the helm. RDC is a material factor in driving Group operating margins (pre £0.35m acquisition related amortisation) of 5.1% in 2016E and 6.0% 2017E.

Broad spread of profit advances across constituent businesses

With 5.1% operating margins estimated for 2016E vs 2.9% 2015 (continuing businesses), we see scope for growth. Estimated margins trend above 6% after the forecasting horizon.

Real Good Food

40% PBT growth 2017E, all like-for-like, from £5.2m to £7.3m

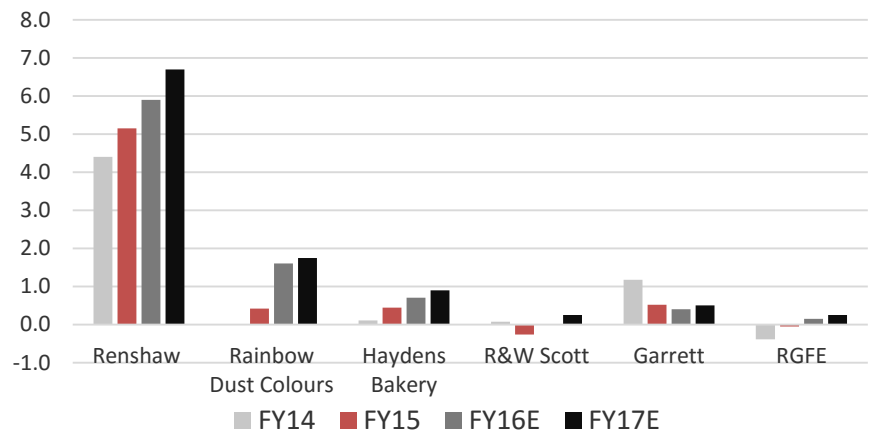
There is a wide spread of businesses contributing profit growth. In 2016E, we estimate a £3.3m pretax profit advance, of which we estimate £1.1m derives from RDC. This is derived simply from the full year effect of ownership, versus just over two months in FY15. For the same year, we estimate a £0.7m advance at Renshaw, £0.7m from the other businesses in the Group, with £0.6m advance from a reduced interest cost. £0.2m less restructuring cost is anticipated. This is a small but fluctuating figure.

In 2017E, we anticipate growth to be primarily from the largest business in the group, Renshaw. We discuss the strength derived from Renshaw's bias towards specialist routes to market. This is most important for visibility of profit advance. Profit growth is estimated at £2.1m in total, derived as follows: £0.1m from RDC; £0.8m Renshaw; £0.6m spread across other businesses; £0.3m interest and £0.3m less restructuring cost.

We summarise below the profit progression estimated for the constituent businesses within the Group.

Note that the chart below is as stated by Real Good Food, which for Renshaw is post £0.35m amortisation related to historic acquisition. The Hardman Pretax profit adjusts by adding back the £0.35m annual acquisition related amortisation within Renshaw. Hardman adjusted profits also is stated for Continuing businesses only (i.e. excluding Napier Brown for both FY15 and its two months trading in 2016E). It is stated post management restructuring costs (of £0.5m in the Continuing businesses in FY15), costs which have been incurred for most of the past years.

Divisional operating profits



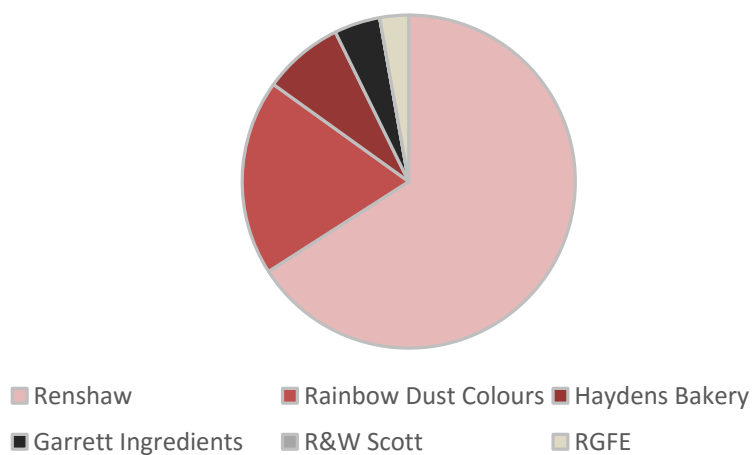
Source: Hardman & Co, Real Good Food accounts

Renshaw is achieving sales growth in excess of 10% pa....with margins rising.

Renshaw is achieving sales growth in excess of 10% pa, which we anticipate to continue. Margins are rising, which we are confident about at least until the 2017E forecast horizon. Both these factors stem from the strong bias the business has to specialist routes to market. Renshaw has invested in facilities, marketing and market positioning. It also has invested in sales initiatives which we anticipate to benefit later in FY 2016 and into 2017.

Real Good Food's initiative to expand sales into Continental Europe works strongly with Renshaw brands.

Divisional operating profits



Source: Hardman & Co, Real Good Food accounts

R&W Scott is not currently generating material profits.

Strategy: raising margins

Premium sectors in food manufacturing with elements of overlapping competences

Real Good Food comprises three complementary business areas, each with robust growth strategies. Real Good Food's businesses operate in cake decoration, food ingredients and premium bakery.

For a fuller analysis and description of each constituent business within Real Good Food, please refer to the Hardman & Co document published on 20th July 2015.

These are sectors which offer a target-rich environment for an element of premium pricing as well as growth. We expand on the rationale in the following segment, 'Strategy and opportunities'. Certain businesses, for example Renshaw, operate in two segments. Its primary business is supplying cake decoration products. It does also supply ingredients (sugarpaste, marzipan, chocolate coatings, jams and sauces) and these are always accompanied by customer 'application' support. This is offered as it is a performance-related input, which is value accretive to both parties. In recent years it has improved its ability to capture the value this has created for clients.

The chart overleaf seeks to highlight margin trends for constituent businesses and for the Group as a whole.

We would summarise the our investment message in four aspects

1. Group has been transformed – see chart on Group margins

1. The Group has been transformed through the Napier Brown disposal, from low margins broadly on a declining trend, into much higher margins which are anticipated to rise further – operating margins at the Group jump from 2.9% FY13, a profit under 1% FY14 and loss under 1% 2015 to 5.1% 2016E (continuing businesses).

2. Renshaw invested strongly FY13, FY14. This supports ongoing margin rises now and for some years to come

2. Renshaw, the largest Group constituent, has for years been achieving operating margins well into double figures. 2012 was a strong result and that was used to make significant investments in marketing and senior sales – expensed to revenue. This is starting to pay dividends, as is the continuing emphasis on the more specialist-outlet routes to market. Margins are rebuilding toward that peak, with clear prospects to exceed it in 2017E.

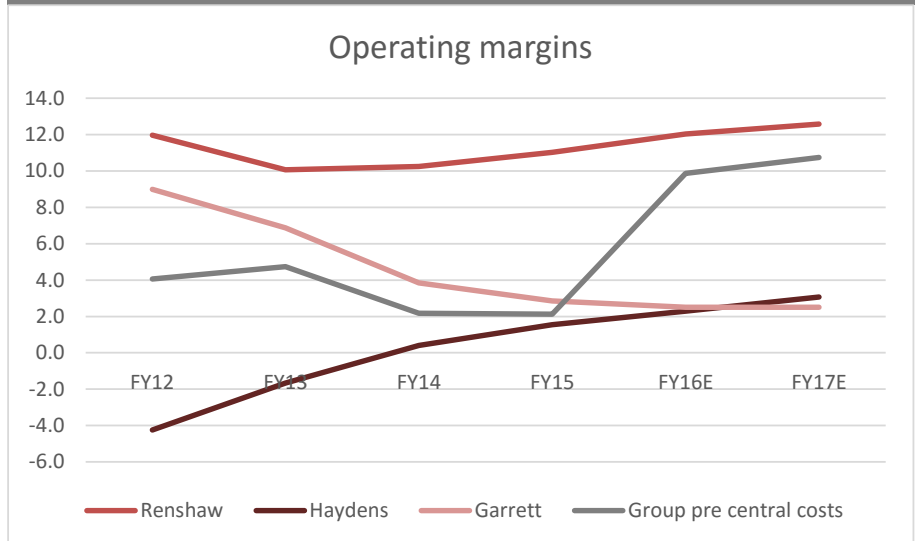
3. Haydens turnaround 'work in progress but now well established

3. Haydens Bakery has improved its operating margins 600bps under newer leadership put in place and has more to go. This is driven by the proactive evolution in product (raising efficiencies) and customer (premium-end).
4. The combination of premium pricing, focused routes to market and brand/senior sales investment is to create businesses which deserve premium financial valuations.

The primary operational Group missions at the individual business level are to 1) maintain the positive Renshaw trend; 2) bed in the niche, high profit RDC; 3) maintain the Haydens profit trend which is now well-established but still under-performing; 4) ensure Garrett continues to weather the commodity price storm by getting nearer its customers in terms of service.

None of these 'primary missions' require anything new, but rather maintaining existing progress.

Divisional and Group results



Source: Hardman & Co, Real Good Food accounts

Divisional margins are stated here pre central overheads. R&W Scott and Real Good Food Europe are currently small businesses.

Strategy: routes to market create value

Real Good Food: A strategy creating a premium stock rating

Real Good Food sells into sectors which offer a target-rich environment for premium pricing and growth. It aims to build a Group which merits a premium valuation through its work to position its businesses into these higher-value markets. For example, Renshaw has the multiple grocers as core clients but has grown business services (i.e. food service) and specialists (i.e. non grocers). The multiple grocers constitute under a third of the sales. For example Haydens Bakery is expanding sales to high street branded coffee shops. These add premium pricing and also fit efficiently into Haydens' production logistics.

The Real Good Food strategy capitalises both on management's deep sector knowledge in specialist food manufacturing and on the fragmented nature of that industry. Its three business areas are complementary, each with robust detailed strategies for growth, principally addressing the leveraging of value the chosen premium price/ growth routes to market.

Disposal of Napier Brown

Napier Brown: sold for a good price which turbo-charges Real Good Food's growth ambitions

The disposal of Napier Brown has significant impact on the Group – not only creating value but, importantly, illustrating the strategy.

The price of 10.2x peak EBITA for a loss maker illustrates important messages about the group strategy

The Napier Brown story is an important one in order to understand Real Good Food's philosophy of creating shareholder value. On 29th April the Napier Brown disposal was proposed. This was for £34m plus working capital, which was initially anticipated to be £7m. An additional £3.4m was received in August as even more working capital was released compared to estimates. The disposal price at 10.2x peak operating profit, for a business which at the time was loss-making, reflects how Real Good Food built Napier Brown into a strategically attractive business.

The strategy is to build growing profitable businesses and ones which are attractive to third parties as well as intrinsically within Real Good Food

Real Good Food builds business brands and adds value through creating businesses with an element of strategic value. Napier Brown became a key route for global sugar producers to access the UK market. It is the only independent distributor of refined sugar in Europe of any size. This makes it attractive to both customers (seeing a flexible supplier not beholden to a limited number of large producers). The buyer, Tereos, is the world's fifth largest sugar group. It has 42 industrial sites and employs 24,000 people across four continents. It has made recent statements about significant output expansion. Napier Brown's independent positioning made it the ideal vehicle for Tereos' expansion ambitions.

What does this indicate for the continuing businesses?

Renshaw's accelerating growth shows this is a verifiable strategy

Renshaw: Renshaw is focused on valuable customers including hobbyists, kitchen consumable product retailers, specialist food service: areas which add up to approximately two thirds of its sales. This should support rising margins and sales growth. This is in the face of high street retail sales falling again last month (-1.4% BRC). Renshaw is achieving sales growth in excess of 10% pa. Margins are rising. Both these factors stem from the strong bias the business has to its specialist routes to market. Renshaw has invested in facilities, marketing and market positioning. It also has invested in sales initiatives which we anticipate to benefit later in FY 2016 and into 2017.

Real Good Food

Sales growth in 2013, 2014 and 2015 was 2.0%, 4.7%, 8.8%. We see this acceleration as 'proof of the pudding'

5.0% sales growth estimate for FY16E for Renshaw does not tell the whole story – under-recording exports

Haydens needs still to demonstrate the full benefits of its change in positioning....

.... we are confident it will

Haydens is working aligned with the major market trend to premium

Renshaw has only started to reap the benefits of the work done focusing its route to market. Sales growth in 2013, 2014 and 2015 was 2.0%, 4.7%, 8.8%. 2015 is, we consider, an important result proving the benefits of earlier investment in sales and marketing.

Renshaw is an international business, with well-established sales into the US. It is growing its exports and some of this is facilitated by the investment Real Good Food has made in its Real Good Food Europe business, based in Brussels. This offers marketing, warehousing and, an important detail, country specific labelling. Thus, our divisional numbers for Renshaw, which estimate 5.0% sales growth in 2016, understate Renshaw's growth. Some of the growth is allocated to Real Good Food Europe.

We thus contend Renshaw merits a premium valuation as a result of 1) its strong and growing margins, 2) the geographical expansion and – most important of all – 3) the premium nature of its route to market. This has side-stepped the price deflation pressures on the high street and in supermarkets.

Haydens Bakery: This business continues to enrich its mix of products and end-customers.

Its 2015 operating margins of 1.6% are not high enough and more achievement on both efficiencies and sales volumes is needed. We are confident 2016E will continue the positive trend in place since FY13. We are confident because it has shown its positioning to customers who will pay for premium and that Haydens can deliver a range including premium without bearing excessive internal logistics cost. Haydens is supplying a market need: bakery as a sector is moving towards premium.

This dictates how Haydens has positioned itself, including its dedicated distribution centre. It has expanded from Waitrose and M&S who dominated three years ago. Clearly these are discerning clients but the newer customers are more like high street outlets (e.g. Costa) and these offer production efficiencies to Haydens as well as premium pricing. The policy is more than simply rolling out to more multiple grocers, though Aldi is an interesting case in point.

Haydens gives a good product range but not such a wide spread as to generate inefficiencies. This has similarities, we consider, to the model of the likes of Aldi, a growing, recent customer for Haydens. The Haydens rationale is both pricing and the mission to raise efficiencies in production – operating focus and product innovation. This latter is through optimising the way labour utilisation can be scheduled on the basis of more targeted product lines.

For a fuller analysis and description of each constituent business within Real Good Food, please refer to the Hardman & Co document published on 20th July 2015.

Risks

The history of Real Good Food has been one of high financial gearing and we do not expect this to be replicated. Real Good Food is cautious on exposure to multiple grocers' pricing pressure but some 15% (estimated) profits derive from this area. Garrett Ingredients' markets are commodity related.

Renshaw sells into a marketplace which is both discretionary and fashion conscious. Within FMCG categories this has been boosted by the prominence of baking and encouragingly 1) there is an age demographic from children to 'empty-nesters' 2) the 'Bake-off' phenomenon has been in place for many years and is an established market as opposed to a 'fashion trend'. Renshaw has a series of routes-to-market but the category is relatively narrow: cake decoration being dominant also it also provides specialist ingredients.

Haydens Bakery has its main exposure to Waitrose, whose sales growth has been moderating and may even reverse. Waitrose is expanding geographically and the Haydens distribution centre is important in embedding it with the client's expanding logistics. Margins are still in transition and we understand the benefits of rising efficiencies are still coming through.

Garrett Ingredients sells milk and sugar related ingredients. Sugar prices have fallen over 20% and, whilst recently there have been rises, milk prices are under pressure. In summary the historic core is food commodity based. Nonetheless, a greater service element has prevented worse damage to the business' profits and is a positive for the near future too.

R&W Scott needs to increase its value added in order to step away from potential input price risks, not least cocoa. It has been moving this way for a number of years.

Real Good Food Europe is an early stage business though the presence and contacts the Group has had for some time on Continental Europe are extensive. This is not a new business start-up, it is a marketing channel for existing sales to be enlarged to a wider geographical footprint (indeed including outside Europe).

Company matters

Board changes

A new CFO was appointed on 15th September: David Newman, who also remains the company secretary. On 22nd July the then CFO had announced his decision to leave once a suitable replacement was in place.

AGM

Dividends payment capacity

We note the proposals which will lead to positive distributable reserves in the future. This step is related to the ability to pay dividends.

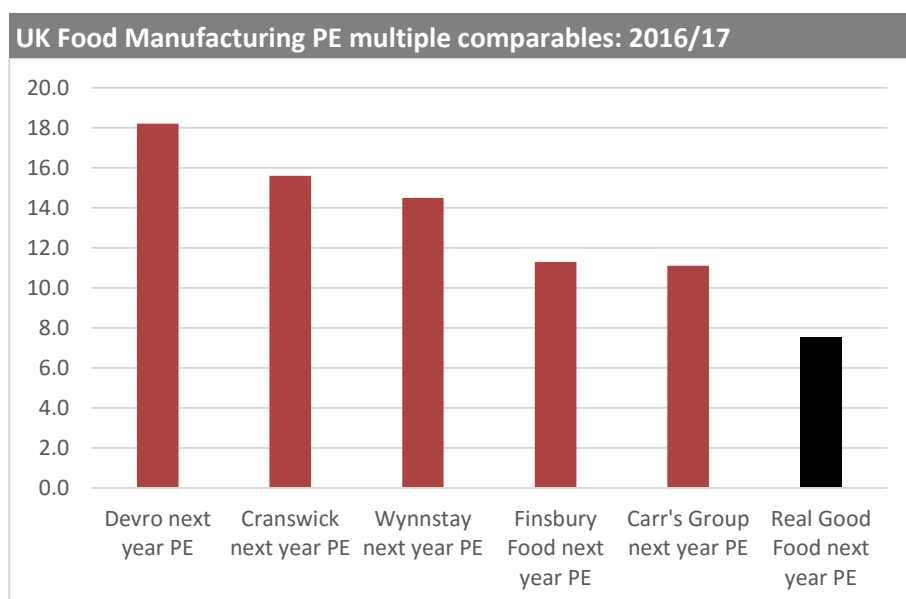
Valuation

On the following pages we summarise ratings based on EV/EBITDA and also PE ratios for Real Good Food and some in its peer group.

We would highlight three observations.

- ▶ Real Good Food Group is clearly valued significantly below the selected peer group. On an EV basis the anomaly is the greatest. On a PE basis for the current year, whilst it is cheap, the disparity is less significant. Furthermore our 2016E numbers exclude the short number of weeks of ownership of Napier Brown. Further, for 2016E we anticipate no dividend to be declared.
- ▶ It is not until 2017E that the PE valuation disparity is particularly stretched. In that year, we anticipate a modest dividend to be considered. We consider the established trends of rising margins and growth to be well in place, so investors should look out to FY17, which ends just 18 months away.

Comparators to Real Good Food 2017E

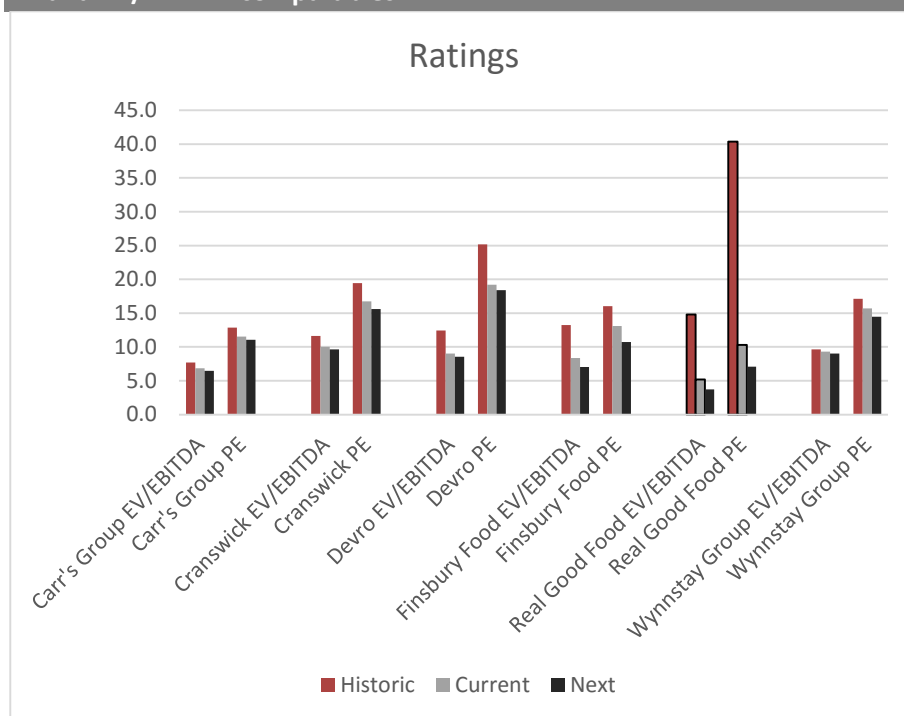


Source: Hardman & Co, Fidessa

NOTE: As this document goes to press, Finsbury Foods has reported results to June 2015. These are incorporated above but FY16 are recorded as 'next year PE'

1. The strategic value being built is a key issue we point investors to. The 2015 Napier Brown disposal demonstrated that this business was being valued by a third party (Tereos) to reflect its strategic value. In the sector, too, strategic value was illustrated by the £112m recommended acquisition of Thorntons by Ferrero International S.A. This is a sector where there are significant, well funded buyers looking for good businesses. This has a relevance to the rating investors will place on Real Good Food.

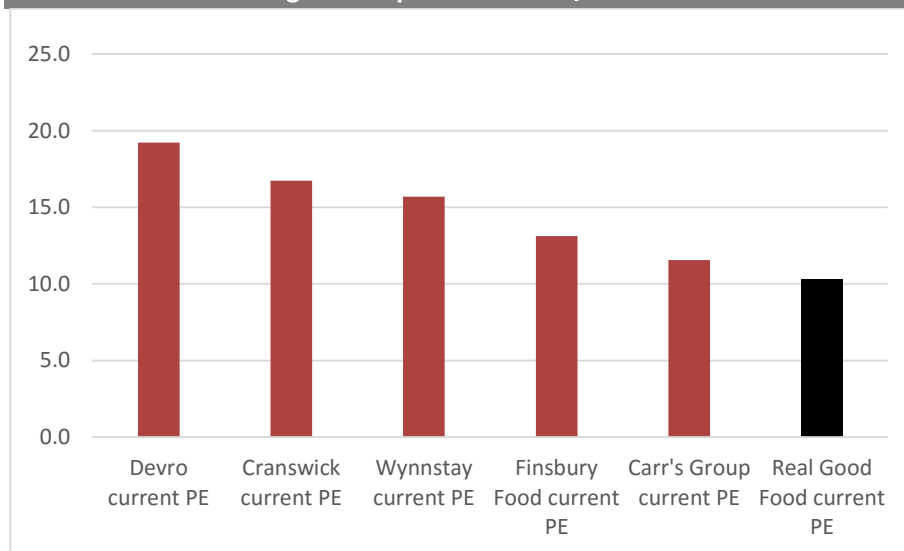
PE and EV/EBITDA comparables



Source: Hardman & Co, Fidessa

NOTE: As this document goes to press, Finsbury Foods has reported results to June 2015. These are incorporated above and below, but 2015 are recorded as 'current year PE'

UK Food Manufacturing PE comparables: 2015/16



Source: Hardman & Co, Fidessa

Peer group data

Sector financial ratios							
Carr's Group	2010	2011	2012	2013	2014	2015E	2016E
157p	August	August	August	August	August	August	August
Market cap £141m							
Turnover	298.1	367.3	404.1	468.1	429.0	440.0	455.0
EBITDA	10.6	14.7	16.5	20.3	21.4	23.5	24.5
EBIT	7.0	10.3	11.8	14.7	16.3	18.0	19.0
Pre Tax Profit	7.4	9.9	13.1	15.4	16.6	17.4	18.2
Normalized EPS p	5.2	8.3	9.1	12.0	12.2	13.6	14.2
Dividend (p)	2.3	2.4	2.7	3.0	3.3	3.6	3.7
Shareholders Funds	34.7	57.0	60.6	69.4	79.7	90.0	100.0
Net Borrowings	15.5	-4.6	2.5	22.1	24.6	20.0	18.0
EV	156.5	136.4	143.5	163.1	165.6	161.0	159.0
EV/EBITDA	14.8	9.3	8.7	8.1	7.7	6.9	6.5
PE	30.4	18.9	17.2	13.0	12.8	11.5	11.1
Cranswick	2011	2012	2013	2014	2015	2016E	2017E
1640p	March	March	March	March	March	March	March
Market cap £829m							
Turnover (£m)	758.4	820.8	875.2	994.9	1003.3	1080.0	1150.0
EBITDA	61.7	59.9	65.4	73.7	72.9	84.0	87.0
EBIT	49.3	45.9	49.8	55.7	53.9	63.0	66.0
Pre Tax Profit (£m)	47.1	48.4	47.3	54.8	52.8	61.0	64.0
Normalized EPS p	74.1	69.6	77.3	86.1	84.3	98.0	105.0
Dividend (p)	25.8	27.7	28.9	30.6	32.6	36.0	38.0
Shareholders Funds	220.9	245.9	273.7	302.7	332.4	360.0	390.0
Net Borrowings	52.2	23.8	21.5	17.0	17.3	14.0	12.0
EV	881.2	852.8	850.5	846.0	846.3	843.0	841.0
EV/EBITDA	14.3	14.2	13.0	11.5	11.6	10.0	9.7
PE	22.1	23.6	21.2	19.1	19.5	16.7	15.6
Devro	2010	2011	2012	2013	2014	2015E	2016E
298p	December	December	December	December	December	December	December
Market cap £500m							
Turnover (£m)	213.6	227.7	241.1	242.7	232.3	228.0	232.0
EBITDA	50.1	56.9	58.4	60.6	45.7	63.0	66.0
EBIT	37.3	43.0	42.4	42.6	21.8	37.0	40.0
Pre Tax Profit (£m)	54.0	43.0	39.3	37.5	2.2	31.0	34.0
Normalized EPS p	16.8	20.6	19.1	20.8	11.8	15.5	16.2
Dividend (p)	5.6	7.5	8.2	8.6	8.8	9.0	9.3
Shareholders Funds	153.0	140.5	146.9	158.0	133.2	131.0	133.0
Net Borrowings	12.2	22.7	26.1	35.8	69.2	70.0	65.0
EV	512.2	522.7	526.1	535.8	569.2	570.0	565.0
EV/EBITDA	10.2	9.2	9.0	8.8	12.5	9.0	8.6
PE	17.7	14.5	15.6	14.3	25.2	19.2	18.4

Source: Hardman & Co, Fidessa, consensus

UK Food manufacturing sector key financial ratios cont...

Sector Financial Ratios							
Finsbury Food	2010	2011	2012	2013	2014	2015	2016E
101p	June	June	June	June	June	June	June
Market cap £128m							
Turnover (£m)	168.3	189.6	178.9	176.6	175.7	256.2	270
EBITDA	10.7	10.6	9.5	10.2	10.3	17.8	21
EBIT	7.7	7.6	6.3	7.1	7.3	12.4	16
Pre Tax Profit (£m)	4.9	6	4.6	6.1	6.6	11.5	14.6
Normalized EPS p	6.2	7.1	4.9	5.9	6.3	7.7	9.4
Dividend (p)	0	0	0	0.3	0.8	2.5	2.8
Shareholders Funds	38.6	44.5	47.6	58.9	62.6	101.6	105
Net Borrowings	35.7	32.2	32.1	7	8.7	21	20
EV	163.7	160.2	160.1	135	136.7	149	148
EV/EBITDA	15.3	15.1	16.9	13.3	13.2	8.4	7
PE	16.4	14.2	20.6	17.1	16	13.1	10.7
Real Good Food [1]	2010	2012	2013	2014	2015	2016E	2017E
52.5p	December	March	March	March	March	March	March
Market cap £37m							
Turnover (£m)	200.1	305.5	265.8	272.6	104.6	112	125
EBITDA	5.2	8.6	10	2.7	4.8	7.5	9.6
EBIT	3	6.2	8	0.5	3	5.7	7.5
Pre Tax Profit (£m)	1.8	4.5	6.5	-1.2	1.9	5.2	7.3
Normalized EPS p	1.5	5.3	7	-0.4	1.3	5.1	7.4
Dividend (p)	0	0	0	0	0	0	0.2
Shareholders Funds	78	82.8	88.1	87.1	81.9	83.1	87.8
Net Borrowings	22.7	28.7	25	31.1	30.1	-2	-5.1
EV	62.1	68.1	64.4	70.7	69.5	37.4	34.3
EV/EBITDA	11.9	7.9	6.4	26.1	14.6	5	3.6
PE	35	9.9	7.5	loss	40.4	10.2	7.2
Wynnstay Group	2010	2011	2012	2013	2014	2015E	2016E
565p	October	October	October	October	October	October	October
Market cap £109m							
Turnover (£m)	243.7	346.2	375.8	413.5	413.6	400	410
EBITDA	8.8	9.9	10.7	11.2	11	11.7	12.1
EBIT	6.6	7.5	8.2	8.7	8.5	9.2	9.5
Pre Tax Profit (£m)	5.9	6.9	7.8	8	8.5	9.2	9.5
Normalized EPS p	29	30.7	34	36.5	33	36	39
Dividend (p)	6.7	7.3	8.1	8.8	9.6	10.8	11.5
Shareholders Funds	47.4	51.7	56.8	71.6	77.2	80	83
Net Borrowings	3.5	6.7	13.8	2.5	-2.8	0	0
EV	112.5	115.7	122.8	111.5	106.3	109	109
EV/EBITDA	12.9	11.7	11.5	9.9	9.6	9.3	9
PE	19.5	18.4	16.6	15.5	17.1	15.7	14.5

[1] Real Good Food: 2015 figures exclude the lossmaking Napier Brown, now disposed. 2016E excludes the Napier Brown business.

Financials

2015 is stated in both forms, including Napier Brown and (under note 3) excluding Napier Brown as this is no longer part of the Group. FY16 will, when reported, include some weeks' Napier Brown trading but our figures exclude this business. 2016E includes £10.0m exceptional credit, resulting from the book profit on the disposal of Napier Brown. Note: "significant items" are itemised within the Real Good Food accounts and principally comprise management restructuring. In no year does this item exceed £0.85m. Our Adjusted profits are taken post these costs and pre modest costs of amortisation of acquisition related goodwill.

Profit & Loss account								
Year end March (£m)	2010[1]	2012[2]	2013	2014	2015	2015[3]	2016E[3]	2017E
Revenue	200.1	305.5	265.8	272.6	232.9	104.6	112.0	125.2
EBITDA (post significant items)	5.21	8.63	9.96	2.71	1.09	4.85	7.50	9.55
Operating profit pre amortisation	3.21	6.18	7.97	0.47	-1.23	3.03	5.70	7.50
Amortisation	0.24	0.17	0.23	0.35	0.35	0.35	0.35	0.35
Operating profit	2.97	6.01	7.74	0.12	-1.58	2.68	5.35	7.15
Exceptional	0.00	0.00	0.00	0.00	0.00	0.00	10.00	0.00
Interest net [4]	-1.37	-2.02	-1.67	-1.60	-1.71	-0.86	-0.30	0.00
Pension finance accounting	0.09	0.24	0.08	-0.06	-0.24	-0.24	-0.20	-0.20
Pretax profits PRE 'significant items'	2.34	4.91	6.77	-1.00	-2.68	2.10	15.15	6.95
Pretax profits stated	1.95	4.36	6.26	-1.54	-3.53	1.58	14.85	6.95
Pretax profits Adjusted [5]	2.19	4.53	6.49	-1.19	-3.18	1.93	5.20	7.30
Tax	-0.42	-0.75	-1.34	0.88	0.13	-0.95	-1.46	-1.83
EPS (p) diluted Adjusted [5]	2.59	5.30	6.95	-0.41	-4.11	1.32	5.06	7.40
EPS (p) diluted Stated	2.20	5.10	6.40	-0.95	-4.90	0.85	18.10	6.93
Dividend per share (p)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.20
Average shares in issue	65.01	65.02	68.41	69.57	69.60	69.60	69.57	69.57
Average shares in issue diluted	68.3	71.38	74.11	75.58	74.20	74.20	74.00	74.00

Source: Real Good Food accounts, Hardman & Co estimates

[1] December

[2] 15 months to March

[3] Excluding Napier Brown

[4] Excludes pension finance cost includes bank fees and break costs

[5] Pre exceptional credit and amortisation of goodwill

Profit & Loss account

Divisional analysis (pre-central costs)

Year end March (£m)	2010[1]	2012[2]	2012	2013	2014	2015	2016E[3]	2017E
Napier Brown								
Revenue (external)	108.4	176.88	152.64	157.16	162.33	128.29	0.00	0.00
EBITDA	0.41	4.38	3.91	4.72	-1.61	-3.35	0.00	0.00
Operating profit	-0.08	3.71	3.35	4.35	-2.02	-3.95	0.00	0.00
Operating margin%	-0.1	2.1	2.2	2.8	-1.2	-3.1	n.a	n.a
Haydens Bakery								
Revenue	23.33	29.66	24.48	25.34	27.26	28.37	30.5	32.5
EBITDA	0.42	-0.60	-0.46	0.34	0.92	1.25	1.5	1.8
Operating profit	-0.24	-1.33	-1.04	-0.42	0.11	0.44	0.7	0.9
Operating margin%	-1.0	-4.5	-4.2	-1.7	0.4	1.6	2.3	2.8
Renshaw								
Revenue	42.79	46.37	40.24	41.03	42.95	46.71	49.00	54.00
EBITDA	5.46	5.82	5.56	4.95	5.47	6.13	6.90	7.70
Operating profit	4.57	4.91	4.82	4.13	4.40	5.15	5.90	6.70
Operating margin%	10.7	10.6	12.0	10.1	10.2	11.0	12.0	12.4
Rainbow Dust Colours								
Revenue						0.75	3.50	3.70
EBITDA						0.43	1.65	1.80
Operating profit						0.42	1.60	1.75
Operating margin%						56.0	45.7	47.3
R&W Scott (incl Renshaw pre 2011)								
Revenue		14.44	11.82	10.97	9.14	8.76	10.00	11.00
EBITDA		-1.05	-1.19	0.42	0.33	-0.02	0.3	0.55
Operating profit		-1.34	-1.43	0.17	0.07	-0.26	0.00	0.25
Operating margin%		-9.3	-12.1	1.5	0.8	-3	0.0	2.3
Garrett Ingredients								
Revenue	25.58	38.18	29.78	31.26	30.41	18.23	16.00	20.00
EBITDA	1.18	3.23	2.68	2.15	1.21	0.54	0.4	0.5
Operating profit	1.18	3.23	2.68	2.15	1.17	0.52	0.4	0.5
Operating margin%	4.6	8.5	9.0	6.9	3.8	2.9	2.5	2.5
RGFE								
Revenue					0.48	1.75	3.00	4.00
EBITDA					-0.39	-0.04	0.15	0.40
Operating profit					-0.39	-0.05	0.15	0.25
Operating margin%					n.a.	-2.9	5.0	6.3

Source: Real Good Food accounts, Hardman & Co estimates

Balance Sheet

Year end March (£m)	2010[1]	2012[2]	2012	2013	2014	2015	2016E[3]	2017E
Non current assets								
Goodwill, intangible	76.4	76.3	76.3	77.2	76.9	70.8	70.0	70.0
Deferred tax	0.4	0.9	0.9	1.4	1.4	1.9	1.9	1.9
Property plant equipment	15.6	17.1	17.1	17.7	22.3	13.6	17.0	17.6
Total	92.4	94.3	94.3	96.3	100.6	86.3	88.9	89.5
Current assets								
Trade	33.9	41.8	41.8	45.2	54.5	25.6	19.6	20.6
Net assets of discontinuing	0.0	0.0	0.0	0.0	0.0	14.4	0.0	0.0
Financial	3.2	2.5	2.5	7.1	8.6	6.7	5.0	5.1
Total	37.1	44.3	44.3	52.3	63.1	46.7	24.6	25.7
Current liabilities								
Trade & tax	-20.4	-20.6	-20.6	-22.0	-30.3	-19.0	-19.0	-19.0
Financial	-17.3	-24.4	-24.4	-23.0	-31.2	-17.3	-3.0	0.0
Total	-37.7	-45.0	-45.0	-45.0	-61.5	-36.3	-22.0	-19.0
Non current liabilities								
Tax	-3.2	-2.9	-2.9	-2.9	-2.7	-2.5	-2.7	-2.7
Pension	0.0	-1.1	-1.1	-3.5	-3.7	-5.7	-5.7	-5.7
Financial	-8.6	-6.8	-6.8	-9.1	-8.7	-6.6	0.0	0.0
Total	-11.8	-10.8	-10.8	-15.5	-15.1	-14.8	-8.4	-8.4
Net assets total	80.0	82.8	82.8	88.1	87.1	81.9	83.1	87.8
Cash total	-22.7	-28.7	-28.7	-25.0	-31.1	-30.1	2.0	5.1

Source: Real Good Food accounts, Hardman & Co estimates

Cashflow

Year end March (£m)	2009[1]	2010[1]	2012[1]	2013	2014	2015	2016E[3]	2017E
Operating cash flow	5.0	5.2	8.6	10.0	2.8	1.2	7.5	9.6
Working capital	4.5	0.0	-7.7	-2.3	0.6	4.1	4.0	-1.0
Pensions	0.0	0.0	-0.2	-0.2	-0.3	-0.5	-0.3	-0.3
Tax	1.0	0.0	-0.9	-1.0	-0.8	0.6	-1.4	-1.8
Interest	-1.9	-1.3	-1.9	-1.6	-1.6	-1.7	-0.3	0.0
<i>Net cash flow from operating activities</i>	<i>8.6</i>	<i>3.9</i>	<i>-2.1</i>	<i>4.9</i>	<i>0.7</i>	<i>3.8</i>	<i>9.5</i>	<i>6.4</i>
Net capex	-1.0	-2.4	-4.0	-3.8	-6.9	-1.5	-5.5	-3.0
Disposal and other	0.0	0.0	0.0	0.0	0.0	0.0	34.0	0.0
Acquisition	0.0	0.0	0.0	0.0	0.0	-1.2	-6.0	0.0
Share issues	0.0	0.0	0.0	2.5	0.0	0.0	0.0	0.0
Dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash change	7.6	1.5	-6.1	3.6	-6.2	1.0	32.0	3.4
Cash total	-24.1	-22.7	-28.7	-25.0	-31.1	-30.1	2.0	5.1
Free cash flow	7.6	1.5	-6.1	1.1	-6.2	2.3	4.0	3.4
Free cash flow pps	11.6	2.2	-8.5	1.5	-8.2	3.1	5.4	4.6

Source: Real Good Food accounts, Hardman & Co estimates

Notes

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