

Parsley Box

Food retail
16 March 2021

Delivering growth in an expanding market

Parsley Box is a leading UK direct to consumer (D2C) provider of ambient ready meals, targeting customers aged over 60 years. Its differentiated product offer and high level of customer service that are geared to maximising customer convenience provide a clear opportunity to grow its customer base and their level of spend with the company in structural growth markets. Management expects its capital-light business model will enable it to scale its product range to enhance its appeal to existing and new customers, and also enter new geographies.

Differentiated product offer and service

The average customer age is in the mid-70s. Growth drivers include exposure to this fastest growing age group, currently underserved, and the ongoing shift in spend on food to e-commerce. This offers a significant opportunity for Parsley Box's customer service-oriented business as the market for D2C ready meals, and their share of the overall online food market, increases. It is the only D2C ready meal provider offering easy to prepare meals requiring no cold storage. Next day delivery and a non-subscription service differentiate it from peers and other companies, and have contributed to strong growth in customer numbers, average order value (AOV) and revenue, and a high level of customer satisfaction (per Trustpilot). The business model is highly scalable and management states that it offers the environmental advantage of materially reduced waste and emissions relative to most other food provider models.

Future growth opportunities

Management plans to scale the business through increasing the frequency of purchases and AOVs from repeat customers while increasing the new customer base. To facilitate this there will be further range extensions (eg more price segmentation and special dietary foods) and broader categories (eg vitamins and functional foods). In addition, management is considering geographic expansion to countries with similar age and meal choice characteristics.

Valuation: Discount to food delivery peers

As consensus forecasts are not yet available, we focus on historical multiples. At the low end of the indicated range, Parsley Box's EV/sales multiple of 3.2x to December 2020 compares to the average of the food delivery companies of 7.9x, of which there is a very wide range of multiples (2.7–14.6x).

Historical financials						
Year end	Revenue (£m)	Adjusted EBITDA (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/18	2.0	(0.4)	N/A	0.0	N/A	N/A
12/19	7.4	(2.1)	N/A	0.0	N/A	N/A
12/20	24.4	(2.3)	N/A	0.0	N/A	N/A

Source: Company data

Price	N/A
Market cap	N/A

Share details

Code	MEAL
Listing	AIM
Shares in issue	N/A
Last reported net cash as at 31 December 2020 (excluding lease liabilities)	£0.9m

Business description

Parsley Box is a UK direct to consumer provider of ambient ready meals, targeting customers who are over 60 years old, with a high level of customer service. It has a capital light business model.

Bull

- Targeting growing demographic that is wealthy, loyal and underserved.
- Online D2C ready meal market expected to take share due to growing e-commerce and strong customer relationship management.
- Management expects to increase share of customer's wallet as product ranges and categories are extended.

Bear

- The food retail and delivery markets are highly competitive with many well-capitalised companies.
- Despite rapid growth in customers and revenue, Parsley Box continues to generate operating losses at the group level, albeit operating profitably on repeat customers.
- The business model is not capital intensive, suggesting low barriers to entry.

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Company description: Online ready meals made easy

Parsley Box is a leading UK D2C provider of ambient ready meals. It targets the baby boomer + demographic, ie those aged 60 years and over; its customers have an average age in the mid-70s. Parsley Box's aim is to promote and support independent living by making mealtimes easier and more enjoyable. This is done by combining fast, friendly service with innovative ready meals that are easy to store and prepare. In FY20, revenue was £24.4m and at 8 January 2021, Parsley Box had c 154,000 active customers (having grown by 188% from December 2019 to December 2020), over 500,000 registered users, and was shipping over 900,000 products per month. There are two main competitors in this market, Oakhouse Foods and Wiltshire Farm Foods, which supply frozen meals.

The key investment considerations are:

- Parsley Box's targeted demographic is forecast to grow at a faster rate than any other age range until 2039. The Office for National Statistics forecasts that the UK population aged over 60 years will grow from 16.2 million in 2019 to 19.8 million in 2029 and 21.9m in 2039.
- The 60+ years of age demographic is under-served by other companies that deliver food to the home; they typically focus on customers who are younger and less-wealthy. As well as the ability to browse products and order online, Parsley Box produces a print catalogue and customers are able to place orders by telephone, emphasising the company's level of service to potentially less tech-savvy customers.
- Parsley Box is the only D2C ready meal business in the UK that provides ambient products (ie they do not require freezing/thawing or chilling) that can be cooked easily and quickly. For customers who are less mobile, these increase the chances of getting a nutritious meal.
- The food grocery market is experiencing a structural shift to e-commerce given increasing online penetration, and D2C ready meals are expected to gain market share, helped by strong customer relationships and the ability to market directly, as offered by Parsley Box.
- Parsley Box claims to provide faster, cheaper and more reliable delivery than its D2C peers.
- Parsley Box has a high level of customer satisfaction, with c 94% of Trustpilot reviews rating it at 'average' or better, significantly higher than ratings for the grocery, menu box and takeaway delivery peers.
- Parsley Box has a high proportion of repeat revenue (60% of group revenue in H220) with a relatively predictable customer journey and return on marketing spend. Revenue from repeat customers is more profitable than from new customers due to lower marketing costs and typically higher AOVs.
- The business model has low fixed and working capital intensity due to the outsourcing of most infrastructure, the nature of the product (low wastage) and the sales cycle. Management claims that its proprietary e-commerce platform is highly scalable.
- The company will continue to evolve the product offer into adjacent categories that should enable it to attract new customers and increase its share of the customer's wallet.
- Parsley Box is likely to expand into new geographies with similar demographics and meal preferences.

Parsley Box's history

The company was founded in March 2017 by Adrienne and Gordon MacAulay, following an unsuccessful search for great value, tasty ready meals that do not require freezing and do not have long cooking times on behalf of an elderly relative. They were also seeking a high level of customer service, that is it could be ordered online, or by phone, and delivered quickly, in order to make the entire process more convenient.

Funding

Parsley Box's end-December 2020 balance sheet had cash of £0.9m and no debt. In January 2021, it raised £5.6m from existing and new shareholders. Prior to this, since the business was founded, it had raised funds on a number of occasions:

- June 2017: £150k was raised including an investment from Kevin Dorren, who then became CEO, via his D2C business Move Fresh.
- May 2018: c £200k was raised from angel investors and a further investment by Move Fresh.
- May 2019: £3m was raised from Mobeus, a leading provider of capital for SMEs.
- October 2019: £1.6m was raised including an investment from Chris van der Kuyl, who concurrently joined the board and became non-executive chairman.
- January/February 2021: £5.6m was raised from existing and new shareholders at a pre-money valuation of £60m. Based on FY20 financials, this represented a sales multiple of c 2.4x.

Parsley Box is to list on AIM in March 2021. In total, management wishes to raise proceeds of up to £25m through a primary (£5–10m) and secondary (£15–20m) share issue. At the low end of the range, the EV is estimated to be c £77m. The primary proceeds will be used to further accelerate the already impressive growth rate of the brand. The secondary proceeds will provide a partial exit for early shareholders and a venture capital trust backer, all of whom will continue to be significant shareholders of the larger company. The directors and major shareholders have committed to a lock-in agreement of 12 months following admission to AIM. Of utmost importance is management's and shareholders' desire to retain the company's independence and enable improved incentivisation of current and future employees.

Future strategy

As well as continuing to grow the existing business through attracting new customers and increasing their purchasing frequency, management's strategy is focused on two key areas:

Range and category expansion: this has the dual benefit of increasing the number of potential customers that may use Parsley Box as well as increasing its share of wallet. Beyond the core ready meals, management recently launched a fresh fish and meat offer to gain access to more meal occasions. Similar to traditional food retailers, the pricing ladder of the range may be extended to include more premium products, for example a 'luxury' cottage pie, as may the number of product segments, for example more dietary-specific meals, and management believes there could be more seasonality in the offer. Potential other new categories to capture increases in at-home consumption include high repeat purchase categories such as vitamins and functional foods. In addition, Parsley Box may use its platform to distribute complementary brands from partners that have the same values and standards.

International expansion: management sees potential for expansion into countries with similar ageing demographic growth profiles as the UK, or in geographies with a high concentration of elderly people and where food choices are aligned with those of the UK. Parsley Box's capital-light business model enables geographic expansion with limited initial investment; customer service can be handled from the UK until scale is achieved. In Europe, Germany has been identified as the most likely first overseas market that Parsley Box may enter. In the US, management is exploring a gradual rollout in key states; the first and most obvious state to target would be Florida with, with c 3.5 million people, c 22% of Florida's population, aged over 60 years.

Business description

Simply put, Parsley Box offers an extensive range of good quality and nutritious food with a high level of convenience to a growing, relatively wealthy and loyal demographic. It operates at low capital intensity, with a short supply-to-customer chain, and is serving and targeting an expanding

market. While the food online business has enjoyed a boost from customers seeking alternatives to physical store purchases during COVID 19 restrictions, it seems likely that there will have been a fundamental shift that will continue to see the market for online food purchasing expand.

An extensive range of good quality and nutritious food...

Parsley Box's core product is an extensive range of ambient ready meals across a variety of cuisines, as well as a number of other products from third parties that help to round out the meal offer. At the date of writing, the core Parsley Box range included 135 food and drinks 'products' across the various categories:

- **Main meals (69 products)** including pies and hotpots, classics (eg liver and bacon with mashed potato), everyday favourites (eg roast turkey dinner and chicken supreme); butcher's selection (eg beef bourguignon); stews and casseroles; Asian (including Indian and Chinese food); and Mediterranean (including lasagnes and pasta Bolognese). The range includes three vegetarian options. Prices range from £2.99–3.99, however items may be discounted.
- **Bakery (8 products)** priced from £1.50–£2.99.
- **Puddings (11 products)** priced from £1.50–2.99.
- **Drinks (26 products)** including branded ready-to-drink cocktails/cans of beer from £1.99 through small/half bottles of wine up to mixed half-bottle cases of wine for £34.99.
- **Sides (13 products)** including portions of mashed potato, rice and dhal from £0.99.
- **Soups (3 products)** from £1.49.
- **Breakfasts (1 product)** an all-day breakfast for £2.99.
- **Gifts and extras (8 products)** including chocolates, tea towels and wines from £4.99–19.99.
- **Latest offers (8 products)** including meal selections/bundles up to £49.99.

For each product the website provides information on the ingredients used, estimates of nutrition and cooking instructions. With respect to nutrition, the website indicates which are low sugar, low fat, wheat free, gluten free, vegetarian, high protein or contain alcohol in order to help customer selection in managing diets.

The meals are prepared in third-party accredited UK kitchens using fresh ingredients and without the use of unnecessary preservatives that are typically used to increase a product's shelf life. The preparation process is innovative and based on trusted technology: the ingredients are added to a plastic 'retort' tray, which is sealed (ensuring that all of the flavours and aromas are locked in) before the tray is cooked at pressure and high temperature. After the meal is cooled, packaging is added before shipping to the central, third-party warehouse before distribution to the end customer.

Management has a good track record of evolving the product offer as evidenced by the mix of categories above and use of third-party products and the recent range extension to include restaurant-quality fresh meat and fish box selections from an award-winning butcher and fishmonger at a premium price point of £29–49. Further range extensions will continue, including for example more premium price points and food for a greater range of specific occasions as well as complementary products. These should increase AOV, attracting new customers to the new products, which will aid customer retention and help to increase Parsley Box's share of its customer's wallet.

...with a high level of convenience...

Parsley Box's marketing, products and customer service are designed to make ordering, storage and preparation as convenient as possible. The high level of convenience manifests itself in a number of key ways:

- Unlike alternate operators in food delivery, a subscription to Parsley Box's service is not required, therefore customers have as much flexibility as possible:
- Customers can peruse the offer in the paper-based catalogue or online, and they can subsequently order online (40–50% of orders are made online) or by telephone (currently

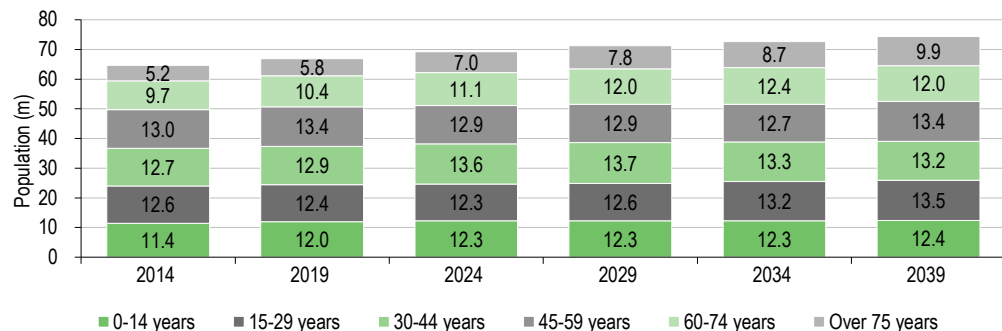
running at c 4.5k telephone orders per day, an attractive option to those customers less comfortable with making purchases online). Many food-delivery companies do not take orders by telephone. Parsley Box aims to use as much technology as possible to make the customer's life easier.

- Customers may order as many meals as they wish, which compares with some other providers that require a specified number of meals per order. In common with many operators, Parsley Box offers a free delivery service, available on orders with a value of over £19, which is lower than the minimum order value of its direct peers.
- Parsley Box delivers on the next working day after an order is received, which compares with the three to five days or four to seven days that is typically offered by competitors.
- The ready meals do not require refrigeration or freezing once prepared at the company's kitchen provider, and can be stored at ambient room temperature, say in a cupboard for up to six months. Customers typically downsize from larger properties as they age, and may not have as much cold or frozen storage space as younger families in which to store meals.
- As the ready meals are already cooked during Parsley Box's manufacturing process, customers only need to re-heat the ready meal, which typically takes just two to three minutes, in a microwave, which may be easier for some consumers.

...to a growing, wealthy and loyal demographic...

Parsley Box's core target demographic is over 60 years of age, which is expected to demonstrate the most significant growth in population of any age group in coming years.

Exhibit 1: UK age demographic profile



Source: Government Office for Science

From a total UK population of 66.9 million people in 2019, 16.2 million or 23% of the population were aged 60 years or over. The Office for National Statistics forecasts that by 2039 the number of people aged over 60 years will be 21.9 million, or 29% of the total population of 74.4 million people. While all age ranges will increase in absolute size of population through 2039, all age ranges except the over 60s are expected to represent a lower percentage of the total population in 2039 than in 2019.

Parsley Box does not market itself as an 'old-person's brand'; the majority of customers are the ultimate consumers of the product with an average age in the mid-70s, so they are still independent, able to care for themselves and make active choices.

As well as the attractive growth profile and relative wealth, management's market segmentation (see later) suggests that the population is under-served by alternative providers so represents an attractive and fast growing 'niche'. Management claims that the older demographic tends to be more loyal than other age groups, as evidenced by its own impressive customer retention data (see Financials section), and it points to a high level of predictability about the lifetime value of a customer within 60–90 days of the first order. Its data suggests that customers aged between 60

and 70 years typically order two to three meals a week, which increases to three to four meals a week as the customers age.

The age demographic served is typically the wealthiest age group as it nears retirement or is already retired.

...with limited capital intensity

Parsley Box's business model is less capital intensive than other businesses that retail and deliver food to the home. Its only infrastructure is the head office and customer contact centre that are based in Edinburgh, which enables the company to focus on controlling the quality of customer care and service, and devote more time to focus on customer recruitment, retention and business development. The rest of Parsley Box's operations are outsourced to third-party providers that have capacity to support significant future growth: manufacturing with a British Retail Consortium A-grade food manufacturers; warehousing and operations by Diet Chef; and delivery is outsourced to DHL, which delivers in most parts of the UK on the day following receipt of the order.

Recent newsflow

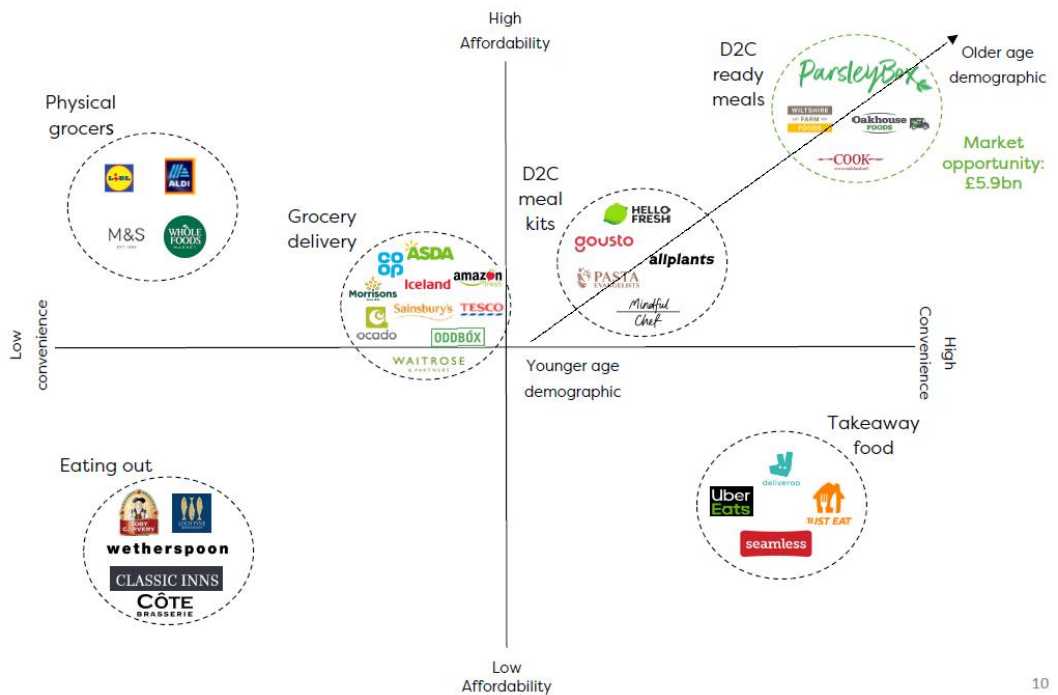
In the first two months of 2021, current trading saw strong growth in the number of new customers and the spend from repeat customers. Parsley Box acquired 55,272 customers in the first two months, c 146% growth on the comparative period of in 2020 when 22,435 customers were acquired. In addition, revenue from repeat orders of £3.6m in January and February represented growth of c 170% from the comparative period in 2020 of £1.35m.

Market overview

Management estimates that the total UK ready meal market is worth c £5.9bn, the largest in Europe, having grown at an estimated CAGR of c 4% from 2015–20. Parsley Box's target demographic represents c 24% of the ready meal market.

For the consumer, there are many ways of getting food to their table. Broadly, the key operators in food supply are the traditional food retailers and their/the online delivery businesses (including Ocado), local takeaways and takeaway delivery companies (eg Deliveroo (about to list), Just Eat and Uber Eats), D2C ready meal companies (eg Parsley Box, Cook, Oakhouse Foods and Wiltshire Farm Foods) and D2C fresh meal kit companies (eg gousto and HelloFresh). Ultimately, all food is substitutable to a greater or lesser extent, but the consumption decision for any meal is primarily based on a combination of budget, taste, convenience and mood. The key attraction of a ready meal is it helps consumers who are either unwilling or unable to cook a meal from fresh or frozen, to do so, and is less expensive and/or more convenient than food from a takeaway/delivery. Management believes the D2C ready meals market is less crowded with only two key direct competitors that offer a similar meal proposition, Oakhouse Foods (owned by Kerry Group) and Wiltshire Farm Foods (owned by Apetito Group), albeit the foods are frozen.

Exhibit 2: Market positioning



Source: Company presentation

Comparing D2C ready meals with traditional grocery

In Exhibit 3 we compare the typical retail prices of a range of ready meals between the D2C ready meal providers and some of the traditional food retailers. We have attempted to get product specification as close as possible by using the 'standard' product offered (in most cases it is the only product available for the particular dish), rather than say the premium-priced alternative within a range. To compensate for different portion sizes, we have normalised the prices by calculating an implied cost/kilo of the food, to show the relative costs excluding delivery.

Exhibit 3: Price comparison of D2C versus food retailers

		Parsley Box	Cook	Oakhouse Foods	Wiltshire Farm Foods	Tesco	M&S/Ocado
Lasagne	Cost (£)	3.49	4.50	4.20	4.69	2.50	2.75
	Weight (g)	270	365	400	445	450	400
	Cost (£/kg)	12.93	12.33	10.50	10.54	5.56	6.88
Lamb hotpot	Cost (£)	3.29	5.00	5.50	3.95	1.60	3.50
	Weight (g)	270	360	400	410	400	450
	Cost (£/kg)	12.19	13.89	13.75	9.63	4.00	7.78
Coq au vin	Cost (£)	3.29	4.75	5.50	Not sold	Not sold	Not sold
	Weight (g)	270	340	400	Not sold	Not sold	Not sold
	Cost (£/kg)	12.19	13.97	13.75	Not sold	Not sold	Not sold
Chicken korma with rice	Cost (£)	3.98	5.75	4.75	3.99	2.50	3.50
	Weight (g)	395	470	400	455	450	400
	Cost (£/kg)	10.08	12.23	11.88	8.77	5.56	8.75
Vegetarian cottage pie	Cost (£)	2.99	Not sold	Not sold	4.39	2.50	Not sold
	Weight (g)	270	Not sold	Not sold	450	450	Not sold
	Cost (£/kg)	11.07	Not sold	Not sold	9.76	5.56	Not sold

Source: Company websites

The data shows that the cost of meals excluding delivery costs from D2C companies are, unsurprisingly, at a premium to those offered by the traditional grocery retailers sampled, reflecting, chiefly, their convenience. We note that in terms of cost per kilo, there is little differentiation between the individual DC2 retailers. What is perhaps surprising is what we consider to be relatively standard products are not offered by all companies surveyed. Parsley Box's meal sizes

are a standard 270g (note the chicken korma with rice includes the weight and cost of the required rice side portion to make it comparable with the other companies) and tend to be smaller than those of its competitors; however, this may not be as important to the older demographic given different appetites and levels of activity.

A recent study by WRAP (Waste & Resource Action Programme), a leading sustainability charity, indicated that Parsley Box's supply chain is significantly more sustainable than comparable grocery supply chains, with less than 1% food waste in the supply chain from manufacturer to home, compared to c 30% waste in the traditional food supply chain.

Comparing D2C ready meals with D2C meal delivery kits

Relative to D2C ready meals, meal delivery kits represent a very different customer proposition given they typically require a subscription, a specified/variable number of meals per order, and the products are fresh with a shorter shelf life and take longer to prepare. The companies also cannot guarantee next day delivery as Parsley Box does. These meals target a different price point and experience than those of Parsley Box, and the companies that operate in this space typically target a younger demographic than Parsley Box's older demographic.

Comparing the D2C ready meals companies

We highlighted above the difference in unit prices and adjusted cost per kilo for a range of standard ready meals. The main differences between Parsley Box's offer and those of its competitors, beyond pricing of meals can be summarised as:

- From a product perspective, Parsley Box's ready meals are long-life ambient products that do not require freezing and defrosting or chilling, and therefore can be cooked in a matter of minutes. For elderly people who need care/attention, making storage and preparation of meals as easy as possible can be the difference between having a nutritious meal and not.
- Delivery is typically available on the next working day versus three to five days and four to seven days for some of its listed competitors.
- Parsley Box offers free delivery on orders above £19, lower than the £25–40 required by the competitors.

Customer ratings of food providers

As a simplistic measure of customer sentiment to the alternate providers, below we show below the Trustpilot scores for Parsley Box and alternative providers of food.

Exhibit 4: Customer ratings														
	D2C ready meals				D2C meal kits					Grocery delivery		Takeaway food		
	Parsley Box	Oak-house Foods	Wiltshire Farm Foods	Cook	allplants	gousto	Hello Fresh	Mindful Chef	Pasta Evangelists	Ocado	Tesco.com	Deli-veroo	Just Eat	Uber EATS
Number of reviews	18,980	10,775	26,472	6,303	4,822	16,693	22,129	12,707	1,927	13,222	7,391	9,477	10,300	21,879
Overall rating	4.5	4.7	4.7	4.8	4.6	4.4	3.9	4.7	4.3	3.7	2.3	1.4	1.2	1.1
Ratings:														
Excellent	68%	79%	81%	87%	78%	73%	60%	84%	78%	57%	26%	14%	28%	2%
Great	19%	14%	13%	9%	13%	14%	18%	12%	8%	10%	8%	2%	6%	<1%
Average	7%	4%	4%	2%	5%	4%	7%	2%	4%	4%	6%	1%	3%	<1%
Poor	3%	1%	1%	<1%	3%	2%	4%	<1%	3%	5%	9%	4%	3%	1%
Bad	4%	2%	1%	2%	2%	7%	11%	1%	8%	23%	51%	79%	60%	95%
Cumulative ratings:														
Excellent	68%	79%	81%	87%	78%	73%	60%	84%	78%	57%	26%	14%	28%	2%
Great	87%	93%	94%	96%	91%	87%	78%	96%	86%	67%	34%	16%	34%	3%
Average	94%	97%	98%	98%	96%	91%	85%	98%	90%	71%	40%	17%	37%	4%
Poor	97%	98%	99%	98%	99%	93%	89%	99%	93%	76%	49%	21%	40%	5%
Bad	101%	100%	100%	100%	101%	100%	100%	100%	101%	99%	100%	100%	100%	100%

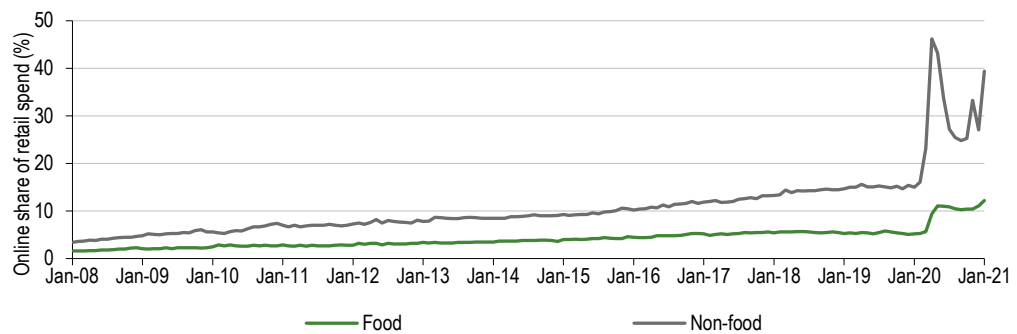
Source: Trustpilot 3 March 2021

The D2C ready meal providers have Trustpilot ratings that are in the range of average/great/excellent (see Exhibit 4) in at least 94% of the reviews/scores provided, and overall ratings of at least 4.5 out of 5. The D2C ready meal providers, typically, have more Trustpilot ratings that are average or better than the D2C meal box providers (gousto, HelloFresh and Pasta Evangelists), the online food retailers (Ocado and Tesco.com) and the takeaway delivery companies (Deliveroo and Just Eat).

Online taking share of all retail sales

Parsley Box is favourably exposed to the increasing consumer shift to e-commerce, which has accelerated during the COVID-19 pandemic. The pandemic prompted an increase in the level of spend from in-the-office/school to at-home as many consumers chose to shop online to comply with social distancing and to reduce unnecessary contact with others, and to save time.

Exhibit 5: Online share of UK retail sales



Source: Office for National Statistics

In the months prior to the outbreak, online's share of total UK food sales was tracking at c 5% but immediately jumped to c 11% in May to July 2020 during the initial peak months of the national lockdowns. As social restrictions eased through the summer and autumn, online's share settled back a little to c 10% of the total market. In January 2021, online's share of food sales grew again to 12.2% as social restrictions resumed. At 12.2%, online's share of food sales remain well below online's share of non-food sales of 39.4% in January 2021, although the COVID-19 impact on non-food sales reflects in addition the lockdown closures of shops.

In the short term, once lockdown and COVID-19 restrictions ease, there may be some retrenchment in the growth in the share of online food sales as was seen in the autumn of 2021, as consumers are likely to return to socialising and dining out and will likely spend more time in the office or at work. However, management anticipates that the shift to e-commerce will continue over the long term.

Management and key shareholders

Supervisory board and management board

The directors and management of the company have strong experience in managing consumer brands, technology and marketing. The main members of the management team are:

- **Non-executive chairman, Chris van der Kuyl CBE.** Mr Kuyl has been chairman of Parsley Box since 2019 and has extensive experience of investing in and managing technology ventures. His other current roles include chairman of 4J Studios Ltd, TVSquared, Broker Insights, Puny Astronaut and Tayforth Consulting, director of Ace Aquatec and visiting professor of digital entertainment at the University of Abertay, Dundee.

- **CEO, Kevin Dorren.** Mr Dorren has been CEO of Parsley Box since March 2018. He is an experienced D2C executive, having founded a number of brands including Diet Chef and Fine Coffee Club. His other current roles include a partner of Move Fresh, chairman of Machine Labs and Bella and Duke, and non-executive director of TVSquared. His prior roles include CEO of Orbital Software, investor in Flavourly.com and FanDuel Inc, and partner of Sowilo Partners.
- **CFO, John Swan.** Mr Swan has been CFO of Parsley Box since February 2019. His prior positions include senior finance and operational director roles, mainly at technology companies including QuintilesIMS European Finance, Orbital Software, Actis Technology, Polaroid, Adobe Systems Europe and Transfleet Services. He trained as an accountant at Deloitte Haskins & Sells.
- **Co-founder & Chief product officer, Adrienne MacAulay.** Ms MacAulay founded Parsley Box in January 2017 with her husband, Gordon. Her previous roles include director and head of design and production of Ness Clothing & Accessories for over 20 years, and marketing manager of BUM Equipment Clothing.
- **CMO, Linzi Clingan.** Ms Clingan has been marketing director of Parsley Box since November 2019. Her previous marketing roles include head of consumer marketing at Golden Charter and marketing manager at International Correspondence Schools.

Shareholdings pre-IPO are shown below. Exhibit 6: Shareholders pre-IPO

Shareholders	Fully diluted shares ('000)	Percentage holding
Mobius Equity Partners	8,747.1	22.0%
Dobbie Family	5,782.5	14.5%
Kevin Dorren	5,332.5	13.4%
Adrienne & Gordon MacAulay	4,831.4	12.1%
Andrew Veitch	3,940.3	9.9%
Chris van der Kuyl	2,320.0	5.8%
Paddy Burns	2,320.0	5.8%
4J Studios*	1,602.0	4.0%
Move Fresh**	662.8	1.7%
Techstart Ventures	304.9	0.8%
Guinness Asset Management	152.4	0.4%
Other individuals	3,779.1	9.5%
Total shares	39,775.1	

Source: Company data. Note: *4J Studios is owned by Chris van der Kuyl and Paddy Burns. **Move Fresh is owned by Kevin Dorren and Andrew Veitch.

Financials

Since Parsley Box was formed it has produced strong revenue growth, attracted new customers and raised the AOVs as they 'mature', which in turn typically increases the frequency and/or number of items per order. The company continues to operate at a loss, but this is mainly a function of the level of marketing spend to attract new customers to drive future growth; at the repeat-customer level it is EBITDA positive.

Income statement

Exhibit 7: Parsley Box's income statement

£m	FY18	FY19	FY20
Revenue	2.002	7.386	24.376
Repeat revenue	0.976	5.011	17.905
Gross profit	0.496	1.874	6.791
Gross margin	24.8%	25.4%	27.9%
Overheads	(0.875)	(4.038)	(9.342)
Marketing as % of revenue	29%	34%	24%
Adjusted EBITDA	(0.375)	(2.110)	(2.324)
Repeat EBITDA	(0.130)	(0.238)	2.334

Source: Company data

Parsley Box's revenue has grown more than elevenfold in the last two years, from £2.0m in FY18 to £24.4m in FY20, as the company expanded its customer base, spend per customer, AOV and product offering.

Exhibit 8: KPIs

	FY18	FY19	FY20
Orders – new customers	45,685	112,757	291,959
Orders – repeat customers	30,615	131,407	424,574
Active customers at period end		50,988	146,824
Average revenue/new customer order (£)	22.46	21.40	23.46
Average revenue/repeat customer order (£)	31.88	38.13	42.17
Repeat orders as % of database	11%	11%	11%

Source: Company data

The number of orders from new customers increased more than fivefold from 45.7k in FY18 to 292k in FY20, and the number of orders from repeat or active customers increased almost thirteenfold over the same period, from 30.6k in FY18 to 424.6k in FY20. An active customer is defined as one that has made at least one subsequent order within 12 months of the initial order. The latter KPI provides the most reassuring indicator of the attractiveness of the offer and potential sustainability of the customer base, whereas growth in new customers can be a function of how aggressively the company pushes the marketing and promotion button in any year. The ratio of marketing spend to revenue has ranged from 24% to 34%, reflecting the large difference in cost between marketing to a new and existing customer, the relative growth profiles of these customers and the resulting revenue. Some of the proceeds of the IPO will be used to enhance marketing spend in order to attract new customers. Looking to the future, management expects that the ratio of marketing spend to revenue will diminish as the revenue from repeat customers increases in importance to the group. Repeat revenue, at £17.9m, represented c 72% of total revenue in FY20.

Growth in FY20 was helped by the COVID-19 pandemic, with a notable influx of new customers in March and April, whose behaviour through the remainder of FY20 was consistent with previous cohorts, in terms of ordering frequency and AOV.

Average revenue per order has increased for both new customers and repeat customers in most financial year since FY18. For new customers, the average revenue per order has increased by 4% from £22.46 in FY18 to £23.46 in FY20, above the price at which free delivery is available. For repeat customers the growth rate has been higher, at 32% from £31.88 to £42.17. The increasing gap between these AOVs highlights an attractive future for revenue growth as new customers mature.

Parsley Box has thus far been EBITDA negative, which is primarily a function of the pace of customer capture, the level of marketing, the subsequent maturity and repeat profile. A positive EBITDA on repeat revenue for the first time in FY20 highlights the benefit of converting new customers into mature and more profitable repeat customers. The gross product margin has been relatively stable at 47–49%, and reported gross profit margin (after distribution, sales and handling, warehousing and packaging) has increased from 24.8% in FY18 to 27.9% as the business scaled.

Between H119 and H120, Parsley Box's customer acquisition costs have ranged between c £13 and £19, which is lower than the AOV for new customers, and management claims is lower than other D2C businesses. Based on the company's historical data for 2017–20, management points to a return on marketing spend of 51% within six months, and 119% within 12 months.

Cash flow and balance sheet

Parsley Box has generated negative operating cash flow, peaking recently at £1.8m in the nine months to 31 December 2019, as it has been increasing the scale of its business. Operating cash flow is heavily dependent on how aggressively it markets to attract new customers, who ultimately spend more with the company and move quickly up the profitability curve.

Exhibit 9: Cash flow

£m	P/E 31/3/18	Y/E 31/3/19	9M 31/12/19	Y/E 31/12/20
Operating activities	0.020	(0.247)	(1.822)	(1.191)
Investing activities	(0.027)	(0.015)	(0.034)	(0.156)
Financing activities	0.150	0.205	4.250	(0.219)
Change in cash	0.142	(0.057)	2.394	(1.566)
Cash at start	0.000	0.142	0.085	2.480
Cash at end	0.142	0.085	2.480	0.914

Source: Company data

Parsley Box has a low working and fixed capital intensity. From a working capital perspective, inventory levels are low as it is purchased ready to sell, and due to its long shelf life has minimal wastage. Sales are quickly turned to cash, and the main suppliers are on 30+ day terms. From a fixed asset perspective, the outsourcing of manufacturing, warehousing and distribution ensures low investment requirements; investing cash flows have been a relatively consistent 0.5% of sales in most recent accounting periods.

Exhibit 10: Balance sheet

£m	31/3/18	31/3/19	31/3/20	31/12/20
Non-current assets	0.020	0.024	0.384	0.771
- Intangibles	0.018	0.011	0.007	0.006
- Tangibles	0.002	0.013	0.377	0.765
Current assets	0.229	0.547	3.801	2.927
- Stock	0.045	0.324	0.931	1.484
- Debtors	0.042	0.137	0.390	0.530
- Cash	0.142	0.085	2.480	0.914
Total assets	0.249	0.571	4.185	3.698
Current liabilities	(0.304)	(0.923)	(2.059)	(4.115)
Non-current liabilities			(0.153)	(0.225)
Net assets	(0.055)	(0.352)	1.973	(0.642)

Source: Company data

The key source of financing cash flow has been the equity raises described on page 3.

Valuation

As consensus forecasts are not yet available, we look at valuation metrics based on financial performance in the last reported financial year and compare Parsley Box to two groups of peers: online companies that deliver food to consumers, noting the different business models as previously discussed, and other pure online retailers.

The online food delivery companies have all demonstrated high level of sales growth, and have a wide range of EBITDA margins, ranging from the loss-making Delivery Hero to the most profitable HelloFresh, which reported an EBITDA margin of 12.6% in its last financial year. Segmenting this group of companies further, the takeaway delivery companies (Delivery Hero, DoorDash and Just Eat Takeaway.com) are trading at historical (December 2020) EV/sales multiples ranging from 5.4x to 14.6x, meal delivery company HelloFresh is trading at 2.7x and Ocado is trading at 6.8x. Deliveroo has announced that it will list with a reported valuation of more than £7bn. Parsley Box's sales growth of 230% in its most recent financial year compares favourably with the other food delivery companies, but its EBITDA margin of -9.5% is lower than those companies as it invests in growing the customer base. At the low end of the range its EV/sales multiple of 3.2x for FY20 is at a discount to the average food delivery multiple of 7.9x, and a premium to HelloFresh's 2.7x.

The other online retailers have also demonstrated high levels of sales growth, but on average have better EBITDA margins than the food delivery companies. Their historical sales multiples range from 0.3x to 2.7x.

Exhibit 11: Peer valuations

Company	Year-end	Share price (local ccy)	Ccy	Market cap (£m)	Sales growth FY0 (%)	Sales growth FY1 (%)	EBITDA margin FY0 (%)	EBITDA margin FY1 (%)	EV/sales Dec 20	EV/sales Dec 21	EV/EBITDA Dec 20	EV/EBITDA Dec 21	P/E Dec 20	P/E Dec 21
Ocado Group	Nov	2,110	GBp	15,732	32.7	15.0	3.1	3.1	6.8	5.8	222.4	186.8	N/A	N/A
Delivery Hero SE	Dec	108	EUR	22,903	86.1	108.4	(44.3)	(23.9)	10.1	5.4	N/A	N/A	N/A	N/A
DoorDash Inc	Dec	145	USD	33,312	N/A	28.5	N/A	3.9	14.6	11.4	N/A	293.1	N/A	7248.5
HelloFresh	Dec	61	EUR	9,100	107.3	21.9	12.6	10.6	2.7	2.2	21.5	21.1	27.9	37.4
Just Eat Takeaway.com NV	Dec	87	EUR	11,051	476.6	27.8	10.7	5.5	5.4	4.2	50.8	77.6	311.1	N/A
Average food delivery					175.7	40.3	(4.5)	(0.2)	7.9	5.8	98.3	144.6	169.5	3642.9
Moonpig Group	Apr	419	GBp	1,427	N/A	N/A	N/A	26.3	N/A	4.6	N/A	18.5	N/A	35.5
Naked Wines	Mar	692	GBp	504	(59.9)	62.8	1.9	(0.8)	1.5	1.3	N/A	N/A	N/A	N/A
Virgin Wines	NUL	225	GBp	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
ASOS PLC	Aug	5,384	GBp	5,352	19.4	20.7	8.2	8.0	1.5	1.3	18.7	15.9	41.4	37.0
Boohoo Group PLC	Feb	327	GBp	4,107	44.1	39.2	10.2	9.6	2.4	1.8	24.1	19.2	41.2	31.7
Boozt AB	Dec	177	SEK	948	27.3	22.3	10.4	8.2	2.3	1.9	22.7	23.4	48.9	44.8
Delticom AG	Dec	9	EUR	91	(3.1)	(12.9)	N/A	2.6	0.3	0.3	13.2	9.6	N/A	28.5
Fashionette AG	Dec	27	EUR	141	N/A	N/A	N/A	7.8	1.8	1.4	23.1	38.3	58.0	157.1
Zalando SE	Dec	86	EUR	18,831	20.3	22.0	6.5	7.9	2.7	2.2	33.8	33.5	99.4	100.1
Zooplus AG	Dec	190	EUR	1,157	13.6	17.3	0.8	3.2	0.7	0.7	23.1	23.4	72.7	83.5
Average other online					8.8	24.5	6.3	8.1	1.7	1.7	22.7	22.7	60.3	64.8
Parsley Box	Dec			85	230.0	N/A	(9.5)	N/A	3.2	N/A	N/A	N/A	N/A	N/A
Parsley Box vs food delivery average					31%	N/A	113%	N/A	(60%)	N/A	N/A	N/A	N/A	N/A
Parsley Box vs other online average					2512%	N/A	(250%)	N/A	91%	N/A	N/A	N/A	N/A	N/A

Source: Refinitiv. Note: Priced 12 March 2021.

Sensitivities

Below we highlight what we believe are the key sensitivities for Parsley Box.

- The UK food delivery and retail markets are highly competitive with price, quality and variety important elements of the purchasing decision. Many of the competing companies in the wider market have significantly greater financial resources than Parsley Box.
- Recent trading has been helped by social distancing requirements and restrictions on accessibility to physical locations. As the nation emerges from these restrictions, growth rates may normalise.
- Parsley Box's profitability is highly dependent on its ability to attract new customers and encourage existing customers to increase their level of spend with the business, with a marketing cost/retention cost that is good and predictable. In addition, the company seeks to enter new products and change the menu offer, which may not gain the share of wallet that management seeks.
- There is execution risk in terms of expansion, which is at the heart of the investment case. This includes retaining and hiring skilled staff in a dynamic and competitive industry, and may potentially include overseas expansion where the company currently does not have a presence.
- Parsley Box is highly dependent on third-party providers for manufacturing, storage and distribution to end customers. Some of these operate without written contracts.
- Consumer tastes evolve therefore some of Parsley Box's growth will depend on management's ability to change and develop the range.
- The company is highly dependent on technology, therefore is exposed to systems problems and outages.
- Parsley Box's business does not require a high level of capital investment, therefore new entrants or companies from other sub-segments of the wider food market may enter the D2C delivery market and offer similar products with limited investment.

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