

# Joyce Corporation Ltd

## (JYC \$1.51) Speculative Buy - Initiation of Coverage

EUROZ

**Analyst**  
Seth Lizée

**Date**  
20 December 2019

**Price Target**  
\$2.20/sh

### Initiation of Coverage

#### Investment case

Joyce Corporation Ltd (JYC) is a Perth based Investment company with a strategy of identifying and partnering with quality fast growing small to medium sized businesses. Joyce currently operates three brands; KWB Group, Bedshed, and Lloyds online auctions.

We forecast continued market share growth and positive market dynamics driving strong earnings growth from JYC's core business segments into the medium term. This does not include new investment opportunities which are likely to arise over time. We believe that if JYC can meet our conservative forecasts on its current portfolio of companies that the stock can re-rate.

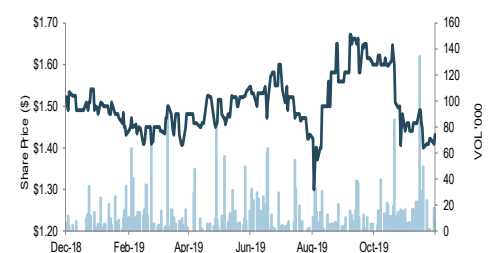
**We initiate Coverage on Joyce Corporation Ltd with a Buy recommendation and 12-month price target of \$2.20/sh implying 46% upside.**

- **Earnings Growth** – We anticipate continued double-digit earnings growth over the medium term; we forecast earnings to grow at a CAGR of 8.3% over the next 5 years. We anticipate all three businesses expanding their geographic footprints into what we view as large and in certain areas un-touched markets. In parallel to this we also anticipate KWB and Bedshed to experience modest levels of industry growth in the short-to medium term.
- **Valuation** – JYC trades at a 46% discount to our blended DCF, SOTP and P/e valuation. On our conservative estimates JYC trades on a ~7.9x forward EV/EBIT (Ex. NCI) and ~10% FCF yield. We believe should JYC be able to deliver earnings growth inline or above our forecasts that the stock should re-rate to higher multiples.
- **Dividend Yield** – JYC currently trades on a forward estimated dividend yield of 8.2% which significantly outpaces both its peers and the broader market by a factor of 2x; we view this as a key pillar in our investment thesis. JYC has historically maintained a strong dividend policy which we do not anticipate changing going forward.
- **Business model & Management** – We view JYC's emerging unique business strategy to form the corner stone of our long-term investment thesis. The strategy JYC has developed involves providing SME's funding to grow and optimise their operations through an active majority investment. The framework gives Joyce the opportunity to invest into and build businesses providing meaningful incentives to previous stake holders', this is a key concept driving Joyce's recent successes. We have not assigned any value to this, however we note the potential for JYC to outpace our price target should they locate further value accretive opportunities.

Joyce Corporation Ltd	Year End 30 June	
Share Price	1.51	A\$/sh
Price Target	2.20	A\$/sh
Valuation (Blend)	2.20	A\$/sh
WACC	10%	
Terminal Growth	3%	
Shares on issue	28	m, diluted
Market Capitalisation	42.1	A\$m
Enterprise Value	45.2	A\$m
Cash	7.0	A\$m
Debt	10.1	A\$m

Key Financials	2019a	2020f	2021f
Revenue (A\$m)	101.2	109.5	118.8
EBITDA (A\$m)	11.5	12.8	14.1
EBIT (A\$m)	9.8	10.9	12.1
EBIT (Ex NCI) (A\$m)	5.1	5.7	6.4
Reported NPAT (A\$m)	3.5	3.8	4.3
Normalised NPAT (A\$m)	3.4	3.8	4.3
Gross Cashflow (A\$m)	5.2	5.7	6.3
Capex (A\$m)	-1.8	-2.0	-2.1
Op. Free Cashflow (A\$m)	5.2	3.9	4.6
Revenue Growth (%)	11%	8%	8%
EBITDA Growth (%)	13%	11%	10%
Norm. NPAT Growth (%)	8%	11%	12%
Normalised EPS (Ac)	12.4	13.7	15.4
Norm. EPS growth (%)	8%	11%	12%
PER (x)	12.0	10.8	9.6
EV:EBIT (Ex. NCI) (x)	8.7	7.8	7.0
DPS (Ac)	11.7	12.3	12.7
Dividend Yield (%)	8%	8%	9%
Net Debt (A\$m)	3.1	2.3	0.5
Net Debt:Equity (%)	14%	8%	2%
Interest Cover (x)	10.1	11.4	12.5

#### Share Price Chart



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## Joyce Corporation Ltd

## (JYC \$1.51) Speculative Buy - Initiation of Coverage

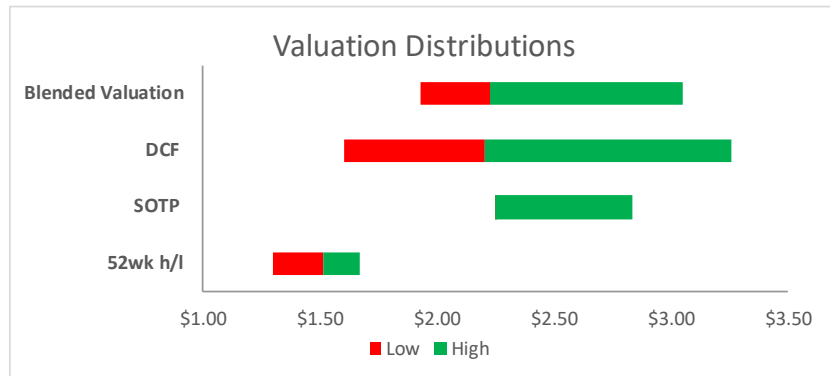
Financial Statements	2018a	2019a	2020f	2021f	Performance Ratios	2018a	2019a	2020f	2021f
(+) Bedshed	21.1	19.2	19.7	20.8	<b>Growth &amp; Margins</b>				
(+) KWB	56.3	65.0	71.9	79.1	Revenue Growth	16%	11%	8%	8%
(+) Lloyds	15.9	17.0	18.0	18.9	EBITDA Growth	10%	13%	11%	10%
(+/-) Other	-1.9	0.0	0.0	0.0	EBIT Growth	6%	7%	11%	11%
<b>Total Revenue</b>	<b>91.4</b>	<b>101.2</b>	<b>109.5</b>	<b>118.8</b>	Reported NPAT Growth	22%	2%	11%	12%
(-) COGS	-47.6	-50.6	-54.8	-59.5	Normalized Net Profit Growth	7%	8%	11%	12%
<b>Gross Profit</b>	<b>43.8</b>	<b>50.5</b>	<b>54.7</b>	<b>59.3</b>	EBITDA margin	11%	11%	12%	12%
(-) Operating Expense	-31.9	-37.0	-39.9	-43.1	EBIT margin	10%	10%	10%	10%
(-) Corp O/H	-1.7	-2.0	-2.1	-2.2	Normalized net profit margin	3%	3%	3%	4%
<b>EBITDA</b>	<b>10.2</b>	<b>11.5</b>	<b>12.8</b>	<b>14.1</b>	Effective tax rate	35%	29%	30%	30%
(-) D&A	-1.0	-1.7	-1.8	-2.0	<b>Liquidity</b>				
<b>EBIT</b>	<b>9.2</b>	<b>9.8</b>	<b>10.9</b>	<b>12.1</b>	Capex/depreciation (x)	2.0	1.1	1.1	1.1
<b>EBIT (Ex. NCI)</b>	<b>4.8</b>	<b>5.1</b>	<b>5.7</b>	<b>6.4</b>	Current ratio (x)	0.9	0.8	0.9	1.0
(-) Net Finance	-0.3	-0.3	-0.5	-0.4	Quick ratio (x)	0.7	0.6	0.7	0.8
<b>EBT</b>	<b>8.9</b>	<b>9.5</b>	<b>10.5</b>	<b>11.7</b>	Receivable days	7.7	7.7	7.7	7.7
(-) Tax Expense	-3.1	-2.8	-3.1	-3.5	Payable days	90.3	101.9	100.0	99.0
(-) Non-Controlling interest	-3.2	-3.3	-3.5	-3.9	<b>Risk Measures</b>				
(+/-) Other	0.6	0.0	0.0	0.0	Dividend Cover (x)	1.1	1.1	1.1	1.2
<b>Norm. NPAT</b>	<b>3.2</b>	<b>3.4</b>	<b>3.8</b>	<b>4.3</b>	Payout ratio (%)	91%	103%	90%	83%
(+/-) Abnormals	0.2	0.0	0.0	0.0	Net interest cover (x)	9.5	10.1	11.4	12.5
<b>Reported NPAT</b>	<b>3.4</b>	<b>3.5</b>	<b>3.8</b>	<b>4.3</b>	Net debt/equity (%)	15%	14%	8%	2%
<b>Cash flow (A\$m)</b>	<b>2018a</b>	<b>2019a</b>	<b>2020f</b>	<b>2021f</b>	<b>Returns</b>				
NPAT	3.4	3.5	3.8	4.3	Return on Invested Capital	9%	10%	11%	12%
(+) D&A	1.0	1.7	1.8	2.0	Return on Assets	6%	6%	7%	7%
(+) Impairment	0.0	0.0	0.0	0.0	Return on Equity	13%	14%	16%	17%
(+/-) Other	-0.3	0.0	0.0	0.0	<b>Share Data/Valuation</b>	<b>2018a</b>	<b>2019a</b>	<b>2020f</b>	<b>2021f</b>
<b>Gross Cashflow</b>	<b>4.1</b>	<b>5.2</b>	<b>5.7</b>	<b>6.3</b>	<b>Share Data</b>				
(-) Capex	-2.1	-1.8	-2.0	-2.1	Issued shares (m)	27.9	27.9	27.9	27.9
(-) Change in NWC	1.4	1.8	0.3	0.5	Weighted ave shares (m)	27.7	27.9	27.9	27.9
<b>Operating Free Cashflow</b>	<b>3.5</b>	<b>5.2</b>	<b>3.9</b>	<b>4.6</b>	Fully diluted shares (m)	27.9	27.9	27.9	27.9
(+/-) Sale of Other Assets	0.0	0.0	0.0	0.0	Basic EPS (c)	12.1	12.4	13.7	15.4
(+/-) Sale of PP&E	0.2	0.1	0.0	0.0	YoY change (%)	21%	2%	11%	12%
(+/-) other A/L changes	0.8	-0.2	0.0	0.0	Fully diluted EPS (c)	12.1	12.4	13.7	15.4
(+/-) Other	0.1	0.0	0.0	0.0	YoY change (%)	21%	2%	11%	12%
(+) NCI	3.2	3.3	3.5	3.9	Fully diluted normalised EPS (c)	11.4	12.4	13.7	15.4
(-) Purchase of Intangible	-2.2	-0.5	0.0	0.0	YoY change (%)	6%	8%	11%	12%
(-) Acquisition	-0.8	0.0	0.0	0.0	Dividend/share (c)	11.0	11.7	12.3	12.7
(-) Dividend Equity holders	-3.1	-3.6	-3.4	-3.5	Franking (%)	100%	100%	100%	100%
(-) Dividends NCI	-2.1	-3.6	-3.2	-3.2	Gross cashflow/share (c)	14.7	18.5	20.3	22.5
<b>Net Cashflow</b>	<b>-0.4</b>	<b>0.5</b>	<b>0.8</b>	<b>1.8</b>	NBV/share (c)	89.8	86.9	88.2	90.9
<b>BoP Net Cash</b>	<b>-3.3</b>	<b>-3.7</b>	<b>-3.1</b>	<b>-2.3</b>	NTA/Share (c)	35.7	32.7	38.8	45.0
<b>EOp Net Cash</b>	<b>-3.7</b>	<b>-3.1</b>	<b>-2.3</b>	<b>-0.5</b>	<b>Valuation</b>				
<b>Balance Sheet (\$m)</b>	<b>2018a</b>	<b>2019a</b>	<b>2020f</b>	<b>2021f</b>	PER (Basic) (x)	11.7	12.2	11.0	9.8
Cash	6.2	7.0	8.4	10.2	PER (Fully diluted) (x)	11.7	12.2	11.0	9.8
Receivables	1.9	2.1	2.3	2.5	PER (Fully diluted, normalized) (x)	12.4	12.2	11.0	9.8
Inventories	3.6	3.2	3.4	3.7	P/CFPS (x)	9.7	8.2	7.4	6.7
Other Assets	1.3	1.6	1.7	1.8	Price/NBV (x)	1.6	1.7	1.7	1.7
Other Financial Assets	0.1	0.0	0.0	0.0	Price/NTA (x)	4.0	4.6	3.9	3.4
<b>Total Current Assets</b>	<b>13.1</b>	<b>13.9</b>	<b>15.9</b>	<b>18.3</b>	Dividend Yield (%)	8%	8%	8.2%	8%
Receivables	0.6	0.4	0.4	0.4	PEG ratio (x)	2.0	1.5	1.0	0.8
Deferred Tax Assets	1.4	1.5	1.7	1.8	EV	43.9	45.8	44.4	42.6
PP&E	10.8	11.2	11.7	12.2	EV/EBIT (x)	9.5	8.9	7.9	7.1
Inventories	0.4	0.5	0.6	0.7	EV/Revenue (x)	0.5	0.4	0.4	0.4
Investment Properties	9.6	9.6	9.6	9.6	Valuation	\$2.20			
Intangibles	18.2	18.3	17.9	17.6	WACC	10.1%			
<b>Total Non-current Assets</b>	<b>41.0</b>	<b>41.6</b>	<b>42.0</b>	<b>42.4</b>	TGR	2.5%			
<b>Total Assets</b>	<b>54.1</b>	<b>55.5</b>	<b>57.9</b>	<b>60.7</b>	<b>Other Information</b>				
Payables	11.8	14.1	15.0	16.1	Major shareholders:				
Provisions	1.5	1.6	1.8	1.9	Dan Smetana (NED)				42.0%
Borrowings	0.4	0.9	0.8	0.8	John Westwood				9.5%
Provisions for Income Tax	0.8	0.2	0.2	0.2	Estimated free float:				50%
<b>Total Current Liabilities</b>	<b>14.6</b>	<b>16.8</b>	<b>17.7</b>	<b>19.0</b>	12-mth High/Low (A\$/sh)				1.67/1.30
Borrowings	10.1	9.8	9.9	9.9	Average daily volume (A\$)				16,000
Deferred Tax Liability	0.6	0.6	0.6	0.6	ASX Code				JYC
Provisions	0.8	0.9	1.0	1.0	Next result				
Total Non-Current Liabilities	11.4	11.3	11.4	11.5					
<b>Total Liabilities</b>	<b>26.0</b>	<b>28.1</b>	<b>29.2</b>	<b>30.5</b>	<b>Company Description</b>				
<b>Net Assets</b>	<b>28.1</b>	<b>27.4</b>	<b>28.8</b>	<b>30.2</b>	Joyce Corporation (JYC) is a Perth based investment company currently operating 3 core brands; these including KWB, Bedshed, and Lloyds Online Auctions. JYC has a long history originally established in 1886 with a core business built around foam and furniture manufacturing, these operations continued up until 2004 when JYC divested from its foam business. In the following years JYC went on to acquire either full or majority interest in Bedshed, KWB and most recently Lloyds Online Auctions.				
Contributed Equity	18.1	18.1	18.1	18.1					
Reserves	0.0	0.0	0.0	0.0					
Non-controlling interests	3.1	3.2	3.5	4.2					
Retained Earnings	7.0	6.1	6.5	7.3					
<b>Total Equity</b>	<b>28.1</b>	<b>27.4</b>	<b>28.2</b>	<b>29.6</b>					

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**(JYC \$1.51) Speculative Buy - Initiation of Coverage**

We initiate coverage on JYC with a blended valuation of \$2.20/sh. Our valuation is constructed as an equal DCF, SOTP, and P/e blend. We believe they capture both long term 'intrinsic' and shorter-term market valuation. The low, high, and mid points of our three valuation components as well as the 52-week high-low is presented below:



Our DCF valuation is outlined in the table below. We have forecasted free cashflows (ex. Non-controlling Interest) from 2020 to 2025 with a terminal value that is grown at 2.5% in perpetuity. These cashflows were discounted to present value using a discount rate of 10.1% to define an equity value of A\$61.3m implying A\$2.20/sh.

FY	Units	2020	2021	2022	2023	2024
EBIT	A\$m	10.9	12.1	13.3	14.4	14.6
(-) NCI	A\$m	-5.2	-5.7	-6.3	-6.8	-6.9
EBIT (JYC)	A\$m	5.7	6.4	7.0	7.6	7.7
(-) Tax	A\$m	-1.7	-1.9	-2.1	-2.3	-2.3
(+) D&A	A\$m	1.8	2.0	2.1	2.1	2.2
(-) Capex	A\$m	-2.0	-2.1	-2.2	-2.3	-2.3
(-) NWC	A\$m	0.3	0.5	0.4	0.4	0.0
FCFF	A\$m	4.1	4.8	5.2	5.6	5.2
Period	x	0.50	1.50	2.50	3.50	4.50
Disc		0.95	0.87	0.79	0.71	0.65
Disc FCFF (Ex. NCI)	A\$m	3.9	4.1	4.1	4.0	3.4
PV of FCFF	A\$m	19.5				
				WACC		
WACC	%	10.1%		Market return		8.0%
TGR	%	2.5%		Risk Free		1.5%
				Beta		1.5
TV	A\$m	70.2		CoE		11.3%
PV of TV	A\$m	45.5				
(+) PV of FCFF	A\$m	19.5		CoD		5.0%
EV (ex. NCI)	A\$m	65.0		Tax Rate		30%
(-) Debt	A\$m	-10.7		CoD-AT		3.5%
(+) Cash	A\$m	7.0				
Equity	A\$m	61.3		Target D/(D+E)		15.0%
(/) SOI	m	27.9				
JYC	A\$/sh	\$2.20		WACC		10.1%

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## Joyce Corporation Ltd

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## Sum of the Parts ("SOTP") Valuation

We have used a sum of the parts valuation for JYC as we believe it best represents shorter-term market valuations whilst effectively adjusting for the non-controlling interests ("NCI") present.

We have constructed two peer sets which we believe best relates to JYC's core business divisions: KWB Group and Bedshed. Due to the inherent difficulty to value Lloyds no practical peer set was available, in this case we have applied a conservative 5.0x EBIT multiple to the business which under our forecasts portrays the business as more of a "free option".

Bedshed			FY'20			
Ticker	Company		Mkt Cap	EV	EBIT	EV/EBIT
ADH	Adairs Limited	"Bedding/Homeware/ Furniture "	382	390	45	8.7
NCK	Nick Scali Limited	Furniture	576	573	62	9.3
Median						9.0
KWB			FY'20			
Ticker	Company		Mkt Cap	EV	EBIT	EV/EBIT
GWA	GWA Group Ltd	"Bathroom/Kitchen Supplier"	903	1,041	81	12.8
BLX	"Beacon Lighting Group"	"Light fittings/Ceiling fans/etc"	279	311	26	12.1
Median						12.1

Source: Bloomberg LP

JYC currently trades on a forward FY'20 EV/EBIT (ex. NCI) of 7.9x

We have used the EV/EBIT valuation metric on the basis of it being an effective cashflow proxy as well as effectively adjusting for the segment NCI's present.

Using our sum of the parts valuation we have implied an A\$2.18/sh valuation as shown below.

SOTP - FY20	EBIT	EV/EBIT	%Own	EV
Units	A\$m	x	%	A\$m
Bedshed	2.3	9.0	100%	20.5
KWB	10.5	12.1	51%	64.6
Lloyds	0.2	5.0	56%	0.7
Corp O/H*				-21.2
EV (Ex. NCI)				64.5
(+) Cash				7.0
(-) Debt				-10.7
Equity				60.8
(/) SOI				27.9
JYC				\$2.18
*NPV value				

Source: ESL Estimates

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## Joyce Corporation Ltd

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#### P/e Comparable (“P/e”) Valuation

We have further included a Group level comparable Price to earnings (p/e) valuation. We have constructed a blended peer set of companies which best compare to JYC’s business segments, this peer set shown below.

Joyce Corp			FY'20		
Ticker	Company	Mkt Cap	EV	NPAT	P/e
ADH	Adairs Limited	382	390	33	11.5
NCK	Nick Scali Limited	576	573	35	16.3
GWA	GWA Group Ltd	903	1,041	52	17.3
BLX	“Beacon Lighting Group”	279	311	17	16.1
Median					16.2

Source: Bloomberg LP

Applying the median forward p/e multiple to JYC’s FY'20 NPAT we derive a \$2.22/sh valuation as shown below:

P/e -2020	NPAT	P/e	Equity
Units	A\$m	x	A\$M
JYC	3.8	16.2	61.9
(/) SOI			27.9
JYC			\$2.22

Source: ESL Estimates

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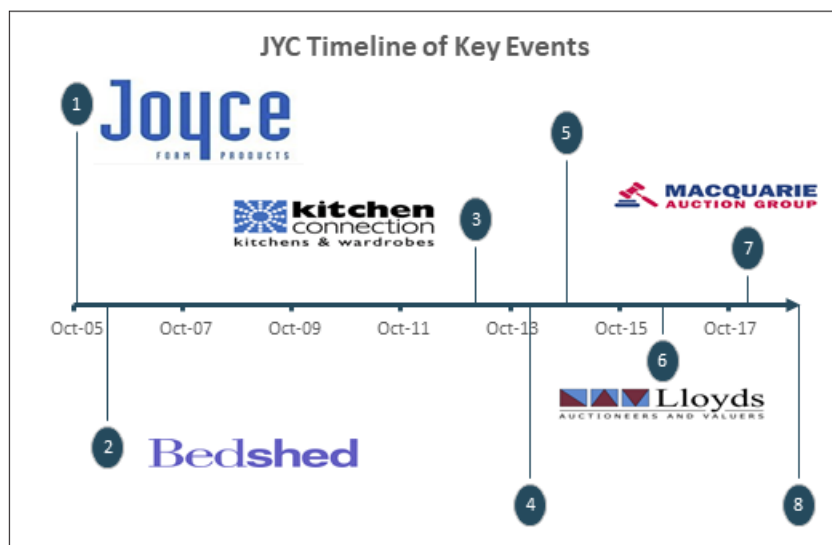
(JYC \$1.51) Speculative Buy - Initiation of Coverage

## Business Overview

Joyce Corporation Ltd (JYC) is a Perth based investment company currently operating 3 core brands; KWB Group, Bedshed, and Lloyds Online Auctions.

JYC has a long history originally established in 1886 with a core business built around foam and furniture manufacturing, these operations continued up until 2004 when JYC divested from its foam business.

In the following years JYC went on to acquire either full or majority interest in Bedshed, KWB Group and most recently Lloyds Online Auctions. A brief timeline is shown below:



Source: ESL Estimates, Figure 1

1. Sale of Joyde Foam Business - October 2005
2. Acquired remaining 51% of Bedshed - May 2006
3. First KWB Investment, A\$0.5m initial secured convertible note with further tranches totalling (Inc. Initial) up to A\$1.05m - February 2013
4. Conversion of 1st convertible note tranche into 32% equity ownership - February 2014
5. Conversion of 2nd convertible note tranche, totalling 57% equity ownership - October 2014
6. Acquired 51% of Lloyds online auctions
7. Lloyds acquires Macquarie Auction Group
8. Lloyds investment increased to 56%

Through these acquisitions Joyce has evolved into an investment company. The broad strategy is to provide small to medium sized business funding as an active stakeholder to grow and optimise business operations.

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## Joyce Corporation Ltd

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### Business Model / Strategy

Joyce's business model goes beyond its current business brands and is best described as a partnership investment model. The investment company operating model has developed in recent years through its investments in recent small to medium sized businesses (SME).

The strategy Joyce has developed involves providing SME's funding to grow and optimise their operations through an active majority investment. The framework allows Joyce the opportunity to invest into, and build business providing meaningful incentives to previous stake holders, a key concept driving Joyce's successes.

We believe the business models' success can be broadly tied back to the concept of "founder led companies" and their relative performance. The outcome being "founder led companies" outperform other companies (figure 2) and do so by a significant amount.



Source: Harvard Business Review, Figure 2

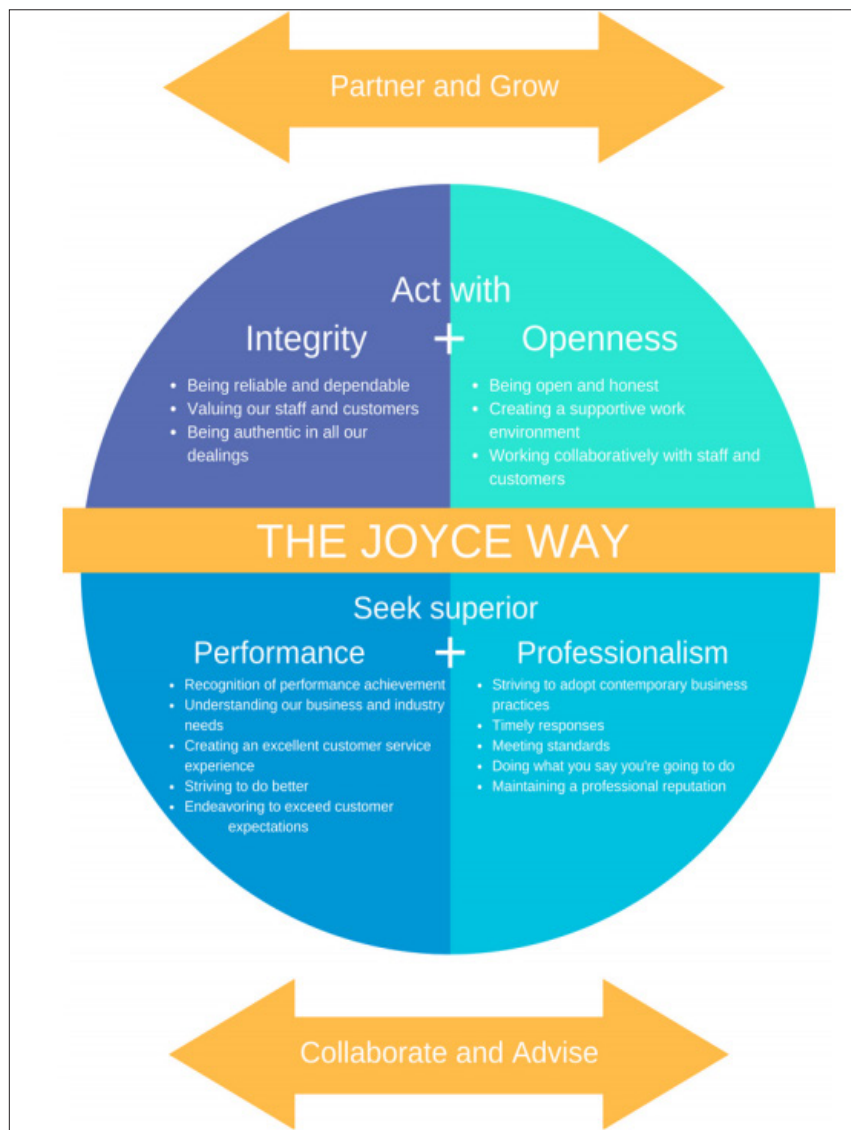
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This concept is further referred to as “The Joyce Way” as illustrated below:



Source: JYC 2019 Annual Report, Figure 3

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## Joyce Corporation Ltd

### (JYC \$1.51) Speculative Buy - Initiation of Coverage

The value creating process can be described as a variation of a “Rollup” strategy. Joyce creates value through Margin expansion, Revenue Growth, and Market re-valuation.

**Margin Expansion** – Margins are improved in the acquired businesses firstly through synergies (SG&A) followed by operational improvements.

- **Synergies** – a number of synergies are typically created through economies of scale. This is done by removing duplicated costs as well as lowering administrative costs by using in house resources which may not have been previously economical as a standalone business.
- **Operational Improvement** – Joyce’s knowledgeable and experienced executive team and board offer leadership and strategic support to explore all organisational opportunities to help each business realise its full potential.

**Revenue Growth** – Joyce is capable of creating growth by providing financial support and operational strategy. This may give previously small businesses the means and support to realise their full market footprint.

- **Financial Support** – Growth becomes more feasible and accessible under this model as each business now has access to Joyce’s balance sheet as well as its ability to source further capital through both equity and debt.

**Market Re-valuation** – Joyce also generates value through multiples arbitrage between private and public markets. Joyce’s investments would be expected to occur on smaller multiples as the businesses are both private and small, with further discount offered should it also be distressed. These underlying earnings will then command a higher multiple upon being integrated into Joyce as a publicly listed business.

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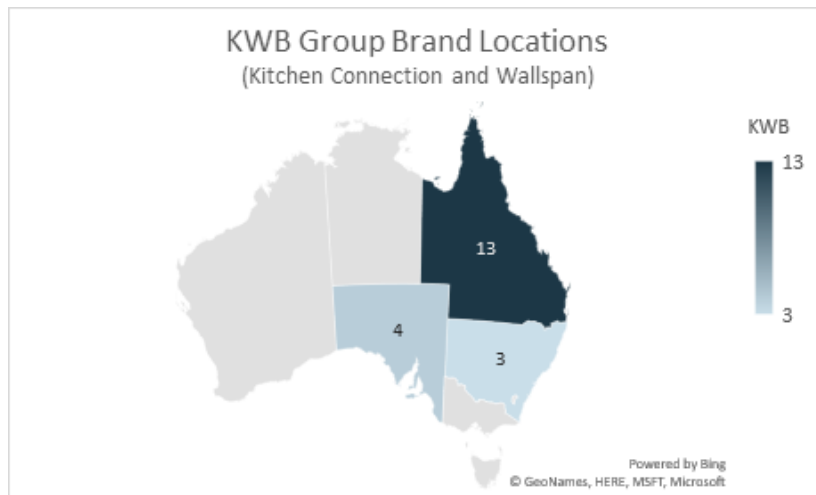
## Joyce Corporation Ltd

### (JYC \$1.51) Speculative Buy - Initiation of Coverage

#### KWB Group

KWB Group (KWB) is one of Australia's leading home renovation brands offering product solutions for customers who are looking to renovate kitchens and wardrobes. KWB Group operates under two brands which include Kitchen Connection and Wallspan.

As of 2019 there were 20 combined locations in total, 16 Kitchen Connection and 4 Wallspan. the geographic distribution of combined locations is shown below:

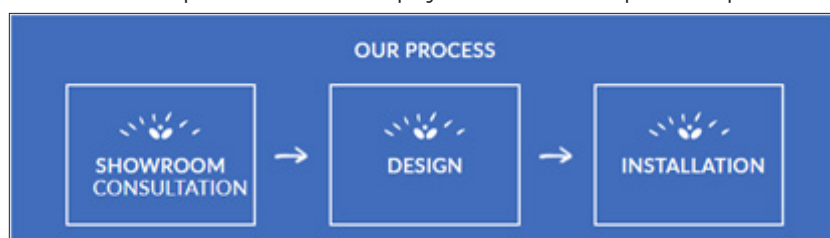


Source: Kitchen Connection Website, Figure 4

Joyce currently owns 51% of KWB Group. Joyce originally provided KWB ~A\$1.05m in financial support via two tranches of convertible notes; in the following year it converted both tranches for a final ownership of ~57%. This ownership was diluted to the current 51% as KWB management clawed back 6% via hitting milestones.

KWB in recent years has been able to create a successful brand. Operations are straight forward providing high quality free design and then selling kitchens, at the same time capital requirements and associated installation risk are low as KWB doesn't manufacture or install the kitchens and wardrobes.

The sale process involves potential customers attending one of the 20 showrooms nationally whereby example kitchens and related products are shown, this followed by a free in-home consultation where KWB provides detailed designs. If a design is agreed upon then KWB will provide a quote and sell the kitchen building materials and products while also recommending potential installers. This business model essentially allows KWB to operate on a negative working capital basis as customers are progressively required to provide deposits throughout the installation period with a final payment received upon completion.



Source: Kitchen Connection Website, Figure 5

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# Joyce Corporation Ltd

## (JYC \$1.51) Speculative Buy - Initiation of Coverage

Key product offerings from Kitchen Connection and Wallspan include:

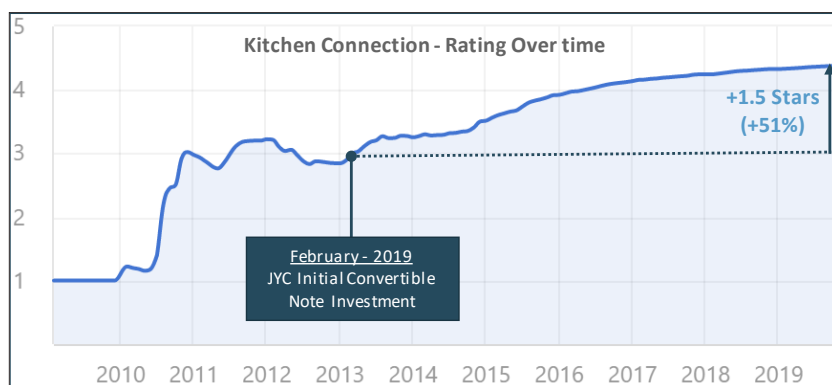
### Kitchens

- Benchtops
- Cabinets
- Appliances
- Sinks & Tapware
- Storage and Accessories
- Flooring

### Wardrobes

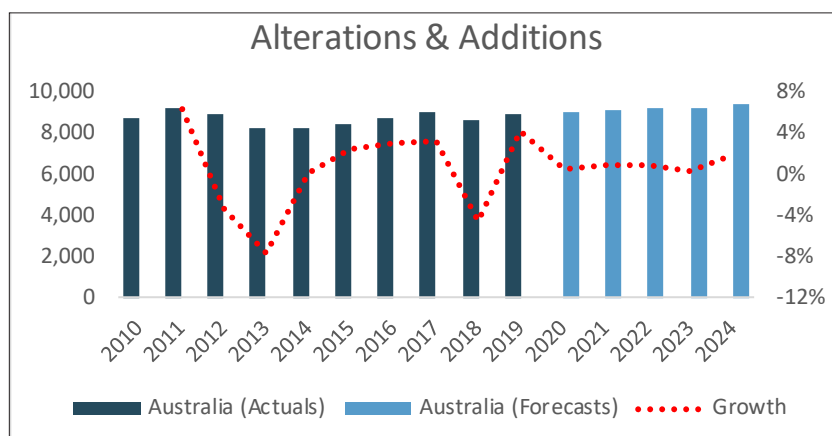
- Sliding Wardrobe Doors
- Built in Wardrobes and Internals
- Walk in Wardrobes
- Wardrobe Accessories

Since Initially investing in the business in 2013 Kitchen Connections average rating has consistently increased by a cumulative +1.5 Stars (+51%) to its current 4.4 Star rating. This industry leading (Figure 9) customer rating is a demonstration to JYC's emerging pedigree in selecting and growing businesses into national leaders.



Source: Product Review.com.au, Figure 6

We view KWB's kitchen and wardrobe business as being primarily driven by the overall renovations industry (alterations & additions) which forms a sub-set of the broader residential building industry. The alterations & additions sector has historically been relatively stable compared to the overall residential building industry. Outlook on Australian total alterations & additions work done going forward is relatively stable with slight growth expected compared to a short-term cyclical downturn in the overall residential building industry expected.



Source: Master Builders Industry Forecast, Aug 2019, Figure 7

Going forward we expect this stable growth to be reflected in average revenue/location for KWBs brands. We see further expansion opportunity present for KWB both within its current eastern footprint (NSW especially) as well as into WA where it currently has no presence.

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## Kitchen Connection Customer Reviews

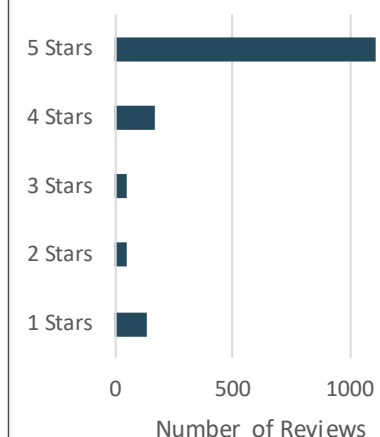


Figure 8

Key Players	Rating	Reviews
Kitchen Connection	4.4	1,503
Freedom Kitchens	3.5	1,001
Granite Transformations	3.5	119
Stegbar	3.3	647
The Good Guys Kitchens	3.2	537
Kaboodle Kitchens	2.4	104
IKEA	1.9	841

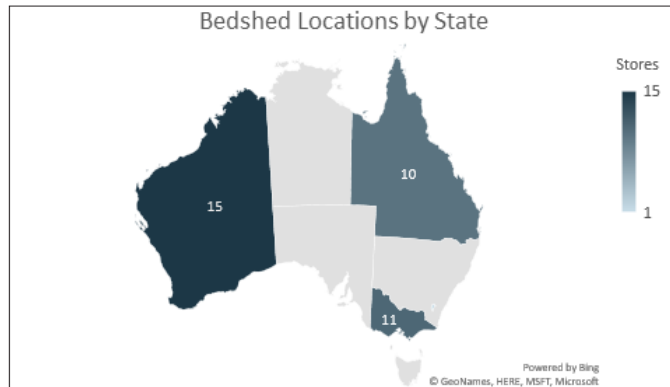
Source: Product Review.com.au, Figure 9

## Joyce Corporation Ltd

### (JYC \$1.51) Speculative Buy - Initiation of Coverage

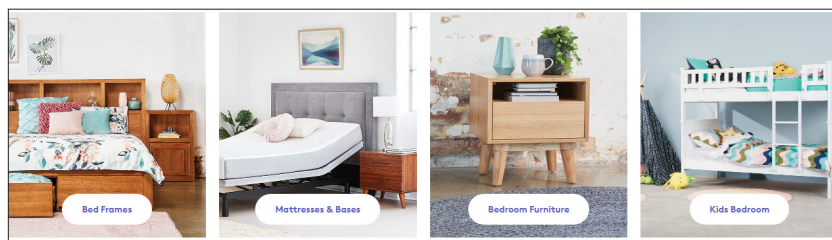
#### Bedshed

Bedshed is a specialist bedding and bedroom furniture store first Started in Perth in 1980. Since then Bedshed has expanded its footprint into Queensland and South Australia. As of 2019 there are 37 Bedshed locations and growing. 32 of the current locations are franchised with the remaining 5 being company owned.



Source: Bedshed Wesbite, Figure 10

Bedshed's specialist product offering includes: Bed Frames, Mattresses & Bases, Bedroom Furniture, and Kids Bedrooms.



Source: Bedshed Wesbite, Figure 11

In recent years the specialist bedding and furniture market has been quite difficult due to a number of factors which include weak recent consumer sentiment and more medium-term change in the way people buy mattresses.

The industry has been changing in recent years with big department stores facing the greatest pain as consumers look to specialist retailers and online sellers who offer a greater range as well as better services. Emerging "Bed-in-a-Box" mattresses offered by certain manufacturers is increasing the competition which we would expect to continue.

Despite this difficult market Bedshed has been able to grow its market share and improve margins. Since 2015 Bedshed has increased in franchise presence by 52% to 32 locations as of this year, revenue growth over the same period was ~43%; slightly lower as average revenue/location shrank. Despite this Bedshed has been able to grow its operating earnings through improving margins.

Going forward we see further market share growth available for Bedshed as it continues to expand locations. We note Bedshed's current presence size relative to its peers as the potential market size;

Key Players	Locations
Forty Winks	106
Beds R Us	78
Snooze	50
<b>Bedshed</b>	<b>37</b>
Sleeping Giant	26

Figure 12

Bedshed	Locations
WA	15
VIC	11
QLD	10
ACT	1
<b>Total</b>	<b>37</b>

Figure 13

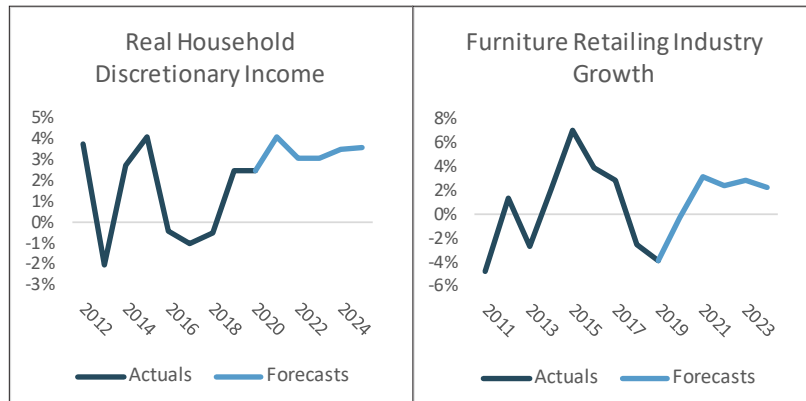
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## Joyce Corporation Ltd

### (JYC \$1.51) Speculative Buy - Initiation of Coverage

We also expect modest growth in revenue per location as real household discretionary income is forecasted to pick up going forward (Figure 14) which is further expected to flow into the overall furniture retailing industry growth (Figure 15).



Source: IBISWorld, Figure 14 (left), 15 (right)

### Lloyds Online Auctions (Lloyds)

Lloyds is one of Australia's premium auctioneering and valuation firms, founded some 15 years ago it now employs ~80 staff to provide a comprehensive auctioning and valuation service.

Lloyds have created key partnerships with:

- Leading Banks and Financiers (Asset Rationalisation)
- Forensic Accountants (Corporate Recovery and Insolvency)
- Legal Professionals (Reports and Arbitration)
- Insurance and Loss Adjusters (Asset Rationalisation)
- Private Clients

Furthermore, Lloyds is the authorised Auctioneers for QLD Government.

The specific government agencies involved include:

- QLD Transport & Main Roads (appointed under SOA - TMR 19/14 - Provision of Disposal Services for Fleet Items)
- QLD Police Service
- Gold Coast Waterways Authority
- City of Gold Coast
- QLD Fire and Emergency Services
- Appointed the sole Auctioneer for the entire sale of all assets from the 2018 Gold Coast Commonwealth Games

In July 2016 Joyce strategically acquired 51% of Lloyds for an initial sum of A\$6m, this was further increased to 56% in January 2019 through the capitalisation of existing loans.

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## Joyce Corporation Ltd

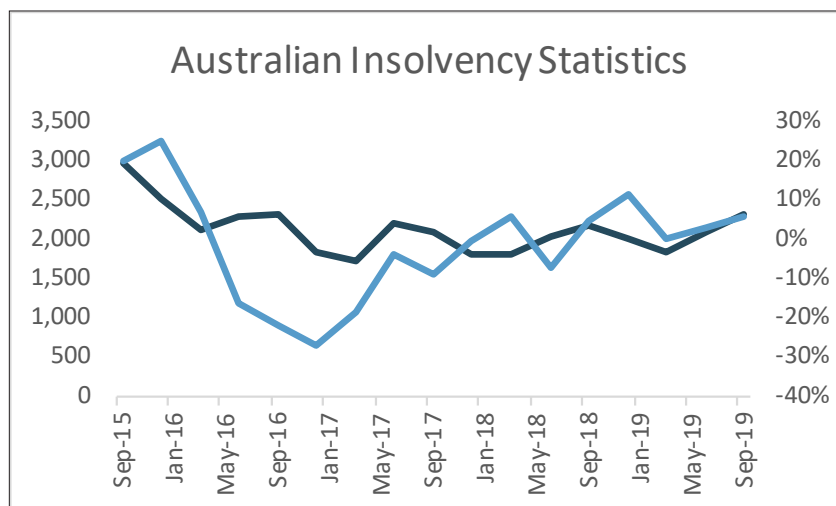
### (JYC \$1.51) Speculative Buy - Initiation of Coverage

Since Joyce's initial investment in 2016, Lloyds has grown its gross auctioning turnover from \$48m to \$125m in 2019; however, over the same period Lloyds has faced margin pressure due to a 31-year low in insolvency rates (Historic Business) in addition to restructuring undertaken in the business. This is explored further in the forecast section.



Source: Lloyds Website, Figure 16

The Insolvency market is showing early signs of having bottomed out, ASIC insolvency statistics have shown the number of companies entering external administration have increased (pcp) in each of the last 5 quarters.



Source: ASIC, Figure 17

Overall, we expect Lloyds relatively new verticals (e.g. Classic Cars) to continue supporting revenue growth into the medium term, and note the potential for a resurgence in the insolvency market. Until this resurgence materialises we expect margins to remain relatively flat and have conservatively forecasted this going forward. However, we observe that new entrants into the market (e.g. Quadrant private equity purchasing Grays Online in July) may increase competition in the short term.

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## Joyce Corporation Ltd

## (JYC \$1.51) Speculative Buy - Initiation of Coverage

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## Forecasts

We provide a segment breakdown and consolidated P&L below:

FY	2018	2019	2020	2021	2022
	(A\$m)	(A\$m)	(A\$m)	(A\$m)	(A\$m)
(+) Bedshed	21.1	19.2	19.7	20.8	21.7
(+) KWB	56.3	65.0	71.9	79.1	86.4
(+) Lloyds	15.9	17.0	18.0	18.9	19.7
(+/-) Other	-1.9	0.0	0.0	0.0	0.0
<b>Total Revenue</b>	<b>91.4</b>	<b>101.2</b>	<b>109.5</b>	<b>118.8</b>	<b>127.8</b>
(-) COGS	-47.6	-50.6	-54.8	-59.5	-64.0
<b>Gross Profit</b>	<b>43.8</b>	<b>50.5</b>	<b>54.7</b>	<b>59.3</b>	<b>63.8</b>
(-) OPEX	-31.9	-37.0	-39.9	-43.1	-46.2
(-) Corp O/H	-1.7	-2.0	-2.1	-2.2	-2.3
<b>EBITDA</b>	<b>10.2</b>	<b>11.5</b>	<b>12.8</b>	<b>14.1</b>	<b>15.4</b>
(-) D&A	-1.0	-1.7	-1.8	-2.0	-2.1
<b>EBIT</b>	<b>9.2</b>	<b>9.8</b>	<b>10.9</b>	<b>12.1</b>	<b>13.3</b>
KWB	8.3	9.5	10.5	11.5	12.6
Bedshed	1.9	2.1	2.3	2.5	2.7
Lloyds	0.7	0.2	0.2	0.3	0.3
Corporate	-1.7	-2.0	-2.1	-2.2	-2.3
(-) Net Fin.	-0.3	-0.3	-0.5	-0.4	-0.4
<b>PBT</b>	<b>8.9</b>	<b>9.5</b>	<b>10.5</b>	<b>11.7</b>	<b>12.9</b>
(-) Tax	-3.1	-2.8	-3.1	-3.5	-3.9
(-) NCI	-3.2	-3.3	-3.5	-3.9	-4.3
<b>NPAT Norm.</b>	<b>3.2</b>	<b>3.4</b>	<b>3.8</b>	<b>4.3</b>	<b>4.7</b>
(+/-) Abnormals	0.2	0.0	0.0	0.0	0.0
<b>NPAT</b>	<b>3.4</b>	<b>3.5</b>	<b>3.8</b>	<b>4.3</b>	<b>4.7</b>
Rev Growth	16%	11%	8%	8%	8%
EBITDA Growth	10%	13%	11%	10%	9%
EBIT Growth	3%	7%	10%	12%	10%
NPAT Norm. Growth	7%	8%	11%	12%	10%
NPAT Growth	22%	2%	11%	12%	10%

Source: ESL Estimates, JYC Annual Reports

## Commentary:

- KWB Group is expected to lead the pack in terms of earnings growth into the near term through additional locations and positive market dynamics growing average store revenue.
- Modest earnings growth forecasted from Bedshed as it continues to roll out new locations and experience positive industry tailwinds.
- Group level Operational leverage and product mix forecasted to drive bottom line NPAT margin expansion.

Revenue Composition

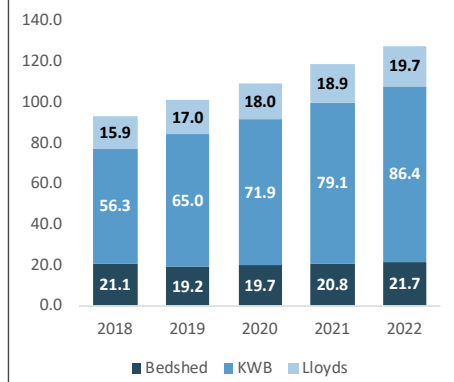


Figure 18

EBIT Composition

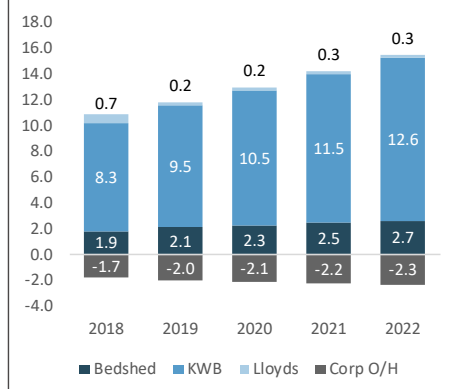
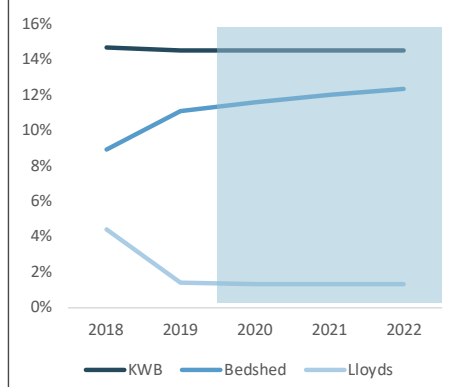


Figure 19

Segment EBIT Margins



Source: ESL Estimates, Figure 20

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# Joyce Corporation Ltd

## (JYC \$1.51) Speculative Buy - Initiation of Coverage

### KWB Group

We have modelled KWB group from a consolidated level. We have simplified our forecasts of the business by breaking it down to showrooms, average showroom revenue, and overall margin.

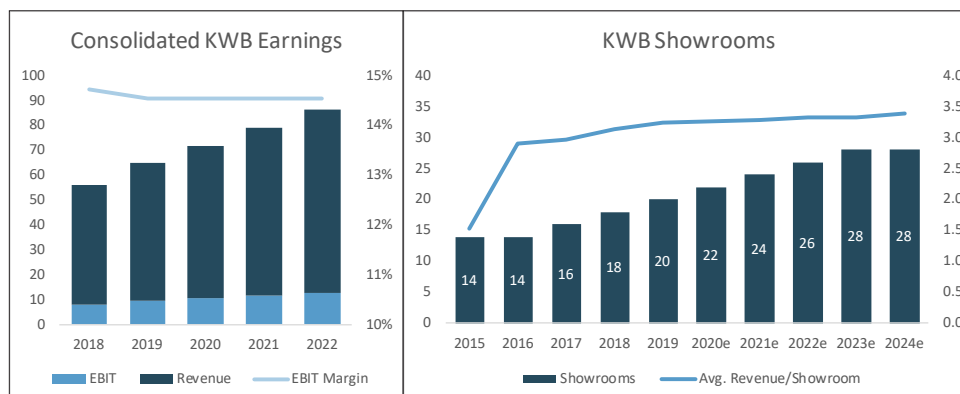
- **Showrooms** – We have kept our conservatively forecasted showroom openings broadly in line with historical rates, our FY'20 forecast assumes 2 new locations compared to management's guided 3 new locations for the year.
- **Average Revenue** – We forecast average showroom turnover in line with the modest growth of the alterations & additions market.
- **Margins** – We maintain flat margins however note there is potential leverage to this as the business expands;

KWB Group	Units	2018	2019	2020e	2021e	2022e	2023e	2024e
JYC Ownership	%	51%	51%	51%	51%	51%	51%	51%
Showrooms	#	18	20	22	24	26	28	28
(+/-) Change	#	2	2	2	2	2	2	0
Avg. Rev./Showroom	A\$m	3.1	3.2	3.3	3.3	3.3	3.3	3.4
% Growth	%	6%	4%	1%	1%	1%	0%	2%
<b>Total Revenue</b>	<b>A\$m</b>	<b>56.3</b>	<b>65.0</b>	<b>71.9</b>	<b>79.1</b>	<b>86.4</b>	<b>93.3</b>	<b>95.1</b>
% Growth	%	19%	15%	11%	10%	9%	8%	2%
<b>Total EBIT</b>	<b>A\$m</b>	<b>8.3</b>	<b>9.5</b>	<b>10.5</b>	<b>11.5</b>	<b>12.6</b>	<b>13.6</b>	<b>13.8</b>
EBIT Margin	%	15%	15%	15%	15%	15%	15%	15%

Source: ESL Estimates

### Key Commentary:

- **Revenue** – We anticipate continued double-digit revenue growth into the medium term as we forecast KWB to add further showrooms and modestly grow the average location turnover.
- **Earnings** – We forecast EBIT growth inline with revenue growth as we have conservatively anticipated flat EBIT margins into the future.



Source: ESL Estimates, Figure 21, 22

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## Joyce Corporation Ltd

## (JYC \$1.51) Speculative Buy - Initiation of Coverage

## Bedshed

We have forecast Bedshed by deconstructing it into franchises and company owned stores, these are further simplified into stores, average revenue per store and overall margin.

- **Stores** – We anticipate continued growth in the number of franchises locations in line with management's outlook citing strong demand to expand Bedshed's network from both new and existing franchisees. We do not anticipate any further company owned locations.
- **Store Revenue** – We forecast flat growth in average store revenue into FY'20, which we anticipate will be followed by modest growth in the near term; this broadly in line with forecast furniture retailing industry growth estimates. We also indicate the potential for growth beyond our conservative forecasts with from the launching of a new bedroom furniture range and new eCommerce platform in the coming year.
- **Margins** – We have conservatively maintained margins going forward however note the potential for further expansion from deployment of enhanced systems across remaining franchise stores

Bedshed	Units	2018	2019	2020e	2021e	2022e	2023e	2024e
JYC Ownership	%	100%	100%	100%	100%	100%	100%	100%
Franchises	#	28	32	35	38	40	42	42
(+/-) Change	#	2	4	3	3	2	2	0
Avg. Rev/Franchise	A\$k	188.8	170.8	170.3	175.7	180.0	185.1	189.2
% Growth	%	15%	-10%	0%	3%	2%	3%	2%
Total Franchise Revenue	A\$m	5.3	5.5	6.0	6.7	7.2	7.8	7.9
Bedshed Stores Revenue	A\$m	15.8	13.8	13.7	14.2	14.5	14.9	15.3
Revenue Growth	%	21%	-13%	0%	3%	2%	3%	2%
<b>Total Revenue</b>	<b>A\$m</b>	<b>21.1</b>	<b>19.2</b>	<b>19.7</b>	<b>20.8</b>	<b>21.7</b>	<b>22.7</b>	<b>23.2</b>
<b>Total EBIT</b>	<b>A\$m</b>	<b>1.9</b>	<b>2.1</b>	<b>2.3</b>	<b>2.5</b>	<b>2.7</b>	<b>2.9</b>	<b>2.9</b>
Franchise Margin	%	27%	30%	30%	30%	30%	30%	30%
Bedshed Stores Margin	%	3%	4%	4%	4%	4%	4%	4%

Source: ESL Estimates

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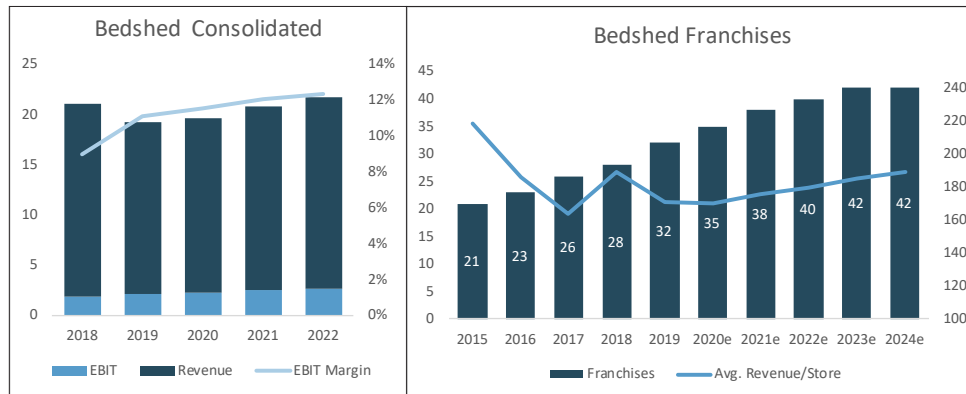
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# Joyce Corporation Ltd

## (JYC \$1.51) Speculative Buy - Initiation of Coverage

### Key Commentary:

- **Revenue** – We forecast modest revenue growth in the near term which we anticipate will increase into the medium term; this being the product of new locations and forecast overall industry growth.
- **Earnings** – We forecast EBIT growth inline with revenue growth as we have conservatively anticipated flat EBIT margins into the future.



Source: ESL Estimates, Figure 23, 24

### Lloyds Online Auctions

We have forecast Lloyds online Auctions in a simple format due to the complexity of the business and opacity of the breakdown.

- **Auctioning Turnover** - We anticipate single digit turnover growth as Lloyds continue to expand new business verticals, these including the continued expansion of classic cars – especially into new WA and Victoria markets.
- **Buyer's premium** – We have assumed the current average buyers' premium stays as it is, however we note this can vary depending individual auctioning items.
- **Margins** – We anticipate margins being flat until a re-emergence of the insolvency market occurs.

Lloyds Online	Units	2018	2019	2020e	2021e	2022e	2023e	2024e
JYC Ownership	%	51%	56%	56%	56%	56%	56%	56%
Auctioning Turnover	A\$m	111	125	132	139	145	149	151
% Growth	%	26%	12%	6%	5%	4%	3%	1%
Average Buyers Premium*	%	14%	14%	14%	14%	14%	14%	14%
<b>Revenue</b>	<b>A\$m</b>	<b>15.9</b>	<b>17.0</b>	<b>18.0</b>	<b>18.9</b>	<b>19.7</b>	<b>20.2</b>	<b>20.4</b>
% Growth	%	13%	7%	6%	5%	4%	3%	1%
Total EBIT	A\$m	0.7	0.2	0.2	0.3	0.3	0.3	0.3
<b>EBIT Margin</b>	<b>%</b>	<b>4%</b>	<b>1.4%</b>	<b>1.4%</b>	<b>1.4%</b>	<b>1.4%</b>	<b>1.4%</b>	<b>1.4%</b>

\*We have backwards engineered these figures from available information and general assumptions, these figures are estimates and may be used indicatively.

Source: ESL Estimates,

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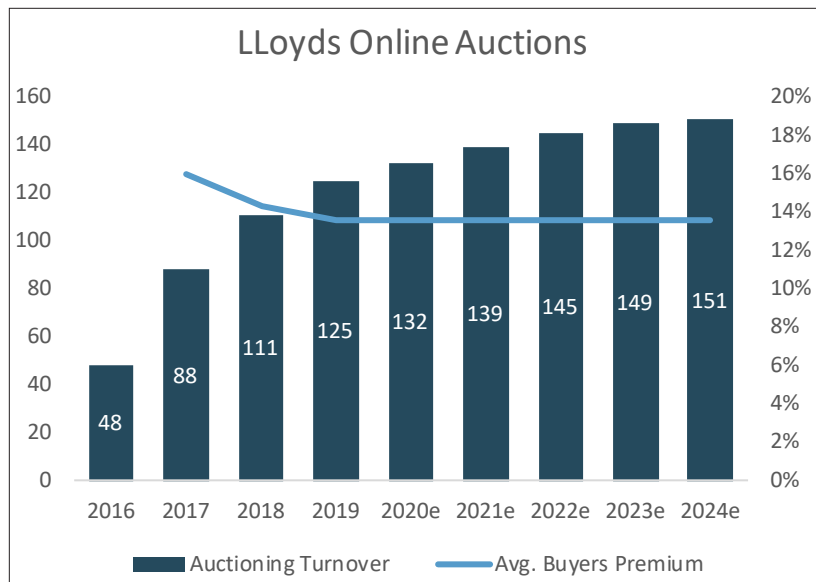
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## Joyce Corporation Ltd

### (JYC \$1.51) Speculative Buy - Initiation of Coverage

#### Key Commentary:

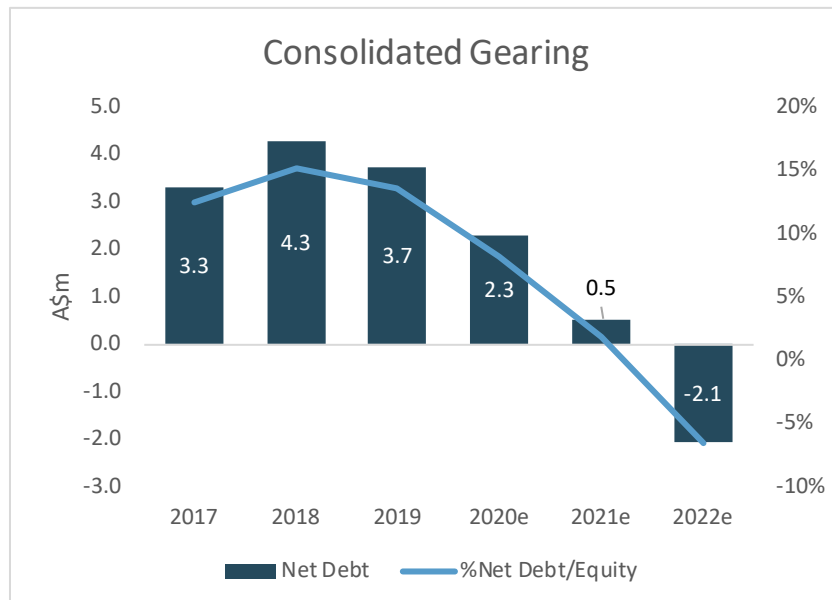
- **Revenue** – We anticipate single digit revenue growth from Lloyds as auctioning turnover growth flows directly into revenue growth
- **Earnings** – We anticipate flat earnings going forward broadly in line with FY'19 as we forecast flat margins.



Source: ESL Estimates, Figure 25

## Financial Analysis

### Balance Sheet



Source: ESL Estimates, Figure 26

#### Key Commentary:

- JYC balance sheet is relatively strong in our view with a robust -\$7m cash balance and a low level of gearing (~15% Net Debt/equity)

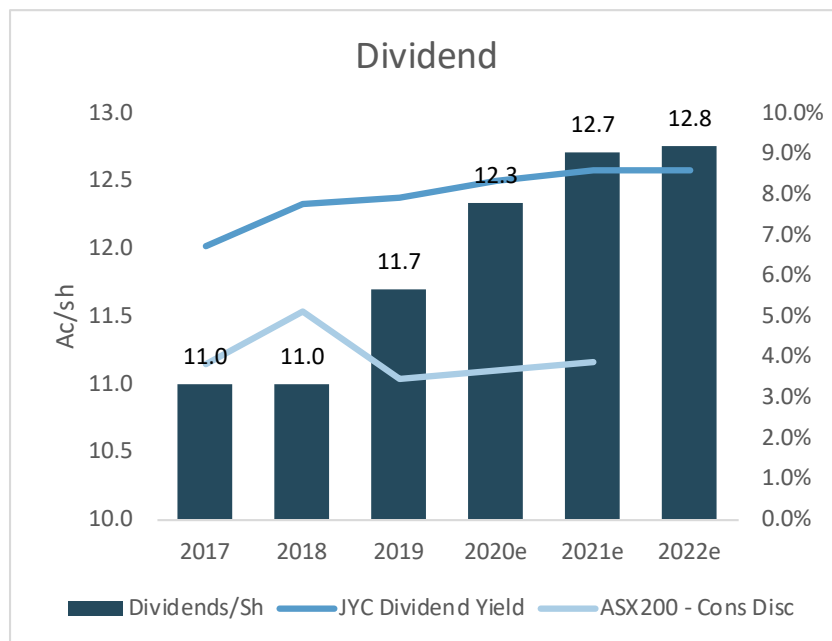
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# Joyce Corporation Ltd

(JYC \$1.51) Speculative Buy - Initiation of Coverage

## Capital Management – Dividends



Source: ESL Estimates, Figure 27

### Key Commentary:

- Historically JYC has maintained a strong and stable dividend policy having paid dividends in every of the last 20 years.

## Investment Risks

Issue / Risk	Likelihood	Impact	Description
Economic Health /Consumer Discretionary	Med-low	Med-Low	We anticipate a low likelihood of a significant downturn in consumer discretionary spending. We further believe that JYC is well placed to withstand a significant downturn through the structure of its holdings, specifically Lloyds which would likely perform very strongly in such a scenario and in our view balance out the other businesses.
Funding	Low	Low	We do not anticipate any problems with JYC's ability to fund growth of its business as it remains very well capitalised with a low level of gearing in addition to strong cashflows. The only scenario where this may be of potential issue would be regarding a further acquisition, as before we don't see any major issues with this as has historically been.
NCI/OEI	Low	Low	We see a low likelihood of any issues with JYC's non-controlling interests (NCI) and impacts from them, both through JYC's majority (51%) stakes and/or its specific franchises structures

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## Joyce Corporation Ltd

(JYC \$1.51) Speculative Buy - Initiation of Coverage

### Corporate Governance

#### Board of Directors

##### Mike Gurry AM - Chairman

Appointed: Dec 2018 (~1 Years, previously NED since 2008)

Qualifications: BSc (UWA), Dip AICD, FAIM, SF Fin, FAICD

Experience: Mike has worked as a senior executive for IBM and CEO of both an international management consulting company and a large WA based insurance company. He has consulted to government at both stated and federal level and worked in numerous industries including banking, insurance, health, manufacturing, mining, transport, and energy.

Responsibilities: Chair Lloyds Board, Director Bedshed, Audit & Risk Committee Member, Remuneration Committee Member, Nomination Committee Member, Chair of KWB (until Aug 2019), KWB Board Member.

##### Karen Gadsby - Deputy Chair

Appointed: May 2019 (>1 Years, previously NED since July 2017)

Qualifications: B. Comm, FCA, MAICD

Experience: Karen has 18yrs chair/NED experience and has held directorships across the publicly listed, private, government, and not-for-profit sectors within Australia including Strategen Environmental Consulting, Landgate, Forest Products Commission, Western Health (Vic.), Community First International, GMHBA (Vic.).

Responsibilities: Deputy Chair, Chair KWB, Lloyds Alternate Board Director, Director Bedshed, Audit and Risk Committee Chair, Remuneration Committee Member, Nomination Committee Member.

##### Dan Smetana - Non Executive Director

Appointed: 1984 (Previously Chairman for 34yrs before stepping down in Nov 2018)

Qualifications: Dip Comm, FCPA, FAIM, FAICD

Experience: Dan has had 50yrs chair/NED experience and has held directorships across the publicly listed, private, government and not-for-profit sectors within Australia and internationally including Defence Reserves Support Council - WA, Youth Focus, Western Power, West Australian Symphony Orchestra, Edge Employment and WA Federation of PCYC. He is a certified practicing accountant (CPA) who has worked across many industries including mining, manufacturing, and retail.

Responsibilities: Director Bedshed, Audit and Risk Committee Member, Remuneration Committee Member, Nomination Committee Member

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## Joyce Corporation Ltd

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#### Tim Hantke – Non Executive Director

Appointed: 2006

Qualifications: B. Comm, FAIM, FAICD

Experience: Tim has 29yrs NED experience across publicly listed, private, government, and not-for-profit sectors within Australia including Snap Printing and lifeline, as well as serving on various advisory boards for the federal government. He has worked in a wide variety of industries including building materials, food manufacturing, government relations, printing and franchises.

Responsibilities: Director Lloyds, Director KWB, Chair Bedshed, Audit and Risk Committee Member, Remuneration Committee Member, Nomination Committee Chair.

#### Anthony Mankarios – Non Executive Director

Appointed: 2008 (Until 24th Nov 2019)

Qualifications: MBA, FAICD, CFTP

Experience: Anthony has over 30yrs experience as a company director and has chaired several private companies. These directorships have been across the publicly listed and private sectors within Australia and internationally including Inventis, Oilfields Holdings, Tangsahan Hengfen Painting accessories Co (China) and Foshan Advcorp Scaffold (China). Anthony is a certified Finance and Treasury Professional (CFTP) and has worked as a senior executive, leading businesses both nationally and internationally in multiple sectors including retail, manufacturing, property, and wholesale.

Responsibilities: Director Lloyds (to Aug 19), Director KWB (to Aug 19), Director Bedshed (to Aug 19), Audit and Risk Committee Member, Remuneration Committee Member, Nomination Committee Member.

#### Travis McKenzie – Non Executive Director

Appointed: July 2019

Qualifications: LL. B, B. Comm.

Experience: Travis has 5yrs executive director experience on private boards within Australia including Celsius Developments. He is a qualified lawyer who has worked in derivatives and foreign exchange trading in Europe and the Americas as well as in Australia. Travis has worked in Multiple industries and more recently has focused on property and property development.

Responsibilities: Audit and Risk Committee Member, Remuneration Committee Member, Nomination Committee Member.

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## Joyce Corporation Ltd

### (JYC \$1.51) Speculative Buy - Initiation of Coverage

#### Key Executives - Joyce Corporation

##### Keith Smith - Act. CEO/ Co. Secretary

Appointed: May 2018

Qualifications: Accounting Bsc (Hons), ACA, CA ANZ, AICD, GIA (cert).

Experience: Keith has previously worked across Europe and the Americas which allows a global perspective to be taken and the ability to present different solutions to local issues. Since coming to Australia, he has led finance, technology, operations and company secretarial functions for publicly listed and not-for-profit organisations. Exposure to technology in its broadest form and recent emerging technology has provided Keith with unique experiences and awareness of the potential 'digitalisation' has for commercial entities. Keith has led divisions of a large international corporate during his time in the United States. From this he has extensive experience in successfully leading businesses in diverse industries achieve their commercial and cultural goals

##### Derek Fowler - Chief Financial Officer

Appointed: Aug 2019 (>1 Years)

Qualifications: Bachelor of Business, CPA, GAILD

Experience: Derek has 20+ years senior finance professional with operations, commercial and management experience in the Oil & Gas, Mining Services, Construction and Retail industries. Significant experience gained in the areas of commercial management, financial control, project control & reporting, compliance, governance, company secretarial administration, contracts management, due diligence, M&A, international tax and legal compliance in Africa & Asia Pacific. He is experienced in managing technical manpower consultancy business in complex and international scenarios. Experience gained as Director and Company Secretary of multiple Australian subsidiaries of a global oil and gas service provider.

#### Executives - KWB Group

John Bourke - Managing Director

Chris Palin - Finance Director

#### Executives - Bedshed

Gavin Culmsee - General Manager (Bedshed Franchising)

#### Executives - Lloyds Online Auctions

Andrew Webber - Founder

Lee Hames - COO and Director

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## Joyce Corporation Ltd

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## Top shareholders

Top 20 Shareholders*		Shares	% Held
1	Daniel Smetana	10.20	36.47
2	John Westwood	2.65	9.48
3	One Managed Investment Funds Limited	1.00	3.58
4	Mercantile Investment Company Limited	1.00	3.58
5	Donald Teo	0.99	3.54
6	Peduncle Pty Ltd	0.82	2.92
7	Starball Pty Ltd	0.53	1.91
8	Treasure Island Hire Boat Company Pty. Ltd.	0.50	1.80
9	Vanward Investments Limited	0.49	1.75
10	Conard Holdings Pty. Ltd.	0.35	1.24
11	Martehof Pty Ltd	0.22	0.80
12	Anthony Mankarios	0.21	0.74
13	Epic Trustees Limited	0.20	0.72
14	Felix Smetana	0.19	0.68
15	DMX Asset Management Limited	0.17	0.62
16	Janine Hoffman	0.17	0.60
17	Falcon Fire Protection Pty. Ltd.	0.17	0.60
18	Julia Roberman	0.13	0.45
19	Pynland Pty Limited	0.07	0.26
20	John Bourke	0.07	0.23
<b>Total</b>		<b>20.12</b>	<b>71.95</b>

\*Source: IRESS, as of 30 Nov 2019

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