Eat N' Go Limited

2019 Final Corporate Rating Review Report

Agusto&Co.

Research, Credit Ratings, Credit Risk Management

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Eat N' Go Limited

Rating Assigned:

Bbb

This refers to a company with satisfactory financial condition and adequate capacity to meet obligations as and when they fall due.

Outlook: Stable
Issue Date: 4 October 2019
Expiry Date: 30 June 2020

Previous Rating: Bbb

Industry: Quick Service Restaurant

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Rating Rationale

- Agusto & Co. hereby affirms the **"Bbb"** rating assigned to Eat N' Go Limited ("Eat N' Go", "ENG" or "the Company"). The assigned rating reflects our opinion on the Company's good cash flow, moderate leverage, strong leadership in the Quick Service Restaurant (QSR) Industry in Nigeria as well as its qualified and experienced management team. However, the rating is tempered by the Company's low profitability, declining operating margins as well as inadequate working capital and financing structure which requires improvement.

- Eat N' Go Limited, a wholly owned subsidiary of Krone Holding Inc[1], is a leading player in the QSR Industry in Nigeria, with operations in over 100 retail outlets across eight states in the Country and processes over 4 million orders per annum. Eat N' Go has the sole and exclusive franchise rights with Domino's Pizza International for its pizza food chain (Domino's Pizza) and Kahala Brands LLC, for its ice cream (Cold Stone Creamery) and dairy products (Pinkberry) in Nigeria, with the right of first refusal for Cold Stone Creamery and Pinkberry regarding expansion into the rest of West Africa and Cameroon.

- In the financial year ended 31 December 2018 (FYE 2018), Eat N' Go Limited's turnover grew by 23% year-on-year to ₦13.2 billion, on account of the rapid expansion of the business outlets leading to higher sales volume in the period. However, the Company reported lower operating profit margin of 1.7%, return on assets of 8% and return on equity of 10% in FYE 2018, largely due to the challenging business environment and rise in the price of dominant raw materials (mozzarella cheese and sweet cream). In the first half of 2019 (H1'2019), the Company opened 16 new retail outlets to drive sales volumes and began a re-engineering process to optimize product cost and pricing in a bid to improve margins and overall performance going forward.

[1] Krone Holding Inc is a limited liability company incorporated in the British Virgin Islands for the purpose of holding and operating franchise rights.

- In FYE 2018, Eat N' Go posted an operating cash flow (OCF) of ₦2.4 billion, which was sufficient to cover returns to finance providers, as well as estimated mandatory capital expenditure and loan principal repayments, leaving an overall cash flow surplus of ₦0.35 billion. In 2018, the Company reported an OCF to sales ratio of 18% and a three-year average (2016 - 2018) of 19%, which lays credence to ENG's good cash generating capacity.

- Over the last three years, Eat N' Go Limited has consistently posted short term financing surpluses as well as long term financing needs. However, the Company's short-term financing surpluses have been inadequate to cover the long-term financing needs, thus resulting in yearly overall working capital deficiencies. In our view, ENG's working capital is inadequate.

- As at 31 December 2018, Eat N' Go's funding mix consisted of equity (37%), spontaneous financing (39%) and interest-bearing liabilities (24%) – depicting a satisfactory funding profile. In addition, the Company's interest coverage ratio of 5 times and interest expense to sales ratio of 3.8% for FYE 2018, are both in line with our expectations and support our opinion on ENG's moderate leverage.

- In spite of the increasing competition from new entrants in the QSR Industry in Nigeria, Eat N' Go Limited is well positioned in our view to benefit from the country's youthful population, burgeoning middle class, slow but rising disposable income and increasing rate of urbanization, due to its range of product offerings, growing retail outlets across geo-political zones, technology inclined solutions and continued support from internationally recognized franchisors.

- In the first half of 2019, the Company continued its expansion of food and drink offerings, redesigned its menu, launched new technology platforms and commenced bespoke marketing incentives with a view to increasing sales volumes across all business segments. As a result, ENG logged revenue of ₦8.4 billion in H1'2019 – representing a 40% growth from comparable period in 2018.

- Going forward, Eat N' Go intends to consolidate these initiatives and further investments under its five-year strategic plan to increase sales volumes across all business segments and make Eat N' Go brand a popular QSR household name.

- We hereby attach a **stable** outlook to Eat N' Go Limited.

Figure 1: Strengths, Weaknesses, Opportunities and Challenges

Strengths

- Full support of internationally recognised brands via long-term franchise arrangements
- Strong reliance on locally sourced inputs (labour & raw materials)
- Good cash flow
- Qualified & experienced management team
- Leveraging technology solutions to drive sales
- Wide product offerings across different price points targeting all consumer types

Weaknesses

- Inadequate working capital
- Low profitability

Opportunities

- Expansion into new markets (Northern & Eastern regions of Nigeria)
- Young population in the country with a median age of 18 years
- Growing middle class with rising disposable income
- Changes in consumers lifestyle and eating patterns

Challenges

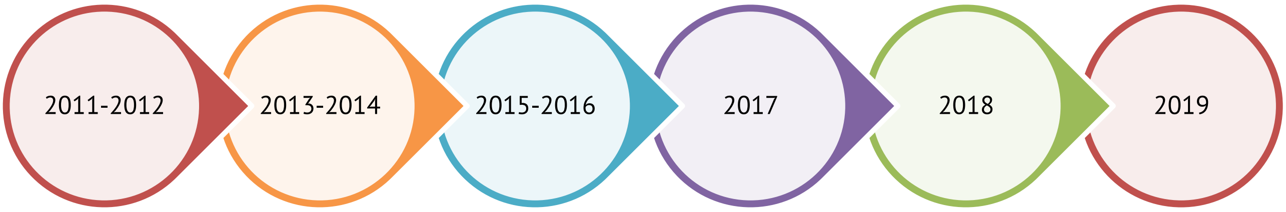
- Increasing competition from new entrants with internationally recognised franchises
- Risk of adverse government regulations

PROFILE OF EAT N' GO LIMITED

Overview & Background

Eat N' Go Limited ("ENG", "the Company" or "Eat N' Go") was incorporated in Nigeria in 2011 as a limited liability company and commenced operations in August 2012. The Company's principal activity includes the provision of affordable food and drink. The Company represents three international brands - Domino's Pizza, Cold Stone Creamery and Pinkberry Frozen Yoghurt – through its diverse food offerings & beverage brands. Eat N' Go plans to become the premier food operator in Africa by leveraging technology to drive sales.

Figure 2: Key Milestones in the history of Eat N' Go Limited



2011-2012
- Eat N' Go was incorporated as a limited liability company
- Acquired the franchise rights for Domino's Pizza

2013-2014
- Expanded operations outside Lagos, Enugu & Ibadan for Domino's Pizza.
- Received first Gold Franny Award for best franchisee

2015-2016
- Expanded operations to FCT Abuja.
- Received second & third Gold Franny Awards.
- Use of locally sourced inputs grew to c.68%

2017
- Launched Pan Pizza at Domino's.
- Launched the online ordering for Domino's.
- Rolled out the Events Department

2018
- Introduced a new brand, Pinkberry.
- Opened a hybrid flagship store comprising Domino's Pizza, Cold Stone and Pinkberry brands

2019
- Introduced Smallie Pizza, Chairman Pizza and Greek Yoghurt

Ownership Structure

Eat N' Go is wholly owned by Krone Holding Inc. (KHI) - incorporated in June 2011 in the British Virgin Islands as a private company limited by shares. Krone Holding Inc. is in the business of granting and/or holding franchise rights by operating directly or through its subsidiary or affiliated companies. KHI is wholly owned by Eat N' Go (BVI) Ltd, which is in turn jointly owned by Yabon Foods (40%), Ausone Equities (20%), MacGregor Investments (20%) and Lime Finance Assets SA (20%). We note that these companies share common directors with Eat N' Go Limited. The Company has 100% holding in and control of Dompizza Limited and Coldstone Creamery Limited, which were registered for the production and sale of pizza and ice-cream. These subsidiaries were not operational as at 31 December 2018.

Board Composition and Structure

Eat N' Go Limited has a five-member Board of Directors, comprising four non-executive directors and one independent non-executive director. Mr. Charbel Antoun, a Co-Founder, leads the Board as Chairman, while Mr. Jean Claude-Meyer, a Co-Founder & erstwhile CEO[2], seats on the Board as a non-executive director. In the financial year ended 31 December 2018, Mr. Kory Spiroff was appointed as an independent non-executive director to replace Mr. Arthur Bourekas who resigned his position. In the same period, Mr. Patrick McMichael was appointed as the Chief Executive Officer to replace Mr. Jean Claude-Meyer, who resigned to take up a non-executive role in the Company.

Table 1: Current Directors

Name	Designation	Nationality
Mr. Charbel Antoun	Chairman	Nigerian/Lebanese
Mr. Jean-Claude Meyer	Non-Executive Director	French
Mr. Marwan Dalloul	Non-Executive Director	Canadian
Mr. Sebastien Clamorgan-Thierry	Non-Executive Director	Swiss
Mr. Kory Spiroff	Independent Non-Executive Director	American

Source: Eat N' Go's Management Presentation

Operating Structure

Eat N' Go Limited commenced operations in 2012 from two outlets and has grown rapidly to 102 outlets as at end of August 2019, covering eight states in Nigeria. The Company plans to open circa 220 stores over the next four years with presence across all major cities and towns in Nigeria. ENG has a fleet of eight trucks which it uses to distribute its products to the outlets quickly. Eat N' Go represents three major brands including Domino's Pizza, Cold Stone Creamery and Pinkberry. ENG's product offerings include pizza, chicken wings, chicken kickers, ice cream, cakes, smoothies, shakes and yoghurt.

The Company's technical partners are its franchisors, who give product guidance to ensure all products are made in strict compliance with the standard procedures of the global brands. The Company has sole and exclusive franchise rights with Domino's Pizza International[3] ("DPI") for its pizza food chain (Domino's Pizza) and Kahala Brands LLC, for its ice cream (Cold Stone Creamery) and dairy products (Pinkberry) in Nigeria, with the Right of First Refusal for Cold Stone Creamery and Pinkberry regarding expansion into West Africa.

The Company presently operates three Domino's Pizza commissaries (central kitchens) in Lagos, Abuja and Port Harcourt with plans to open the fourth in Magboro[4] (Ogun State) by the end of 2019. The Pizza commissaries cumulatively process an average of 82 tons of flour, 447,000 dough balls, 7.7 tons of chicken, 10 tons of protein and 50 tons of cheese monthly. Eat N' Go also operates three Cold Stone Creamery commissaries - Lagos (established in 2012), Abuja (2015) and Port Harcourt (2019) altogether producing 90 tons of ice cream, 3 tons of mix-in, 9 tons of waffle flour and 3,600 cakes monthly, with plans to complete a commissary in Ibadan before the end of 2019. As at end of August 2019, Domino's Pizza had 47 retail outlets, while Cold Stone Creamery and Pinkberry Yogurt had 44 and 9 outlets respectively in the Country.

[2] Mr. Jean-Claude Meyer was the Company's CEO from July 2011 until May 2018.
[3] DPI is the recognized world leader in pizza delivery and operates a network of company-owned and franchise-owned stores in international markets, while Kahala Brands LLC is one of the largest holding companies for franchise fast food restaurants in North America.
[4] This will replace the Lagos Dominos commissary, which is now over capacity

Eat N' Go has a 10-year master franchise license for the Domino's Pizza brand in Nigeria (which was obtained in 2011), as well as a 10 year master franchise license for the Cold Stone brand in Nigeria (license is exclusive, personal, non-transferable and was obtained in 2012, with sub-franchising right obtained in 2013). Kahala Franchising LLC, which owns the Cold Stone Creamery brand is also the franchisor of the Pinkberry brand to Eat N' Go.

Krone Holdings and Ivybridge Trading are BVI registered investment entities, 100% owned by Eat N' Go Ltd BVI, an investment vehicle of the four founding shareholders, incorporated and domiciled in the British Virgin Islands. Both entities are the franchisees for the Domino's Pizza and Cold Stone brands respectively but have assigned those rights to Eat N' Go Limited. The franchise for Pinkberry is also held by Ivybridge Trading and those rights have also been assigned to ENG.

The Company is a well-integrated QSR with a strong supply chain network which supports its operations. ENG has invested in excess of ₦11 billion since inception 7 years ago and the management plans to invest additional ₦12 billion over the next four years to remain a premier food operator in Africa.

Other Information

As at 31 December 2018, Eat N' Go's total assets stood at ₦10.8 billion, representing a 49% growth from the prior year, while total shareholders' fund was up by 47% year on year to ₦4 billion (2017: ₦2.7 billion). In FYE 2018, the Company generated revenue of ₦13.2 billion and recorded a profit after tax of ₦99.7 million (2017: ₦917.3 million). In the same period, ENG had an average staff strength of 2,024 persons (2017: 1,443).

Table 2: Background Information as at 31 December 2018

Authorized Share Capital:	₦10 million
Issued and fully paid-up Capital:	₦10 million
Shareholders' Funds:	₦4 billion
Registered Office:	Plot 1715, Idejo Street, Victoria Island, Lagos
Principal Business:	Provision of affordable food and drinks
Auditors:	PricewaterhouseCoopers

Source: Eat N' Go Limited 2018 Annual Report

FINANCIAL CONDITION

Analysts' Comments

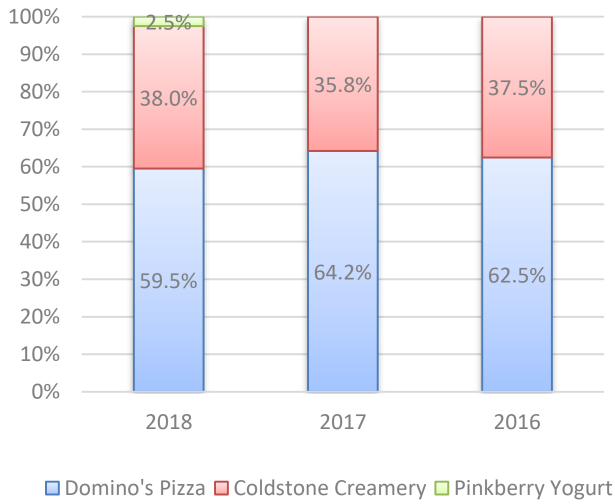
We have analysed the audited financial statements of Eat N' Go Limited ("the Company") for the three-year period ended 31 December 2018.

PROFITABILITY

Eat N' Go Limited primarily generates revenue from the sale pizzas, chicken wings, chicken kickers, pizza bread, ice cream, cakes, smoothies, shakes, drinks and yoghurt. The Company operates under three brands – Domino's Pizza, Coldstone Creamery and Pinkberry Yogurt – across 102 stores in Nigeria. The Company derives its revenue wholly from Nigeria.

In the financial year ended 31 December 2018 (FYE 2018), Eat N' Go Limited recorded revenue of ₦13.2 billion, which represented a 23% rise from the prior year. Sales growth was largely attributed to higher sales volumes across operating locations and business segments resulting from increase in number of retail outlets opened in the year. In 2018, Eat N' Go opened additional 28 stores and has grown to 102 outlets by the end of August 2019.

Figure 3: Breakdown of ENG's Revenue by Segments



In FYE 2018, sales from Domino's Pizza business segment remained the largest contributor to Eat N' Go's revenue at 59.5% (2017: 64%), while revenue from Cold Stone Creamery and Pinkberry Yoghurt business accounted for 38% and 2.5% respectively. We note positively that ENG's revenue base is becoming more diversified as new product offerings are birthed.

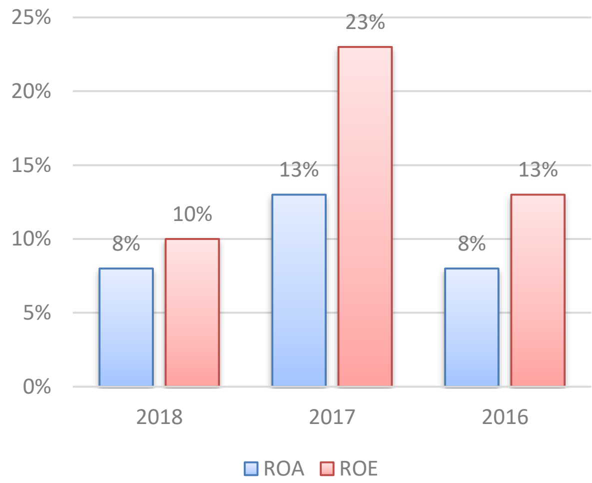
On account of the increase in the number of operating retail outlets as well as a rise in order volumes in FYE 2018, ENG's cost of sales rose in absolute terms by 36% to reach ₦5.3 billion, representing 40% of turnover (2017: 36%). In addition, the rise in cost of goods sold was precipitated by increase in the cost of dominant raw materials such as mozzarella cheese (for Domino's Pizza) and sweet cream (for Coldstone) during the period under review. As a result, Eat N' Go recorded a lower gross profit margin of 60% in 2018 (2017: 64%).

In the financial year ended 31 December 2018, ENG's operating expenses increased in absolute terms by 30% year-on-year (YoY) to ₦7.7 billion due to inflationary pressures as well as incidental costs related to additional retail outlets opened in the year. The main components of Eat N' Go's operating expenses in FYE 2018 are staff cost (33%), repairs, maintenance & utilities (15%), depreciation & amortization (13%) and advertisements & promotions (8%). Agusto & Co. notes that the Company's operating expenses-to-sales ratio deteriorated to 58% in 2018 (2017: 55%), thus resulting in siginficant drop in the the Company's operating profit margin to a very low 1.7% (2017: 8.5%); which is well below our 6% margin for companies in the QSR Industry.

In 2018, the Company's other income arising mainly from write-back of over-provision for transaction taxes and interest income on bank balances, amounted to ₦0.67 billion (representing 5.1% of turnover), while finance cost largely comprising interest expenses on loans, foreign exchange losses on remeasurement of loans and interest income on government grant, stood at ₦0.5 billion (representing 3.8% of revenue). The Company has continued to maintain favourable interest expenses to sales ratio over the last three years (2016 – 2018), averaging 3%, which are in line with our expectation. Nonetheless, Eat N' Go reported a profit before tax margin of 3% and a profit after tax margin of 0.8% in FYE 2018 (2017: 8.6%), both of which are below our expectations.

In FYE 2018, Eat N' Go reported a return on asset (ROA) of 8% and three-year (2016 – 2018) average of 10%, which are both in line with our expectations. However, the Company's return on equity (ROE) of 10% in FYE 2018 and three-year (2016 – 2018) average at 15%, both fell short of our expectations and requires improvement.

Figure 4: Return on Asset (ROA) & Return on Equity (ROE)



Based on the unaudited management accounts for the six months ended 30 June 2019 (H1'2019), Eat N' Go Limited posted a turnover of ₦8.4 billion, representing a 40% annualised growth rate compared to H1' 2018. The growth is being driven by the increase in ENG's store counts in the year to date. In the same period, the Company recorded an operating profit margin of 4%, which is still below our expectation.

In our opinion, Eat N' Go Limited's profitability is low and requires improvement.

CASH FLOW

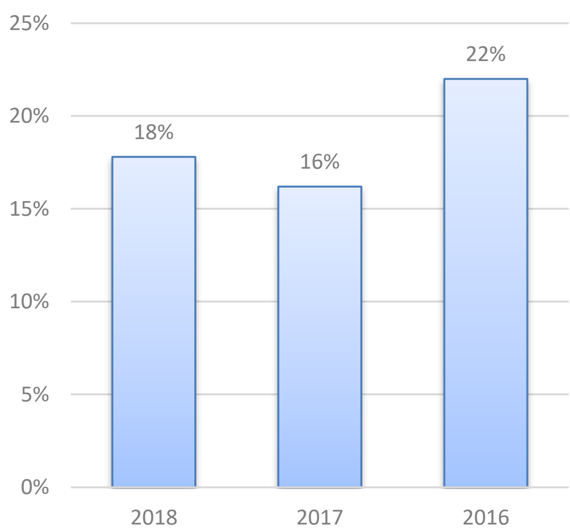
Eat N' Go Limited has continued to enjoy favourable terms of trade with both customers and suppliers in the period under review. ENG maintains a credit policy with suppliers ranging from 30 days to 60 days, while terms of trade with customers are predominantly on a cash basis. In FYE 2018, the Company's average trade creditor days stood at 161 days, compared to 108 days in 2017.

During the financial year ended 31 December 2018, Eat N' Go recorded an operating cash flow (OCF) of ₦2.3 billion, up by 35% from the prior, mainly due to the increase in trade creditors and accrued expenses related to raw materials. In FYE 2018, ENG's OCF was sufficient to cover returns to providers of finance (RTPOF) of ₦500.6 million, wholly comprising interest expenses. In addition, the Company's net OCF (OCF less RTPOF) was adequate to meet both estimated mandatory capital expenditure and amortised loan principal repayments, leaving an overall cash flow surplus of ₦0.35 billion during the year under review. Eat N' Go has demonstrated sufficient capacity to meet its recurring short-term obligations from its operating cash flow over the last three years, evidenced by consistent cash flow surpluses.

In FYE 2018, the Company's OCF as a percentage of sales of 18% and the three-year (2016 - 2018) average of 19%, are both in line with our benchmarks and lay credence to ENG's good cash-generating capacity. Furthermore, Eat N' Go's 2018 and three-year (2016 - 2018) average OCF as a percentage of returns to providers of financing of 468% and 594% respectively are better than our expectations.

In our opinion, the Company's cash flow position is good and sustainable.

Figure 5: OCF to Sales (%)



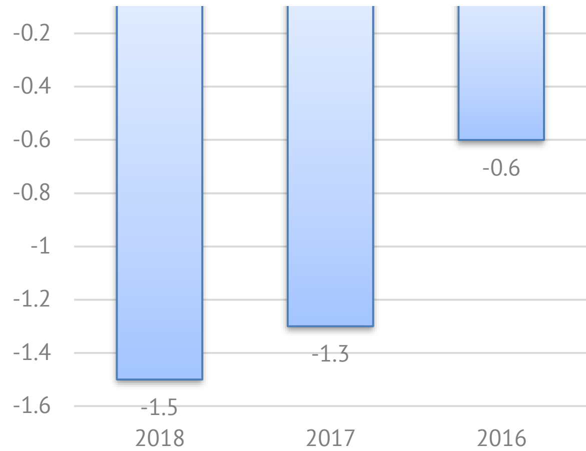
FINANCING STRUCTURE AND ADEQUACY OF WORKING CAPITAL

As at 31 December 2018, Eat N' Go Limited recorded working assets of ₦2.6 billion (FYE 2017: ₦1.9 billion) mainly comprising stocks (57%) and other debtors & prepayments (36%). Akin to the prior year, the Company continues to optimize its working asset position by holding optimum stock levels of 3 months for imported raw materials and 1 month for local inputs. This strategy ensures that the Company has a backup inventory to meet ongoing demand in the unlikely event of a disruption to potential supply sources of raw materials.

As at FYE 2018, Eat N' Go's non-interest-bearing liabilities (i.e spontaneous financing) rose significantly by 56% YoY to ₦4.3 billion (2017: ₦2.7 billion) due mainly to the increase in trade credit received in favour of raw materials. The main components of ENG's spontaneous financing for FYE 2018 are trade creditors (55%), other creditors & accruals (32%) and taxation payable (13%). Similar to the last three years, the Company's spontaneous financing was sufficient to cover working assets, leading to a short-term financing surplus of ₦1.7 billion as at FYE 2018. This trend is consistent with the Company's trade terms as payments from customers are generally received on a cash-and-carry basis, whereas suppliers', related parties and other creditors offer significant credit days.

As at 31 December 2018, ENG's long term assets stood at ₦7.9 billion, representing a 56% increase over the prior year. Management has attributed this growth to the ongoing expansion of the Company's business with retail outlets rising to 84 in 2018 from 56 in 2017. Property, plant & equipment (PPE) accounted for the largest proportion (92%) of long-term assets, while intangible assets[5] and deferred income tax assets jointly represented the balance of 8%. As at same date, the Company's long-term funds of ₦4.8 billion, comprising equity (83%) and long-term borrowings (17%), were insufficient to cover the long-term assets, resulting in a long-term financing need of ₦3.2 billion (2017: ₦2.1 billion).

Figure 6: Working Capital Deficiency (N'Billions)



ENG's short term financing surplus of ₦1.7 billion was insufficient to cover the long-term financing need, thereby resulting in an overall working capital deficiency of ₦1.5 billion as at FYE 2018. Agusto & Co. notes that Eat N' Go Limited has resorted to short term borrowings to cover the rising working capital deficiencies over the last three years.

Going forward, the Company intends to maintain short term financing surpluses by improving trade credit terms with suppliers as well as optimizing working assets level. In addition, Eat N' Go plans to raise funds from the capital market to shore up its long-term financing requirements.

In our view, the Company's working capital is inadequate and its financing structure requires improvement.

[5] This consist of 10-year master franchise license for the Domino's Pizza brand in Nigeria, (which was obtained in 2011), as well as a 10 year master franchise license for the Cold Stone brand in Nigeria (license is exclusive, personal, non-transferable and was obtained in 2012, with sub- franchising right obtained in 2013) and software - Global Online Ordering (GOLO) and Ezee POS Application

LEVERAGE

As at 31 December 2018, Eat N' Go total liabilities stood at ₦6.8 billion, mainly comprising non-interest-bearing liabilities (63%) and interest-bearing liabilities (37%). The main components of ENG's non-interest-bearing liabilities (NIBL) are trade creditors (55%), other creditors & accrual (32%) and taxation payable (13%).

The Company's interest-bearing liabilities (IBL) of ₦2.5 billion, comprised the outstanding portion of commercial bank term loan[6], balance on loans obtained from Bank of Industry[7], as well as short term borrowings in form of intercompany loan[8] and bank overdraft[9]. In FYE 2018, the Company repaid the bridge loan amounting to US$1 million, which was provided by the shareholders in August 2017.

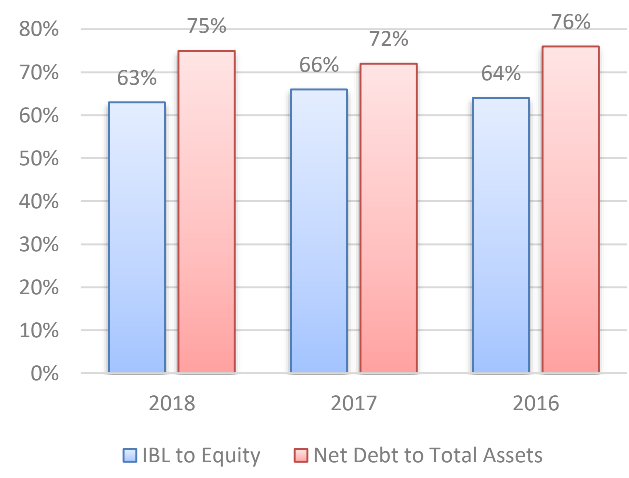
As at 31 December 2018, Eat N' Go's total assets of ₦10.8 billion was funded by total liabilities (63%) and equity (37%), thus depicting a satisfactory equity cushion. In addition, we note that circa 63% of ENG's total liabilities are spontaneous financing, hence attracts no interest cost. Agusto & Co. notes positively that Eat N' Go's financing model will ultimately result in low finance cost given that reliance is placed on funding the business assets with shareholders' fund and non-interest-bearing liabilities.

As at FYE 2018, Eat N' Go's IBL to equity ratio of 63% is within our expectation, while net debt (total liabilities less cash) as a percentage of average total assets at 75% fell short of our expectation and requires improvement. As at the same date, the Company's interest expenses to sales ratio remained within our expectation at 3.8%, while the interest coverage ratio of 5 times surpassed our benchmark of 3 times.

Going forward, the Company plans to raise funds from the capital market through a special purpose vehicle in the short term to finance capital investments and repay existing expensive debt obligations. Should this be successful, we expect an increase in the Company's leverage, albeit marginal.

In our opinion, Eat N' Go's leverage position is moderate.

Figure 7: IBL to Equity & Net Debt to Total Assets



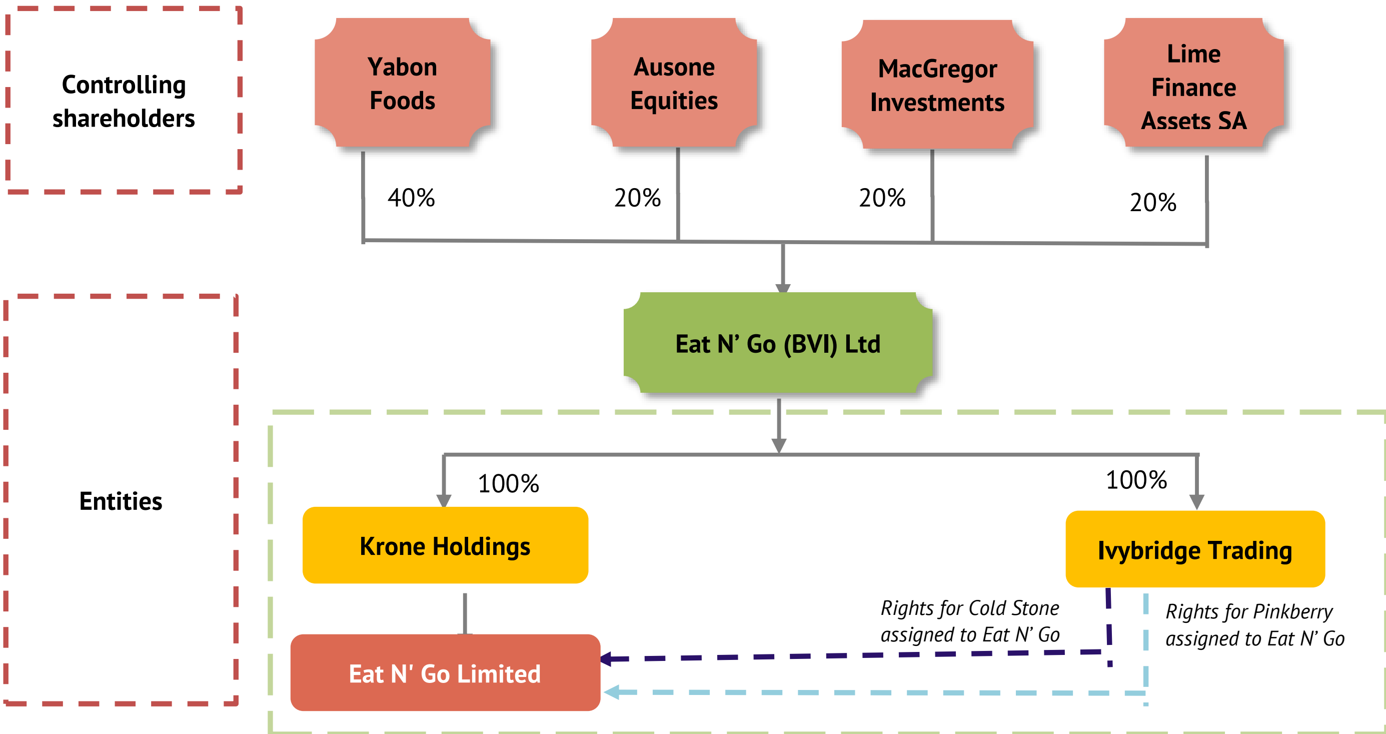
[6] In 2018, ENG increased its commercial bank borrowings by ₦800 million, bringing its total outstanding loan balance to ₦1.09 billion as at FYE 2018. The facility has a tenor of 3-years at an interest rate of 24% per annum.
[7] Two credit facilities were obtained from the Bank of Industry – 5-year term loan at 10% for capital expenditure and working capital finance at 12% for 3-years. The outstanding balance of the two BOI facilities as at FYE 2018 stood at ₦589.5 million.
[8] The Intercompany loan arose from the conversion of other outstanding payables to directors into loan at an annual interest rate of 8%. This loan is repayable on demand and has an outstanding balance of ₦271.6 million as at FYE 2018.
[9] ENG's bank overdraft has a limit of ₦850 million with a tenor of 1-year at an interest rate of 22% per annum. The outstanding balance as at FYE 2018 was ₦574.8 million.

OWNERSHIP, MANAGEMENT & STAFF

As at 31 December 2018, Eat N' Go Limited had an authorised share capital of 10 million ordinary shares of ₦1 each, which were fully issued and paid up. As at the same date, Krone Holding Inc. held 9,999,999 units of the shares while the remaining one share was held by Shetty Harijeevan Mangalore. As at 31 December 2018, capital contribution[10] from the principal shareholder to support the expansion of the business stood at ₦2.29 billion. The Company's ownership structure is very concentrated.

Krone Holding Inc. was incorporated in June 2011 in the British Virgin Islands as a private company limited by shares. KHI's business comprises the granting and holding of franchise rights by operating directly or through subsidiaries or affiliates. Krone Holding is a wholly-owned subsidiary of Eat N' Go (BVI) Limited, which is jointly owned by Yabon Foods (40%), Ausone Equities (20%), MacGregor Investments (20%) and Lime Finance Assets SA (20%). Eat N' Go Limited's ownership/shareholding structure is illustrated in figure 8.

Figure 8: Eat N' Go Limited's Ownership/Shareholding Structure



- Krone Holdings and Ivybridge Trading are both British Virgin Islands (BVI)-registered investment entities with the same shareholding structure.
- Krone Holdings and Ivybridge Trading are the franchisees for the Domino's and Cold Stone brands respectively, but have assigned those rights to Eat N' Go Limited.
- Pinkberry is also held under Ivybridge Trading and the rights subsequently assigned to Eat N' Go Limited.

Source: Eat N' Go Limited's Management Presentation

[10] In 2018, the principal shareholder contributed additional ₦803.9 million as capital and the outstanding borrowings of ₦372.9 million was reclassified as capital.

Eat N' Go Limited has a five-member Board of Directors, which is composed of four non-executive directors and one independent non-executive director. Mr. Charbel Antoun, a Co-Founder, leads the Board as Chairman, while Mr. Patrick McMichael is the Chief Executive Officer.

Eat N' Go's management team is composed of eight senior management personnel covering various segments of the business. Members of the management team report directly to the CEO. Subsequent to FYE 2018, Mr. Ashwine Dhanuka was appointed as Chief Operating Officer to replace the erstwhile COO - Mr. Antoine Zammarieh. In the same vein, Mrs. Lanre Sanusi replaced Ms. Lenka Afaedor as the Chief Financial Officer, while Mr. Ilyas Kazeem took up the role of Marketing Director replacing Mrs. Amalia Sebakunzi. The management team members have varied and relevant experience spanning hotel & quick service restaurants, oil & gas, banking, real estate, marketing and administration. In our opinion, Eat N' Go's management team is qualified and experienced.

As at 31 December 2018, Eat N' Go had an average staff strength of 2,024 on its payroll compared to 1,443 staff in the prior year. The rise in staff numbers was principally due to the increase in retail outlets in the year under review and the attendant staffing requirements. In FYE 2018, the Company's average cost per employee rose to ₦1.25 million due to new staff hires driven by business expansion as well as costs associated with the exit of some senior management personnel during the year under review. ENG's operating profit (excluding staff cost) per staff stood at ₦1.36 million as at end of FYE 2018 (2017: ₦1.76 million), reflecting a staff productivity ratio of 1.08 times, which is below our expectation.

Management Team

Mr. Patrick McMichael is the Chief Executive Officer of Eat N' Go Limited. Prior to joining Eat N' Go, Mr. McMichael served as the Chief Executive Officer of Domino's Pizza, Indonesia between January 2016 and November 2017, where his accomplishments included amongst others, the increase in store count from 78 to 131 within one year, as well as the company's EBITDA margin from 5.8% to 11.4%. He has had a long career at Domino's Group, serving in different capacities ranging from Store Manager to Chief Development and Franchise Officer, before becoming the CEO of Domino's Pizza, Indonesia. Patrick was also COO of Retail Zoo, the owners of multiple brands such as Boot Juice, Salsas Fresh Mex and CIBO Espresso. A 1991 graduate of Hotel, Restaurant and Culinary from the Santa Barbara City College in California, Mr. McMichael is currently studying for an online Master of Business Administration (MBA) at the Australian Institute of Business. He is an Australian/US citizen.

Mr. Ashwine Dhanuka is the Chief Operating Officer of Eat N' Go Limited**.** Ashwine is a data-driven and results-oriented professional with more than 20 years of total work experience. He has worked with several international brands, including Subway, Grillado and Domino's Pizza. His international experience across multiple regions, including USA, Australia, India, Singapore and Indonesia, have given him a thorough understanding of working with teams from diverse cultural backgrounds on strategies to localize the business. He has a Bachelors in Information Science from Florida Institute of Technology, and an MBA in Marketing and International Business from Brisbane Graduate School of Business. Additionally, he is certified in Digital

Marketing from Columbia Business School. In his most recent role as Director of Operations at Domino's Pizza Indonesia, Ashwine recorded strong achievements in driving sales and profitability which were guided through excellent operational execution, data-driven marketing decisions and transforming his team into high-performance individuals.

Table 3: Members of Eat N' Go Limited's key management team

Name	Position
Mr. Patrick McMichael	Chief Executive Officer
Mr. Ashwine Dhanuka	Chief Operating Officer
Mrs. Lanre Sanusi	Chief Financial Officer
Mr. Osman El Sankari	Brand Director, Domino's Pizza
Mr. Eid Hassan	Brand Director, Cold Stone Creamery
Mr. Uzoelum Chukwunalu	Brand Director, Pinkberry
Mr. Ilyas Kazeem	Marketing Director
Mr. Olusola Adeeko	Head, Human Resources

Source: Eat N' Go Limited Management Presentation

OUTLOOK

In the financial year ended 31 December 2018, as well as the six months ended 30 June 2019, Eat N' Go Limited's financial condition was characterized by good cash flow, moderate leverage, strong leadership in the Quick Service Restaurant (QSR) Industry in Nigeria as well as its qualified and experienced management team. However, the Company's financial performance was tempered by low profitability, inadequate working capital and financing structure which requires improvement. We note that decline in ENG's performance was mosty triggered by the scaling of the business across Nigeria in a bid to protect it against competitive intrusion and achieve its five-year plan.

Agusto & Co. notes that although Eat N' Go's profitability performance in the review period was pressured due to the challenging business environment and rise in raw material cost, the Company remains well-positioned to benefit from potential growth in the QSR Industry due to its well-diversified product portfolio, leading market position, growing distribution network covering over 102 retail outlets and continued support from internationally recognized franchisors - Domino's Pizza International for its pizza food chain (Domino's Pizza) and Kahala Brands LLC, for its ice cream (Cold Stone Creamery) and dairy products (Pinkberry) in Nigeria.

In the first six months of 2019, the Company continued the implementation of its five-year strategic plan by focusing on expansion of retail outlets, optimizing operational efficiencies based on economies of scale, local sourcing for dominant raw materials, innovation through technology and market intelligence, entrenching internal staff growth and promote-within-policy, provision of exciting food and drink offerings, constantly redesigning menu to appeal to consumers changing lifestyle and tastes, all in a bid to increase sales volumes across all business segments and make Eat N' Go brand a popular QSR household name.

Eat N' Go is in the process of constructing a new commissary in the outskirts of Lagos (to be completed by December 2019) to increase the Company's capacity to serve its teeming customers in Lagos and neighbouring states. The introduction of new products such as the Smallie Pizza, Chairman Pizza, Signature cakes and Greek Yoghurt, amongst others in H1'2019 is expected to further appeal to different genres of consumers and ultimately stimulate patronage. Going forward, Eat N' Go plans to access the debt capital market in Q4'2019 to raise funds to repay existing debt obligations and finance strategic capital investments in the short to medium term. In our view, the implementation of these initiatives and planned investments should translate to improvement in ENG's financial condition in the short to medium term.

Overall, Agusto & Co. anticipates that ENG's cash flow will remain strong premised on continued favorable terms of trade with suppliers and customers, while profitability performance is projected to remain pressured until margins improve across all business segments. In the short term, we believe that Eat N' Go's overall working capital inadequacy will persist unless there is an injection of tenured funds either in the form of equity or long-term borrowings. Although the Company intends to raise funds from the debt capital market in the near term, we believe that the leverage position will remain moderate on account of its good cash-generating capacity. Therefore, we expect the Company's financial condition to remain stable in the near term.

Based on the aforementioned, we have attached a **stable** outlook to Eat N' Go Limited.

FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION AS AT	31-Dec-18		31-Dec-17		31-Dec-16	
	₦'000		₦'000		₦'000	
ASSETS						
IDLE CASH	199,637	1.8%	200,010	2.8%	234,679	4.5%
MARKETABLE SECURITIES & TIME DEPOSITS	-		-		-	
CASH & EQUIVALENTS	**199,637**	**1.8%**	**200,010**	**2.8%**	**234,679**	**4.5%**
FX PURCHASED FOR IMPORTS	-		-		-	
ADVANCE PAYMENTS AND DEPOSITS TO SUPPLIERS	95,082	0.9%	110,610	1.5%	92,107	1.8%
STOCKS	1,485,466	13.8%	898,077	12.4%	974,174	18.6%
TRADE DEBTORS	12,545	0.1%	161,080	2.2%	22,739	0.4%
DUE FROM RELATED PARTIES	57,570	0.5%	57,372	0.8%	48,393	0.9%
OTHER DEBTORS & PREPAYMENTS	948,574	8.8%	699,478	9.6%	244,949	4.7%
TOTAL TRADING ASSETS	**2,599,237**	**24.1%**	**1,926,617**	**26.5%**	**1,382,362**	**26.4%**
INVESTMENT PROPERTIES	-		-		-	
OTHER NON-CURRENT INVESTMENTS	20,000	0.2%	20,000	0.3%	20,000	0.4%
PROPERTY, PLANT & EQUIPMENT	7,345,294	68.1%	4,380,162	60.3%	2,919,436	55.8%
SPARE PARTS, RETURNABLE CONTAINERS, ETC	-		-		-	
GOODWILL, INTANGIBLES & OTHER L T ASSETS	629,669	5.8%	739,046	10.2%	673,373	12.9%
TOTAL LONG TERM ASSETS	**7,994,963**	**74.1%**	**5,139,208**	**70.7%**	**3,612,809**	**69.1%**
TOTAL ASSETS	**10,793,837**	**100.0%**	**7,265,835**	**100.0%**	**5,229,850**	**100.0%**
Growth	*48.6%*		*38.9%*		*47.7%*	
LIABILITIES & EQUITY						
SHORT TERM BORROWINGS	1,695,330	15.7%	1,472,301	20.3%	866,039	16.6%
CURRENT PORTION OF LONG TERM BORROWINGS	-		-		-	
LONG-TERM BORROWINGS	835,151	7.7%	332,763	4.6%	294,784	5.6%
TOTAL INTEREST BEARING LIABILITIES (TIBL)	**2,530,481**	**23.4%**	**1,805,064**	**24.8%**	**1,160,823**	**22.2%**
TRADE CREDITORS	2,340,877	21.7%	1,155,709	15.9%	1,150,756	22.0%
DUE TO RELATED PARTIES	20,000	0.2%	26,662	0.4%	29,389	0.6%
ADVANCE PAYMENTS AND DEPOSITS FROM CUSTOMERS	-		-		-	
OTHER CREDITORS AND ACCRUALS	1,356,516	12.6%	461,063	6.3%	349,085	6.7%
TAXATION PAYABLE	537,813	5.0%	1,085,762	14.9%	725,612	13.9%
DIVIDEND PAYABLE	-		-		-	
DEFERRED TAXATION	-		-		-	
OBLIGATIONS UNDER UNFUNDED PENSION SCHEMES	-		-		-	
MINORITY INTEREST	-		-		-	
REDEEMABLE PREFERENCE SHARES	-		-		-	
TOTAL NON-INTEREST BEARING LIABILITIES	**4,255,206**	**39.4%**	**2,729,196**	**37.6%**	**2,254,842**	**43.1%**
TOTAL LIABILITIES	**6,785,687**	**62.9%**	**4,534,260**	**62.4%**	**3,415,665**	**65.3%**
SHARE CAPITAL	2,308,481	21.4%	1,131,559	15.6%	1,131,559	21.6%
SHARE PREMIUM	-		-		-	
IRREDEEMABLE DEBENTURES	-		-		-	
REVALUATION SURPLUS	-		-		-	
OTHER NON-DISTRIBUTABLE RESERVES	-		-		-	
REVENUE RESERVE	1,699,669	15.7%	1,600,016	22.0%	682,626	13.1%
SHAREHOLDERS' EQUITY	**4,008,150**	**37.1%**	**2,731,575**	**37.6%**	**1,814,185**	**34.7%**
TOTAL LIABILITIES & EQUITY	**10,793,837**	**100.0%**	**7,265,835**	**100.0%**	**5,229,850**	**100.0%**

STATEMENT OF COMPREHENSIVE INCOME	31-Dec-18		31-Dec-17		31-Dec-16	
	₦'000		**₦'000**		**₦'000**	
TURNOVER	13,200,982	100.0%	10,722,295	100.0%	8,069,153	100.0%
COST OF SALES	(5,302,940)	-40.2%	(3,888,273)	-36.3%	(3,653,846)	-45.3%
GROSS PROFIT	7,898,042	59.8%	6,834,022	63.7%	4,415,307	54.7%
OTHER OPERATING EXPENSES	(7,672,062)	-58.1%	(5,922,213)	-55.2%	(4,151,814)	-51.5%
OPERATING PROFIT	225,980	1.7%	911,809	8.5%	263,493	3.3%
OTHER INCOME/(EXPENSES)	677,078	5.1%	2,786	0.0%	164,511	2.0%
PROFIT BEFORE INTEREST & TAXATION	903,058	6.8%	914,595	8.5%	428,004	5.3%
INTEREST EXPENSE	(500,677)	-3.8%	(286,838)	-2.7%	(197,778)	-2.5%
PROFIT BEFORE TAXATION	402,381	3.0%	627,757	5.9%	230,226	2.9%
TAX (EXPENSE) BENEFIT	(302,728)	-2.3%	289,633	2.7%	123,217	1.5%
PROFIT AFTER TAXATION	**99,653**	**0.8%**	**917,390**	**8.6%**	**353,443**	**4.4%**
NON-RECURRING ITEMS (NET OF TAX)	-		-		-	
MINORITY INTERESTS IN GROUP PAT	-	_	-		-	
PROFIT AFTER TAX & MINORITY INTERESTS	99,653	0.8%	917,390	8.6%	353,443	4.4%
DIVIDEND	-	_	-		-	
PROFIT RETAINED FOR THE YEAR	99,653	0.8%	917,390	8.6%	353,443	4.4%
SCRIP ISSUES	-		-		-	
OTHER APPROPRIATIONS/ ADJUSTMENTS	-		-		-	
PROFIT RETAINED B/FWD	1,600,016		682,626		329,183	
PROFIT RETAINED C/FWD	1,699,669		1,600,016		682,626	
ADDITIONAL INFORMATION	**31-Dec-18**		**31-Dec-17**		**31-Dec-16**	
Staff costs (₦'000)	2,532,598		1,641,253		1,261,681	
Average number of staff	2,024		1,443		1,196	
Staff costs per employee (₦'000)	1,251		1,137		1,055	
Staff costs/Turnover	19.2%		15.3%		15.6%	
Capital expenditure (₦'000)	3,961,222		2,085,226		1,296,117	
Depreciation expense - current year (₦'000)	891,704		598,531		400,657	
(Profit)/Loss on sale of assets (₦'000)	-		-		-	
Number of 50 kobo shares in issue at year end ('000)	4,616,962		2,263,118		2,263,118	
Market value per share of 50 kobo (year end)	-		-		-	
Market capitalisation (₦'000)	-		-		-	
Market/Book value multiple	-		-		-	
Non-operating assets at balance sheet date (₦'000)	20,000		20,000		20,000	
Market value of tradeable assets (₦'000)						
Revaluation date - Investment properties						
Revaluation date - Other properties						
Average age of depreciable assets (years)	2		2		2	
Sales at constant prices - base year 1985 (₦'000)	40,478		36,640		31,808	
Auditors	**PwC**		**PwC**		**PwC**	
Opinion	**CLEAN**		**CLEAN**		**CLEAN**	

CASH FLOW STATEMENT			
FOR THE YEAR ENDED	**31-Dec-18**	**31-Dec-17**	**31-Dec-16**
	₦'000	**₦'000**	**₦'000**
Operating cash flow (OCF)	2,345,424	1,732,858	1,778,064
Less: Returns to providers of finance	(500,677)	(286,838)	(197,778)
OCF after returns to providers of finance	1,844,747	1,446,020	1,580,286
Non-recurring items	-	-	-
Free cash flow	1,844,747	1,446,020	1,580,286
Investing activities	(3,747,461)	(2,124,930)	(1,735,506)
Financing activities	1,902,339	644,241	223,982
Change in cash	(375)	(34,669)	68,762
PROFITABILITY			
PBT as % of Turnover	3%	6%	3%
Return on equity	12%	28%	14%
Real sales growth	10.5%	15.2%	45.6%
Sales growth	23.1%	32.9%	72.7%
CASH FLOW			
Interest cover (times)	4.7	6.0	9.0
Principal payback (years)	2.2	2.0	1.0
WORKING CAPITAL			
Working capital need (days)	-	-	-
Working capital deficiency (days)	41	43	29
LEVERAGE			
Interest bearing debt to Equity	63%	66%	64%
Total debt to Equity	169%	166%	188%

RATING DEFINITIONS

Aaa	This is the highest rating category. It indicates a company with impeccable financial condition and overwhelming ability to meet obligations as and when they fall due.
Aa	This is a company that possesses very strong financial condition and very strong capacity to meet obligations as and when they fall due. However, the risk factors are somewhat higher than for Aaa obligors.
A	This is a company with good financial condition and strong capacity to repay obligations on a timely basis.
Bbb	This refers to a company with satisfactory financial condition and adequate capacity to meet obligations as and when they fall due.
Bb	This refers to a company with satisfactory financial condition but capacity to meet obligations as and when they fall due may be contingent upon refinancing. The company may have one or more major weakness (es).
B	This refers to a company that has weak financial condition and capacity to meet obligations in a timely manner is contingent on refinancing.
C	This refers to an obligor with very weak financial condition and weak capacity to meet obligations in a timely manner.
D	In default.

Rating Category Modifiers

A "+" (plus) or "-" (minus) sign may be assigned to ratings from 'Aa' to 'C' to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.

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