Case study : Monceau Fleurs

Please send any questions on this case study to the author via the mail box on the web site www.vernimmen.net

Pascal Quiry July 2010

Description of Groupe Monceau Fleurs (taken from its annual report)

Two types of consumer behaviour co-exist on the flower market:

- some consumers like to have full freedom in the composition of their bouquets; other consumers prefer to be guided and advised in their choices.

On the basis of this observation, Group Monceau Fleurs took a commercially strategic decision to develop its network through franchises, using the chain Monceau Fleurs since 1998, Happy since 2005 and Rapid'Flore since 2008. By leveraging the key factors that have earned it its excellent reputation, the company has succeeded in adapting to better meet customer expectations:

- a wider offer of cut flowers and pot plants sold through close proximity outlets;
- value for money / competitive prices compared with local market, but still retaining its margin;
- a wide range of comprehensive services: floral compositions on demand, gifts, weddings, bereavement and other events.

The franchise integration process is carried out by the group's Development Department. Its members assist potential franchisees in the identification of a location. The quality of the location is one of the key elements for the group when opening a new outlet.

The group also relies on training, monitoring and activities provided by its subsidiaries within the three franchised networks, Monceau Fleurs, Happy and Rapid'Flore, in order to ensure that the three chains enjoy the best operating conditions:

- training for each of the chains takes place over a period of two to three months during which the partner will learn, alongside a senior franchisee, how to organise the shop and the procedures for sourcing flowers;
- network activity highlights the chain, through advertising campaigns, and provides expertise within the organisation of the point of sale;
- the group's central purchasing department provides franchisees with a computerised system for managing their supplies. Franchisees are required to buy at least 80% of their stock from the group and to pay within four weeks of delivery of the flowers.

The volume of business performed by the group's chains corresponds to sales in the shops (whether franchised or not) of each network, and is presented below:

Volume of chains' business (in €m)			
Calendar year	**2007**	**2008**	**2009**
Monceau Fleurs	69.2	76.7	81.7
Happy	4.4	9.8	13.9
Rapid' Flore	0	61.9	60.6
Total volume of chains' business	*73.6*	*148.5*	*156.3*

For its development, and in particular its international development, the group has set up a system of master franchises. Rights are granted by the group to a franchisor, who negotiates the location of shops directly for the territory, via sub-franchisees.

In the main international locations where it has outlets, Groupe Monceau Fleurs holds a stake in the capital of the international companies that have signed a master franchise agreement.

For each master franchise agreement, Groupe Monceau Fleurs insists on the opening of a minimum number of branches before developing a network of franchises. This requires substantial spending (several hundreds of thousands of euros, depending on the country, the location, etc.) for the creation of each branch.

Groupe Monceau Fleurs is involved in financing each structure and in developing the network which required two types of investment:

1. Investments for setting up, in the country in question, the operational management of the network of branches and franchises (recruitment and training of teams, development, logistics, IT resources);

2. Advertising spending for recruiting future franchisees (participation at professional salons, advertising, etc.)

These investments amount to several hundreds of thousands of euros, depending on the country and the pace of development.

For countries where there is a lot of potential for development, Groupe Monceau Fleurs uses the joint venture system, contributing its brand, its concept and its experience in developing the chain. The group and its local partner provide the capital needed to open up the shops.

At this stage, this principle of a stake in the capital of a master franchisee and/or the setting up of a joint venture is applied in all EU countries and in Japan, a priority development region.

The same will apply for high potential countries but which are not priority where the group is not currently present, especially North America, Brazil, China and South Korea.

Signature of a master franchisee agreement, without taking a stake in the capital, is the preferred method for countries such as the Middle East (Kuwait, UAE, Lebanon) or Morocco.

To date, Groupe Monceau Fleurs boasts 456 shops in 9 countries (France, Germany, Portugal, Spain, Japan, Belgium, Luxembourg, Andorra and Italy), with 13.3% outside France, and sells nearly 300 million products to 10 million customers.

Groupe Monceau Fleurs employs 234 people, excluding franchisees and their employees.

In 2007, as to finance the acquisition of Rapid' Flore, the group raised €31.7m through a private placement, split into a capital increase of €15.7m and a convertible bond issue of €16m, and listed its shares on the Alternext compartment of the French Stock Exchange on December 7, 2007.

In June 2010, Groupe Monceau Fleurs issued a plane vanilla bond of €12m.

Questions

1. Why has Groupe Monceau Fleurs decided to end its financial year on a date other than December 31? State your views.

2. Carry out a financial analysis of Groupe Monceau Fleurs. State your views.

3. What do you think about the amount of the brands recorded on the asset side of Groupe Monceau Fleurs balance sheet, given the earnings generated by the group? What impact does it have on the group's solvency? Why? And on its liquidity? Why?

4. Carry out a stock market analysis of Groupe Monceau Fleurs. State your views.

5. Given the characteristics of the convertible bond issued by Groupe Monceau Fleurs in 2007, what will the group's share price have to be in 2012 for these bonds to be converted into shares? What percentage will the share price have to increase by? State your views.

6. What will happen if the Groupe Monceau Fleurs share price does not rise above the price determined in the previous question in 2012? What will the consequences for the group be? What should it do?

7. If instead of issuing bonds in 2010, Groupe Monceau Fleurs had issued shares at €10 per share, what would the breakdown of the share capital have been (as a % of the capital and as a % of voting rights), assuming that the existing shareholders had not subscribed to this share issue and that the convertible bonds issued in 2007:

   a) are not converted into shares;

   b) are converted into shares (to simplify your calculations, assume that the shares created are subscribed by new shareholders).

8. What are the advantages of the issue in mid 2010 of bonds by Groupe Monceau Fleurs, compared with a capital increase made at €10 per share? Why?

9. What are the drawbacks of the issue in mid 2010 of bonds by Groupe Monceau Fleurs, compared with a capital increase made at €10 per share? Why?

10. If in mid 2010 you had been the Financial Director of Groupe Monceau Fleurs, would you have recommended a capital increase or a bond issue? Why?

11. Would your recommendation have had an impact on the cost of equity, the cost of debt or the cost of capital of Groupe Monceau Fleurs? Why?

12. What do you think of the yield to maturity on the bonds issued in mid 2010 by Group Monceau Fleurs (8%) compared with 1.72% for Treasury Bonds over the same period and 4.3% for solid private companies? What is paying this rate?

13. Would you personally have subscribed to the 2010 Groupe Monceau Fleurs bonds if you had had the necessary cash? Why?

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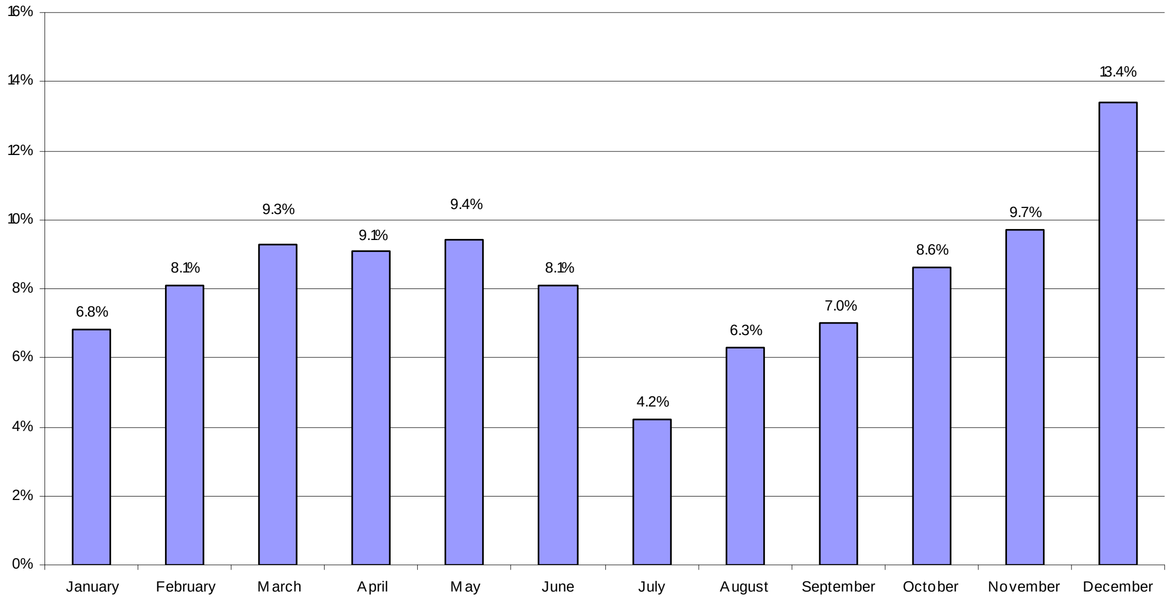
APPENDIX 1: Breakdown of Groupe Monceau Fleurs' monthly sales

(Average as % over 2006, 2007 and 2008)



Source: Company

APPENDIX 2: Consolidated financial statements of Groupe Monceau Fleurs

You will note that the scope of consolidation of the group was modified by the integration of Rapid' Flore from the financial year closed on September 30, 2009 and that the financial statements for 2006 and 2007 are in French GAAP and those for 2008 and 2009 are in IFRS.

Consolidated Income Statement

(Closing at September, 30th)

In € thousands	2006 (Fr)	2007 (Fr)	2008 (IFRS)	2009 (IFRS)
Sales	29 376	29 499	38 687	66 408
- Cost of Sales	23 057	22 745	26 267	43 661
- Other external expenses	2 061	1 278	6 526	10 357
= Value added	**4 258**	**5 477**	**5 894**	**12 391**
- Staff costs	4 869	4 809	5 542	10 556
- Taxes	361	296	333	641
= EBITDA	**(972)**	**372**	**18**	**1 195**
- Amortisation and depreciation	337	242	137	902
= EBIT	**(1 309)**	**129**	**(119)**	**293**
+ Financial Income	(92)	(43)	(934)	(1 270)
+ Non recurring items	611	(69)	655	(123)
= Pre Tax Income	**(791)**	**17**	**(399)**	**(1 100)**
- Corporate income tax	166	(153)	(45)	852
+ Income from affiliates	(82)	(3)	17	(152)
- Goodwill impairments	179	179	-	-
= Net Income	**(1 217)**	**(11)**	**(337)**	**(2 104)**
- Minority interests	-	-	(61)	(190)
= Net income (Group share)	**(1 217)**	**(11)**	**(276)**	**(1 915)**

Consolidated Income Statement in %

(Closing at September, 30th)

As % of sales	2006 (Fr)	2007 (Fr)	2008 (IFRS)	2009 (IFRS)
Sales	100%	100%	100%	100%
- Cost of Sales	78.5%	77.1%	67.9%	65.7%
- Other external expenses	7.0%	4.3%	16.9%	15.6%
= Value added	**14.5%**	**18.6%**	**15.2%**	**18.7%**
- Staff costs	16.6%	16.3%	14.3%	15.9%
- Taxes	1.2%	1.0%	0.9%	1.0%
= EBITDA	**-3.3%**	**1.3%**	**0.0%**	**1.8%**
- Amortisation and depreciation	1.1%	0.8%	0.4%	1.4%
= EBIT	**-4.5%**	**0.4%**	**-0,3%**	**0.4%**
+ Financial Income	-0.3%	-0.1%	-2.4%	-1.9%
+ Non recurring items	2.1%	-0.2%	1.7%	-0.2%
= Pre Tax Income	**-2.7%**	**0.1%**	**-1.0%**	**-1.7%**
- Corporate income tax	0.6%	-0.5%	-0.1%	1.3%
+ Income from affiliates	-0.3%	0.0%	0.0%	-0.2%
- Goodwill impairments	0.6%	0.6%	0.0%	0.0%
= Net Income	**-4.1%**	**0.0%**	**-0.9%**	**-3.2%**
- Minority interests	0.0%	0.0%	-0.2%	-0.3%
= Net income (Group share)	-4.1%	0.0%	-0.7%	-2.9%

Cash Flow Statement

In € thousands	2007 (Fr)	2008 (IFRS)	2009 (IFRS)
Net income (Group share)	(11)	(276)	(1 915)
+ Amortisation and depreciation	242	137	902
+ Non cash items	369	684	2 966
= Cash flow	**600**	**545**	**1 953**
- Change in working capital	239	255	(2 574)
= Cash Flow from Operating Activities (1)	**361**	**290**	**4 527**
- Net capital expenditure	167	346	514
- Acquisition (disposal) of other fixed assets	-	36 435	7 461
= Cash Flow from Investing Activities (2)	**(167)**	**(36 781)**	**(7 975)**
Free Cash Flow after financial expense (1)+(2)	**194**	**(36 491)**	**(3 448)**
+ Proceeds from share issues	-	15 652	-
- Dividends paid	380	-	-
= Increase (decrease) in net debt	**(186)**	**(20 839)**	**(3 448)**
o/w convertible bonds	**-**	***16 050***	**-**

Balance sheet

In € thousands	2006 (Fr)	2007 (Fr)	2008 (IFRS)	2009 (IFRS)
Intangible fixed assets	6 503	6 440	41 088	47 278
+ Tangible fixed assets	921	882	2 336	2 575
+ Financial fixed assets	118	145	687	1 330
+ Other long term assets	570	227	1 503	2 299
= Fixed Assets (1)	**8 112**	**7 694**	**45 614**	**53 482**
Inventories	237	334	952	1 115
+ Accounts receivable	3 743	4 154	7 939	8 907
+ Other current assets	1 200	1 422	2 544	2 645
- Accounts payable	3 405	3 761	7 389	9 300
- Other current liabilities	1 337	1 470	3 113	5 008
= Working capital (2)	**438**	**678**	**933**	**(1 641)**
Economic assets = (1)+(2)	**8 551**	**8 372**	**46 547**	**51 842**
Shareholders' equity	8 444	8 079	25 069	27 337
+ Minority interests	-	-	346	(75)
= Equity (3)	**8 444**	**8 079**	**25 415**	**27 262**
Long term debt	820	626	21 968	27 615
o/w convertible bonds	-	-	*15 060*	*14 259*
+ Short term debt	48	606	2 102	2 654
- Cash & equivalents	761	940	2 939	5 688
= Net Debt (4)	**107**	**292**	**21 132**	**24 580**
Capital employed = (3)+(4)	**8 551**	**8 372**	**46 547**	**51 842**

Working capital turnover

	2006 (Fr)	2007 (Fr)	2008 (IFRS)	2009 (IFRS)
Operating Working Capital/Sales (days)	5d	8d	9d	-9d

Profitability

	2006 (Fr)	2007 (Fr)	2008 (IFRS)	2009 (IFRS)
Operating profit after tax (33%) / Sales	-4.5%	0.4%	0.3%	0.4%
×				
Sales / Capital Employed (excluding financial assets)	3.5	3.6	0.8	1.3
= After tax ROCE	**-15.5%**	**1.6%**	**-0.3%**	**0.6%**
ROE, excluding non recurring items	**-21.6%**	**0.7%**	**-3.9%**	**-7.3%**
Gearing ratio (Net Debt / Equity)	1%	4%	83%	90%

APPENDIX 3: Information on stock market analysis of Group Monceau Fleurs

Stock market data

	2007	2888	2009	at 27.07.2010
Highest stock price in €	13.4	13.5	10.9	11.0
Lowest stock price in €	10.5	3.8	4.8	7.9
Last price in €	13.4	5.4	10.9	7.9
Number of shares in thousands	5 207	5 805	5 805	5 805
EPS in €	0.00	0.03	-0.33	n.a.
PER	n.m.	n.m.	n.m.	n.a.
DPS in €	0.07	0.00	0.00	0.0
Dividend Yield in %	0.5%	0.0%	0.0%	0.0%
Payout Ratio in %	n.s.	0%	0%	0%
Stock market capitalisation in € thousands	69 774	31 289	62 984	45 801
Shareholders' Equity (group share) in € thousands	8 079	20 384	27 337	n.a.
Market capitalisation / book value of equity	8.6	1.5	2.2	n.a.

Risk free rate in June 2010 : 3.1 %
Market premium : 7.6 %
Beta of the stock : 0.94

n.m. : non meaningful
n.a. : not available

Monceau Fleurs share price since IPO (December 6th, 2007 at €10.5)

Source : Datastream

APPENDIX 4: Breakdown of Group Monceau Fleurs share capital

	In thousands of shares	As a %	% voting rights (*)
Laurent Amar – CEO – founder's grandson	3 788	65.3 %	78.4 %
Investment funds	394	6.8 %	4.3 %
Individual shareholders	1 623	27.9 %	17.3 %
Total	**5 805**	**100 %**	**100 %**

(*) The difference between the percentage in number of shares and the number of voting rights is explained by the fact that shares held by the same shareholder for more than 2 years are allocated double voting rights

There are convertible bonds (see Appendix 6) for which conversion into shares could lead to the issue of 1,210,000 new shares. None of these is held by Laurent Amar.

APPENDIX 5: Characteristics of the bonds issued by Groupe Monceau Fleurs in mid 2010

Number of bonds issued	:	24 000
Issue price and face value	:	€500
Amount of issue	:	€12m
Dated date and settlement date	:	June 30, 2010
Annual interest	:	8 %
Life of the bond	:	5 years
Redemption	:	in full, on June 30, 2015 at a price of €500 per bond

Use of income from the issue of the bonds:

- €7.2m to increase the number of franchisees;
- €4.8m to carry out acquisitions from competitors.

APPENDIX 6:

Characteristics of the convertible bonds issued by Groupe Monceau Fleurs in December 2007

Amount	:	€16.050m
Number of bonds	:	1 284 000
Face value of bonds	:	€12.5
Interest rate	:	4.3% per year
Redemption of bond	:	November 29, 2012 at €14 .7 per bond unless bearers request the conversion of convertible bonds at a rate of one Groupe Monceau Fleurs share per convertible bond
Number of bonds outstanding	:	1 210 000