# Mailpac Group Limited (MGL)

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## Transaction Overview

Mailpac Group Limited is inviting applications on behalf of itself and the Selling Shareholder for 500,000,000 ordinary shares, of which 250,000,000 are newly issued shares for subscription and 250,000,000 are existing shares of the Selling Shareholder for sale to be subsequently listed on the Junior Market of the Jamaica Stock Exchange. The Company intends to use the proceeds for general corporate purposes and debt repayment.

**Term Sheet**

| | |
|---|---|
| **Issuer** | Mailpac Group Limited |
| **Selling Shareholder** | Norbrook Equity Partners Limited |
| **Arranger** | NCB Capital Markets Limited |
| **Securities** | Up to 500,000,000 ordinary shares |
| **Price** | J$1.00 per ordinary share |
| **Minimum Subscription** | 10,000 ordinary shares, applications above this amount must be made in multiples of 100 |
| **Use of Proceeds** | a) General corporate purposes, including working capital, operating expenses and capital expenditure.<br>b) To settle existing debt obligations the Selling Shareholder assumed on behalf of the Company. |
| **Dividend Policy** | If the Company is admitted to the Junior Market of the JSE, the Directors intend to pursue a dividend policy that projects an annual dividend of up to 75% of net profits available for distribution, subject to the need for reinvestment in the Company from time to time. |
| **Timetable of Key Dates** | Opening Date – November 22, 2019<br>Closing Date – December 6, 2019<br>The Company reserves the right to close the subscription list at any time after it opens without notice if Applications have been received for the full amount offered. |

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### Shareholdings in the Company Before and After the Invitation

| Shareholdings in the Company before the Invitation | | |
|---|---|---|
| **Name of Shareholder** | **Number of Ordinary Shares Before Opening Date** | **% of Issued Shares before Opening Date** |
| Norbrook Equity Partners Limited | 2,250,000,000 | 100.00% |
| **Total** | **2,250,000,000** | **100.00%** |
| **Shareholdings in the Company after the Invitation** | | |
| Norbrook Equity Partners | 2,000,000,000 | 80.00% |
| Key Partner Reserve Pool | 150,000,000 | 6.00% |
| Financiers Reserve Pool | 150,000,000 | 6.00% |
| Employee Reserve | 50,000,000 | 2.00% |
| General Public | 150,000,000 | 6.00% |
| **Total Issued Share Capital Following Invitation** | **2,500,000,000** | **100.00%** |

### Company Background

Mailpac Group Limited is a wholly-owned subsidiary of Norbrook Equity Partners (Norbrook), and was incorporated on September 19, 2019, to acquire the businesses of Mailpac Services Limited and Mailpac Local Limited, for the purpose of amalgamating both logistics platforms into one operating business. The acquisitions were done such that the core operations of both companies remained as is but would benefit from the economies of scale and synergies as one operating company

Mailpac Serviced Limited was formed in 1998 as the first international agent to Metropolitan International Services (Aeropost), a technology-focused freight forwarding platform based in Miami, Florida. Mailpac's aim is to provide customers with an address in the United States where online shoppers in Jamaica could send their purchases to make the process of receiving their packages more seamless. Over the years, Mailpac introduced value-added enhancements such as: package tracking, home & office delivery; insurance coverage; and weight based pricing (as opposed to dimensional).

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In 2010, Norbrook Caribbean Investment Company (the Predecessor to Norbrook Equity Partners Limited) an investment holding company founded by Khary Robinson proposed an acquisition. Norbrook observed accelerated growth in online shopping internationally, in particular in North America, and deduced that the consumption pattern in Jamaica would follow a similar trend. Mailpac instituted various infrastructural and technological enhancements over the next seven years and Norbrook leveraged its ecommerce expertise to establish Mailpac Local Limited – a separate ecommerce entity serving local retailers that wanted to sell to Jamaican consumers. Led by a separate management team, Mailpac Local has built its customer base by delivering goods bought on its website from local providers such as: PriceSmart, Hi-Lo and Stationary Centre.

Norbrook has invested over $263M in investments in infrastructure, technology and service offerings in the acquired business and has determined that to better position both companies, they would restructure them as one newly-formed entity, Mailpac Group Limited. The Company offers ecommerce fulfilment services from the United States to Jamaica (under the brand Mailpac Services), cross-border online shopping with local landed prices (Mailpac Marketplace), local online shopping and delivery from local retailers (Mailpac Local), online shopping financing (Mailpac Financial Services), a branded MasterCard for shopping online (The Mailpac Card), sea freight shipping (Mailpac Ocean Freight) and brokerage services.

The Company differentiates itself from other players in the market by offering a suite of products and services in addition to basic ecommerce fulfilment, inclusive of:

- Comprehensive logistics and delivery platform inclusive eleven locations and fleet of delivery vehicles
- App for seamless tracking, payments and pricing
- Unique address from the Florida Revenue Department which gives customers access to tax-free address
- Insurance programme that includes free returns and full refunds on compromised items
- Local ecommerce platform, Mailpac Local, that allows customers the convenience of shopping online for goods sold by local retailers
- using a technologically advanced customer service team
- Exclusive partnership with Amazon, ebay and other providers that allows for instant landed pricing inclusive of shipping and duty
- Backward integration with all major couriers, including FedEx and UPS, for integrated tracking
- Instant approval financing platform, allowing shoppers to efficiently finance their purchases
- Sea freight and brokerage platform to serve the shipping needs of customers outside of ecommerce or small shipments for items online

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- Mailpac Mastercard which allows shoppers a safe and seamless tool to pay

**Corporate Governance**

The Board of Directors of Mailpac Group Limited comprises five (5) members, three of whom are directly involved in business operations or are a part of the executive management of the parent company.

| Board of Directors | |
|---|---|
| **Khary Robinson – Executive Chairman** | Khary Robinson is the Executive Chairman of Norbrook, a holding company that acquires and operates privately owned businesses in emerging and niche markets. Today Norbrook owns and operates eleven companies in Jamaica. Since founding NCIC (the Predecessor to Norbrook) in 2008, Mr. Robinson has been responsible for transaction execution, business development, strategy, finance and operations across the Group.<br>Prior to establishing Norbrook, Mr. Robinson worked in various industry groups of Investment Banking for Goldman Sachs, Citigroup and Bank of America Securities. During his tenure, he analysed various financial markets, companies and acquisition candidates for corporate clients undertaking financing and M&A transactions. Mr. Robinson studied economics at Georgetown University and received his MBA from the Wharton School, with a major in Finance and Entrepreneurial management. |
| **Mark Gonzales – Executive Director & CEO** | Mr. Gonzales is the CEO of MGL and was previously the CEO of Mailpac Services Limited for over 15 years. He is experienced in customs administration, having spent over eighteen (18) years at the Jamaica Customs Agency. During that time he gained knowledge and work experience in almost all aspects of customs processes and procedures, which equipped him to provide expert service on customs and trade operations. Mr. Gonzales received his MBA in Business Administration from The University of New Orleans and holds both BSc. and Asc. Degrees in Business Administration from Northern Caribbean University. |
| **Garth Pearce** | Mr. Pearce currently serves as the Chief Executive Officer of Norbrook. Mr. Pearce is responsible for all areas of the group and its portfolio companies. This includes all the central support services provided from Norbrook to each of its portfolio companies - Finance, Accounting, Human Resources, Logistics and Administration. Previously, Mr. Pearce was Manager of Investment Banking for NCB Capital Markets Limited, the investment banking arm of the NCB Group, where he was responsible for deal origination and structuring with a focus on private equity and real estate transactions.<br>Mr. Pearce was Senior Investment Manager for the Caribbean Investment Fund, L.P., the first pan-Caribbean private equity fund dedicated exclusively to making investments in the CARICOM Region. He also worked with Jamaica Producers Group, where he managed finance and logistics for the Caribbean snack food business. |
| **William Craig** | Mr. Craig has been the CEO of Billy Craig Insurance Brokers since 2001. In his capacity as CEO, he is the company's strategic lead, and ensures that his team consistently provide excellent service and achieve its key performance indicators. Mr. Craig holds a Bachelor's degree in Economics from Clemson University in the United States. He currently serves on the Boards of Cargo Handlers Limited, and the Cornwall Regional Hospital. |
| **Tracy-Ann Spence** | Tracy-Ann Spence is currently the Vice President - Investments at NCB Capital Markets Limited. She has responsibility for developing and implementing strategies aimed at growing investment income. Her investment portfolios span the region, including subsidiaries in Jamaica, Cayman, Barbados and Trinidad. Her experience covers industries |

such as: Securities, Banking, General Insurance, Life Insurance and Pension Fund management. She has been employed to the NCB Financial Group for over 16 years and counts a BSc. in Applied Mathematics from York University in Toronto, an MBA in Banking and Finance (with distinction) from the University of the West Indies and a Project Management Professional (PMP) Certification from the Project Management Institute among her educational achievements.

**Industry Background**

Mailpac has identified the main driver behind the ecommerce fulfilment business as the rapid increase in online shopping over the past 20 years. Ecommerce is an industry that did not exist 50 years ago but has surged and continues to grow as technology and its adaptation in shipping evolves. Increased access to the internet and tools such as credit and debit cards to enable e-commerce transactions have led the expansion of the industry in Jamaica.

The e-commerce industry is fragmented in Jamaica. When NCIC acquired Mailpac in 2010, there were approximately six providers that cleared goods at the Norman Manley International Airport on behalf of online shoppers; that number now stands at approximately sixty (60). Mailpac has posited that the emergence of other providers has been a positive for their business as newer and smaller providers serve as ambassadors for the benefits of shopping online.

Mailpac's belief is that these new online shoppers would eventually gravitate towards the providers that have the scale and scope to serve them with superior technology, service, infrastructure, responsiveness, insurance and proximity. Mailpac likened this effect to KFC's dominance in the Quick Service Restaurants segment. Despite the emergence of many small restaurants, which has encourage out-of-home dining, KFC has been able to maintain its leadership position in a growing industry by ensuring superior quality, service, and value.

In a similar fashion, Mailpac has sought to maintain a differentiated leadership position in the growing ecommerce fulfilment industry. The Company highlighted that before the business was acquired, the number of total packages handled by Mailpac Services between 2013 and 2016 grew at approximately 5.72% - at a time when the number of providers were approximately half the number they are today. In subsequent years, 2017 and 2018, growth rates were 12.2% and 25.7%, respectively. Growth continued in 2019 reaching a record rate of 28.8% for the first half of the year.

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**Financial Analysis**

Audited financials were not provided in the Mailpac Prospectus. Instead, proforma historical financials for MGL were presented which represent the amalgamated financials of Mailpac Services Limited and Mailpac Local Limited as if they were acquired by MGL on January 1st, 2018. Full year ended December 31, 2018 and Nine Months Ended September 30, 2019 proforma financials were presented. Projected financials were also provided for the 2020 to 2024 financial year. Investors should be mindful of the disclaimer provided with the proforma financials:

> *"The pro forma combined financial statements do not necessarily reflect what the combined company's financial condition or results of operations would have been had the acquisition occurred on the dates indicated. They also may not be useful in predicting the future financial condition and results of operations of the combined company. The actual financial position and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors."*

***The lack of audited historical financial statements over a multi-year period limits our ability to conduct an in-depth analysis of the trends in revenue and profit growth and margin performance.***

***The projected financial results are based on management's opinion of the market and targeted growth strategies over the next five years. However, as no historical numbers were provided, we cannot ascertain whether or not the assumptions driving these projections are fair and reasonable.***

***The lack of disclosure also limits the valuation process.***

*Profitability*

Revenues for the 12 months ended December 31, 2018 amounted to $969.24M, while gross profit stood at $519.4M following cost of sales of $449.83M. The Mailpac Local Limited business only operated for seven months in 2018. Operating expenses amounted to $307.18M, consisting of $277.41M in administrative & general expenses and $29.77M in selling & promotional expenses. As such, operating profits amounted to $212.23M while profit before taxation stood at $213.15M, after deducting finance costs of $798.0K. We note that no taxation expense was reported for the period. Mailpac asserted that this was done to show what the financials would look like when benefitting from the Junior Market 10-year tax holiday.

| Proforma Income Statement Highlights | 12 mths ended Dec 31 | 9 mths ended Sept 30 |
|---|---|---|
| | 2018 | 2019 |
| | $'000 | $'000 |
| **Revenues** | 969,240 | 851,436 |
| **Gross profit** | 519,407 | 441,827 |
| **Operating Expenses** | (307,181) | (253,113) |

| | | |
|---|---|---|
| **Operating Profit** | 212,226 | 188,714 |
| **Profit before taxation** | 213,145 | 203,136 |

The gross profit margin for the year stood at 53.6% while EBITDA amounted to $219.37M, with a margin of 22.6%. The pre-tax profit margin was 22.0%.

For the nine month period, MGL reported revenues of $851.44M and gross profits of $441.83M. The gross profit margin in comparison to the 53.6% reported for the 2018FY stood at 51.9% for the 9M2019 period. Operating profits amounted to $188.71M, as administrative and general expenses amounted to $224.31M while selling & promotional expenses stood at $28.8M. EBITDA amounted to $195.33M, which corresponds to an EBITDA margin of 22.9%. The company posted other income of $17.57M for the period, relative to $1.72M in the 2018FY. Pre-tax profits amounted to $203.14M, which corresponds to a pre-tax profit margin of 23.9%.

*Liquidity & Solvency*

Total assets amounted to $338.54M as at September 30, 2019, up 65.7% from the balance of $204.34M as at December 31, 2018. This increase was driven by a 292.4% or $182.25M increase in intangible assets to $244.58M. Intangible assets were the largest asset class as at Sept. 30, 2019, accounting for 72.2% of total assets, up from 30.5% at the start of the period. Intangible assets represent goodwill arising from various transactions including the acquisitions undertaken by MGL. Property, plant & equipment amounted to $37.21M, down 6.4% from Dec. 31, 2018. Accounts receivable and prepayments stood at $41.75M, down 3.2% while cash resources fell 74.6% to $15.0M.

Total equity amounted to $27.36M, which was down 69% over the period as the accumulated surplus of $85.4M at the start of the 2019 period fell to zero as at period end. During the year, $264.06M was paid in dividends to Norbrook. Non-current liabilities amounted to $262.7M, which represented a note payable to parent company while current liabilities stood at $48.44M, up 31.0% and represented accounts payable and provision. The debt/equity ratio surged from 0.89x to 9.59x. However, debt servicing was not a challenge given that the interest coverage ratio was fairly elevated at 60.0x in 2019.

MGL's liquidity declined in 2019, as the cash ratio moved from 1.6x to 0.31x while the current ratio stood at 1.17x as at Sept 30, 2019, down from 2.77x at the start of the period. Net cash provided by operating activities was $225.75M in the 2019 period, up from $193.87M in the 2018FY.

Half of the net IPO proceeds will go the Selling Shareholder while the other half will be used by MGL to repay most of the debt that Norbrook incurred on its behalf to finance the expansion of the business. By paying off the debt, MGL contends that it creates capacity on the Company's balance sheet for new financing if MGL identifies further expansionary opportunities.

**Outlook**

MGL expects to grow by employing the following initiatives:

- Increasing market share – The company views itself as best provider in the market due to exclusive technologies and partnerships.

- Acquisitional growth – MGL has employed both organic and inorganic strategies to drive expansion over the years. The Company acquired Global Couriers and DHL's EZ Shop business and management will continue to explore strategic acquisition opportunities, both locally and regionally.

- Mailpac Local Growth – With only seven months of operations in 2018, MGL believes it can position this arm as the "Amazon of Jamaica", leveraging its broad delivery network and twenty years of fulfilment experience. It is the Company's view that all local retailers will inevitable aim to have an online presence.

- Change in shipping behaviour – Falling air freight costs and improving freight forwarders' efficiency are driving more consumers or senders to companies such as MGL to deliver their international items.

- Technology enhancements & partners – As a partner of Aeropost (one of the largest networks of ecommerce logistics providers in the region), MGL benefits from its market-leading technological solutions. Aeropost has over one million online shoppers, MGL believes it can profit from the economies of scale afforded through the network's partnerships with entities such as Amazon, eBay and Alibaba.

- Financing – Mailpac Financial was beta launched in 2018, allowing consumers to purchase goods online by offering financing through its exclusive online portal. This platform is expected to be formally launched in 2020.

- Mailpac Mastercard – This solution allows consumers to "top-up" a Mailpac-branded prepaid Mastercard and shop online. Mailpac is targeting unbanked and underbanked Jamaican consumers that have identified products they would like to purchase but do not have the transactional tool to do so.

**Analyst Opinion & Recommendation**

Mailpac operates in, by its own admission, a highly competitive market that does not appear to have high barriers to entry. The main service offered, e-commerce fulfilment, is effectively homogenous. The table[1] below displays Mailpac's rates and provides a comparison to other larger players in the Jamaican e-commerce industry[2]. From the table, we can conclude that Mailpac is not aiming to compete on price but

[1] Rates were sourced from the companies' websites

[2] MD Courier's prices are stated in JMD on their website. A JMD:USD rate of J$140:U$1 was used to convert

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by differentiating itself with its variety of service features as, in some cases, the price differential is significant.

| | Freight Rates (USD) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Rate Comparison | Mailpac Services | ShipMe | Price Differential | RocketShip | Price Differential | MD Courier | Price Differential | Circles | Price Differential | Union One Express | Price Differential |
| Up to 0.5lb | 5.00 | - | | | | | | | | - | |
| Up to 1lb | 8.00 | 4.50 | 78% | 3.49 | 129% | 3.56 | 125% | 4.00 | 100% | 4.00 | 100% |
| 2 lbs | 10.50 | 7.50 | 40% | 6.49 | 62% | 6.13 | 71% | 7.00 | 50% | 7.00 | 50% |
| 3 lbs | 14.50 | 10.50 | 38% | 8.99 | 61% | 8.19 | 77% | 9.50 | 53% | 10.50 | 38% |
| 4 lbs | 17.50 | 13.50 | 30% | 10.99 | 59% | 9.62 | 82% | 12.00 | 46% | 13.50 | 30% |
| 5 lbs | 20.50 | 16.50 | 24% | 13.99 | 47% | 11.04 | 86% | 14.50 | 41% | 16.60 | 23% |
| 6 lbs | 23.50 | 19.50 | 21% | 16.49 | 43% | 13.18 | 78% | 17.00 | 38% | 19.00 | 24% |
| 7 lbs | 26.50 | 22.50 | 18% | 18.99 | 40% | 13.89 | 91% | 19.50 | 36% | 23.00 | 15% |
| 8 lbs | 29.50 | 25.50 | 16% | 21.49 | 37% | 15.31 | 93% | 22.00 | 34% | 26.00 | 13% |
| 9 lbs | 32.50 | 28.50 | 14% | 23.99 | 35% | 16.74 | 94% | 24.50 | 33% | 29.00 | 12% |
| 10 lbs | 35.00 | 31.50 | 11% | 26.49 | 32% | 18.16 | 93% | 27.00 | 30% | 31.00 | 13% |

By listing on the Jamaica Stock Exchange's Junior Market, MGL will benefit from the increased visibility that being listed will provide and consumers may be attracted to the variety of add-on features the Company offers. However, MGL's competitors could also implement similar features and seek to undercut the company. There are also no barriers that prevent consumers from switching to another e-commerce fulfilment provider.

We concur with Mailpac's assertion that with increase internet penetration and access to financial transactional tools (credit/debit cards), more Jamaicans are likely to seek out the services of e-commerce fulfilment providers. We note that these consumers are likely to be price-sensitive, as the value proposition of e-commerce fulfilment providers is that it allows consumers to buy goods for less than the price charged by local retailers. As such, some of these same consumers are likely to be drawn to cheaper providers of similar services.

Projected 2019 revenues stand at $1.19B while net profits are expected at $281.99M, year-over-year increases of 23% and 32%, respectively. These figures are derived from the proforma nine months ended September 2019 data and MGL's fourth quarter projections. These profits correspond to an earnings per share of $0.11 and a price to earnings ratio of 9.70x utilising the IPO Offer Price of $1.00 per share.

***We utilised a justified P/E multiple approach to determine MGL's fair price. Assuming the payout ratio is indeed 75% of available profits, we derived a justified P/E of 13.5x. This produces a price of $1.53, which represents a potential price appreciation of 53% over the issue price. We assumed a cost of equity of 11.34% and long-term growth rate of 5.5%.***

***We recommend Mailpac Group Limited as UNDERPERFORM. We acknowledge the relatively low price to earnings ratio of 9.70x, but balance this against our inability to fully assess Mailpac's financials thoroughly due to limited disclosure.***

*Source: http://www.Jamstockex.com, JMMB Investment & Research, IPO Prospectus, Bloomberg*

# APPENDIX

## IMPORTANT DISCLOSURES

**ABSTRACT**—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

**OUTPERFORM - up to 10% of your portfolio**

**MARKETPERFORM - 5% of your portfolio**

**UNDERPERFORM - 2.5% to 4.9% of your portfolio**

**STRONGLY UNDERPERFORM - less than 2.5% of your portfolio**

**SELL - 0% of your portfolio**

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