AIM Advisers, Inc.
Maximizing Present & Future Value

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Filta Raises $7.74 Million in AIM IPO

$5.38 Million for the Company and $2.36 Million for the Selling Shareholder

Overview

Orlando, Florida and Rugby, England-based Filta Group Holdings plc raised $8 million in its recent IPO on the London Stock Exchange's AIM and commanded an opening market capitalization of $28 million. The Company was founded in 1996 and generated the equivalent of $10 million of revenue during 2015. Revenue, adjusted EBITDA and adjusted net income grew at 20%, 100% and 150%. The trailing pre-money revenue and adjusted EBITDA multiples were 2.29 and 12.90 and the trailing pre-money adjusted P/E ratio was 18.06.

Filta, through its franchise network, provides weekly services to over 5,000 national and independent commercial kitchen operators and owners. Its principal service is FiltaFry, which is the micro-filtration of cooking oil and the vacuum-based cleaning of deep fryers. The U.S. is operated exclusively as a franchise network, accounting for 55% of total revenue, while the UK operates a franchise network and sells some services direct, accounting for 45% of total revenue. Approximately 55% of the Company's revenue is recurring or linked to royalty income paid by the franchise network. As of June 30, 2016, Filta had 169 franchise owners; 130 in the U.S. and 39 in the UK, and 53 of its own employees.

The Company's key growth market is the U.S. where there are 625,000 food service businesses, of which, only 3,600 are serviced by Filta. Since there is high demand for fried food in the U.S., the typical commercial kitchen has more fryers than in the UK, although the UK is still largely untapped with 75,000 food service businesses, of which, only 1,200 are serviced by Filta. The U.S. is also the key growth market because of the greater acceptance of franchise business models.

Owners and operators of commercial kitchens in restaurants, hotels, hospitals, universities, supermarkets, large manufacturing plants, casinos, concert venues and sports stadiums have traditionally used their own employees to dispose of waste cooking oil and clean and maintain their fryers. The outsourcing of these tasks is a relatively new development; however, commercial kitchen owners and operators are increasingly willing to outsource these services given the cost/benefit relationship.

The FiltaFry service incorporates a proprietary mobile cooking oil filtration unit (MFU). An MFU uses filters that have been designed for the Company and manufactured to work only with the Company's proprietary MFU. The operator of an MFU can extract cooking oil from a fryer at cooking temperature, thus minimizing downtime. The cooking oil is forced through several filters within the MFU, removing flour and other fine particles. While the MFU is filtering the cooling oil, which takes approximately six-to-ten minutes, the MFU operator cleans the fryer with a high temperature industrial vacuum cleaner. Once the fryer is clean and the cooking oil has been filtered, the cooking oil can be put back into the fryer.

The benefits to owners and operators of commercial kitchens are threefold. Food quality is enhanced with the use of cleaner cooking oil. Costs are reduced by extending the cooking oils' useful life. Health and safety is improved by reducing the risk of spillage and other hazards associated with cooking oil cleaning and/or replacement since qualified professionals with specialized equipment provide the service.

Under the terms of the Filta franchise agreements, each franchise owner pays the Company a fixed royalty based upon the number of MFUs they operate in a geographic area. There are currently 319 MFUs being utilized by franchise owners; 276 in the U.S. and 43 in the UK.

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Filta provides two additional services within the fryer management space. FiltaBio is the collection and removal of used cooking oil by franchise owners which is then sold to the Company and ultimately sold to third parties such as biofuel producers. FiltaGold is simply the sale of new cooking oil. The FiltaBio and FiltaGold services are offered by 115 and 48 franchise owners, respectively. In the aggregate, the Company's three fryer management services accounted for $5.7 million of revenue during 2015.

The sale of franchises is the next largest generator of revenue for the Company, amounting to $1.6 million during 2015. Filta has signed up an average of 17 new franchise owners in each of the last three years. The Company expects this rate of new franchisees to hold steady for the foreseeable future but to decrease longer term as the Company seeks to focus on investing in and growing existing franchisees.

New franchisees pay an initial, non-refundable franchise fee, which consists of a territory fee and an opening package fee. The territory fee provides the exclusive right to operate in a designated territory for a period, typically 10 years in the U.S. and five years in the UK. The opening package fee obliges the Company to provide various equipment, inventory and training. The territory fee is recognized as revenue over the term of the franchise agreement and the opening package fee is recognized as revenue upon the completion of training. New franchise owners typically launch with a single MFU and van.

Filta provides two services directly in the UK that it does not provide in the U.S. The customer base for these services is similar to that addressed by the franchise owners. Filta Refrigeration provides repairs, scheduled maintenance and installation of commercial refrigeration. This service generated $1.5 million of revenue during 2015. Fita-Seal provides the on-site manufacture and replacement of commercial refrigerator door seals using the Company's patented equipment built into customized vans. Commercial refrigerator door seals need replacing approximately every two years and can take significant time and/or be expensive. By providing an immediate fitted seal on site, the Company provides a competitively priced service in a timely manner, which generated $1.2 million of revenue during 2015. Fita-Seal targets national accounts and facilities management companies that service national organizations.

In terms of sales and marketing, the Company trains the franchise owners to sell the fryer management services directly by approaching potential customers and offering free site evaluations. Following the initial approach, franchise owners collect data during site visits and then produce a service proposal for the potential customer. Free site evaluations turn into paying customer approximately 50% of the time.

Filta supports its U.S. franchise owners with an inside sales team of five. A similar inside sales operation is currently being established in the UK. Each franchise owner is teamed with a sales representative with whom they agree a prospective customer list to approach. The inside sales team also targets national accounts, manages these relationships and links them to local franchise owners. The U.S. inside sales team was established in 2012 and has been, and will continue to be, a key driver of growth.

The Company's focus going forward is to continue increasing the number of franchise owners, especially in the U.S. and new markets like Canada and select Continental European countries, increase the number of customers serviced by existing franchise owners, especially through higher penetration of existing national accounts and new national accounts secured by the inside sales team and increase the range of services sold by franchise owners to existing customers, such as FiltaBio and FiltaGold.

Filta is in the process of launching two new services and products; FiltaDrain in the U.S., which is a weekly foaming service sold by franchise owners for kitchens to keep their drains clear and grease traps free of grease and FiltaZyme in the UK, which is a drip system sold by the Company via the Fita-Seal vans that achieves the same objective.

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Key Financial Metrics

(in GBP millions)	Y/E 12/31/13	Y/E 12/31/14	Y/E 12/31/15	Δ '13 - '14	Δ '14 - '15
Revenue	£6.3	£6.6	£7.9	+5%	+20%
COGS	3.3	3.7	4.2	+12%	+14%
Operating Expenses	2.6	2.3	2.4	-12%	+4%
Interest Expense	0.1	0.1	0.1	+0%	+0%
Income Tax Expense	0.1	0.1	0.2	+0%	+100%
Adjusted Net Income[1]	0.2	0.4	1.0	+100%	+150%
Adjusted EBITDA[2]	0.5	0.7	1.4	+40%	+100%

During 2015, the Company generated 55% of its revenue from the U.S. and 45% from the UK. The U.S. is operated exclusively as a franchise network while the UK operates a franchise network and sells some services direct. As of June 30, 2016, Filta had 169 franchise owners; 130 in the U.S. and 39 in the UK. No franchise owner or customer accounted for more than 10% of revenue.

Since the 2015 financials were more than nine months old, unaudited, comparative, six-month stub period financials were required. During the six months ended June 30, 2016, the Company generated revenue, adjusted EBITDA and adjusted net income of £4.7 million, £0.7 million and £0.5 million, respectively.

Key Listing Metrics

- $7.74m gross was raised, $5.38m for the Company and $2.36m for the Selling Shareholder
- $4.33m, net of offering costs, was raised for the Company to be used as follows:
    - $3.56 million to drive further growth by:
        - Entering new local markets in the U.S.
        - Expanding into Canada and Continental Europe
        - Launching new services for drains and grease traps
        - Strengthening the balance sheet with additional working capital
    - $0.77 million to repay loans from the Directors
- Aggregate transaction costs amounted to 15% for the Company and Selling Shareholder
- Offering costs amounted to 19.52% of the gross capital raised for the Company
    - The offering was undertaken on a 'best efforts' basis, as opposed to being underwritten
        - Broking commission of 5% and corporate finance fee of £150,000 ($187,000)
        - Three-year option over 0.67% of the enlarged share capital struck at IPO price
- Opening market capitalization of $27.93 million
- Dilution to existing shareholders of 19.26%
- Free float of 28.4%
- Trailing pre-money revenue multiple of 2.29
- Trailing pre-money adjusted EBITDA multiple of 12.90
- Trailing pre-money adjusted P/E ratio of 18.06

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[1] The Founder and the Managing Director of the U.S. subsidiary have historically withdrawn any excess cash generated by the U.S. subsidiary through one-off bonus payments which were recognized within operating expenses. These payments of £0.2m, £0.3m and £0.8m during 2013, 2014 and 2015, respectively, have been deducted from the operating expenses and income tax expense has been adjusted accordingly to present the historic financials on the arm's-length basis that will prevail going forward.
[2] The same adjustments described above have been made to EBITDA, although, by definition, taxation need not be considered.

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Shareholder Base

The Company had 21.8 million shares outstanding prior to the IPO and issued 5.2 million new shares for cash in the IPO, leaving the Company with 27.0 million shares outstanding. The table below details those who held 3% or more of the Company prior to and after the IPO, along with other holdings of interest.

Shareholder	Pre-IPO %	Post-IPO %
Trust (Controlled by the Founder and CEO and a UK-based NED)	36.42	29.41[3]
Managing Director of the U.S. subsidiary (Selling Shareholder)	31.42	16.91[3]
Founder and CEO	16.95	13.68[3]
UK-based NED (Controls the Trust)	-	6.54[3,4]
Other Historic Investors	15.21	11.03[5]
Other UK-based NEDs	-	0.18
UK-based Private Equity Group	-	9.81
London-based Institution	-	5.71
London-based Institution	-	3.58
Global Institution	-	3.15
Totals	100.00	100.00

Filta was founded in the UK in 1996 by the CEO. The Managing Director of the U.S. subsidiary, a fellow Brit, joined him that same year to assist in adopting a franchise business model. Both chaps relocated to the U.S. in 2002/03 given the size of the market opportunity and greater acceptance of franchising business models. Upon their relocation, a key employee who join the Company in 1999 was appointed Managing Director of the UK subsidiary. The final member of the Executive Management Team is the CFO who is based in Florida and joined Filta in early 2016. Neither the Managing Director of the UK subsidiary nor the CFO own shares in the Company.

As a result of the AIM IPO, the Company now has an adequate amount of capital to execute upon its geographic expansion plans, launch new services and take advantage of possible acquisition opportunities. The new, UK-based, blue-chip investors have broadened the shareholder base and can, if required, provide additional capital to fund further growth plans. The AIM IPO will also raise the profile of the Company amongst prospective franchisees, existing franchisees and their customers and customers with whom Filta deals direct. Finally, the ability of the Company to recruit, retain and incentivize its staff will be enhanced when Filta implements its proposed share option plan.

[3] Subject to a 24-month lock-in.
[4] This direct shareholding arose from the conversion of a £1.46 million loan.
[5] Only 52.13% of these investors are subject to the abovementioned lock-in.

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Board of Directors and Corporate Governance

The Board consists of seven Directors; four executives (the Founder and CEO, the CFO and the Managing Directors of the U.S. and UK subsidiaries) and three non-executives, all with solid resumes and a good blend of complementary experiences and skill sets. The non-executives consist of an Independent Non-Executive Chairman (NEC), an Independent Non-Executive Director (NED) and a NED who is not independent.

Companies listed on AIM are not required to comply with the UK Corporate Governance Code published by the Financial Reporting Council, which is mandatory for companies listed on the Main Market of the London Stock Exchange. AIM-listed companies typically comply with, and the Company will do so to the extent it believes it is appropriate given its size, stage-of-development and resources, the main provisions of the Quoted Companies Alliance's Corporate Governance Guidelines for Smaller Quoted Companies. The overarching principle of corporate governance on AIM is to ensure that companies are managed in an efficient, effective and entrepreneurial manner for the benefit of all shareholders over the long term.

The Founder and CEO and one of the UK-based NEDs are related given the fact that the NED is married to the CEO's mother. Since they directly and indirectly own almost 50% of the Company, they entered into a Relationship Agreement with the Company to ensure that the Company can carry on its business independently of them and that all transactions between them and the Company will be at arm's-length and on normal commercial terms.

The Company established Audit and Remuneration Committees. The Audit Committee is chaired by the independent NED with the other two NEDs serving as members. The Audit Committee will meet not less than twice a year and will have unrestricted access to the Company's external auditors. The Remuneration Committee is chaired by the NEC with the other two NEDs serving as members and will meet as and when necessary.

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Accounting Considerations

The Company is incorporated in the UK; therefore, it is required to report using IFRS. The Group is structured with a wholly-owned UK subsidiary and a wholly-owned U.S. subsidiary below the Company. The functional currency of the Company and the UK subsidiary is British pounds Sterling and the functional currency of the U.S. subsidiary is the U.S. Dollar. The Group's combined financial information is presented in British pounds Sterling.

The UK Member Firm of an international accountancy network acted as Auditor and Reporting Accountant. Since the 2015 financials were more than nine months old, unaudited, comparative, six-month stub period financials were required. An unaudited pro forma statement of net assets is never required in connection with an AIM IPO but was provided to illustrate the net proceeds from the IPO, the repayment of loans from the Directors and the conversion of a loan from one of the UK-based NEDs.

Legal Considerations

The Company is incorporated in the UK and one of the UK-based NEDs is considered to control the Group given his direct and indirect shareholding, therefore, the UK is considered to be the 'place of central management and control'. As such, the three significant differences between U.S. and UK corporate law automatically apply as follows:

1. Pre-emption rights (i.e. anti-dilution) – Shareholders may participate in, or the Company must obtain approval from at least 75% of them for, the issuance of shares for cash of more than 10% of the then outstanding shares during any 12-month period.[6]

2. Notifiable Interests – Shareholders are required to notify the Company of, and the Company is required to publicly announce, holdings at or above the 3% level and whenever a full percentage point is breached in either direction.

3. Takeovers (i.e. mandatory offer) – If any party, or parties acting in concert, accumulates a holding of 30% or more, they must make a cash offer to the other shareholders at the highest price they paid for the Company's shares during the last 12 months.

The IPO was not subject to Regulation S of the U.S. Securities Act of 1933. Since the Company is incorporated in the UK, the shares are eligible for dematerialization and trading within CREST, the most common electronic system for the holding and transfer of shares in the UK. As such, it was not necessary to appoint a Depository and create Depository Interests, as would be the case for a company incorporated outside the UK or one of its Crown Dependencies, the Channel Islands and the Isle of Man.

[6] This is the typical level at which AIM-listed companies seek an annual standing authorization from their shareholders for the issuance of additional shares for cash. This flexibility increases the certainty and speed of small capital raises during the year and reduces transaction costs, since further communications with, and approvals from, shareholders are not required.