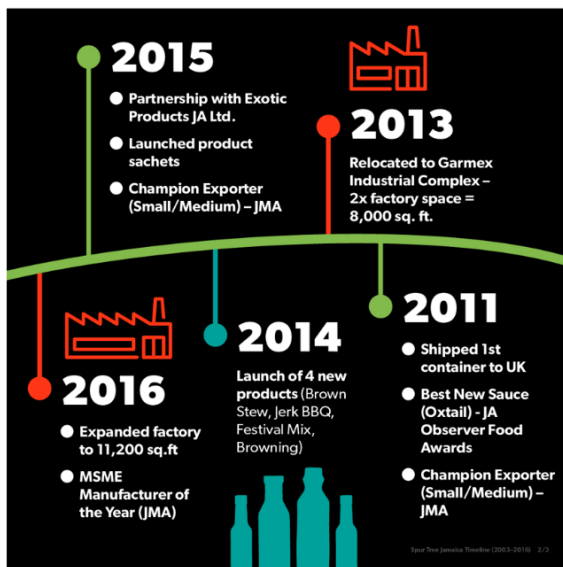


Spur Tree Spices Jamaica Limited (the Company or Spur Tree)



Spur Tree Spices Jamaica Limited is a Jamaican company that has been in operations for the past 15 years. The principal activities of the Company are the production, distribution, and sales of premium, quality, wet seasonings, and sauces that have an authentic Jamaican flavour. Spur Tree’s fresh ingredients are sourced from small farmers in St. Elizabeth, Clarendon, St Mary, and other parishes. Although the Company’s core business is wet sauces it has expanded its product line to include Jamaican staples such as as Ackee, Callaloo, Festival Mix, Juices, and other related products. Locally the Company’s distribution channels include hotels, restaurants and supermarkets, wholesales, and corner shops. However, with over 90% of income coming from exports, the Company's main focus remains on the export market. Spur Tree has been exporting to the United States(US), Canada, the United Kingdom(UK), and the Cayman Islands for over ten years, and has recently expanded its exports to Costa Rica, Panama, and Australia. The Company is approved by the U.S. Food and Drug Administration (FDA) and SQF (Safe Quality Food) certified. The Company currently operates out of a 20,000 sq. ft. manufacturing facility at Garmex, located at 76 Marcus Garvey Drive in Kingston.



IPO



Key Features

Offer Price	J\$1.00
Estimated Fair Value	J\$1.93
Implied Discount	51.81%
Forward EPS	J\$0.0975

SUMMARY

Spur Tree Spices Jamaica Limited is seeking to raise J\$335,391,848.

- No of shares offered 335,391,848 Ordinary Shares @ J\$1.00 per share. This offer includes Reserved Shares of 158,108,108.
- If successful, the Company will apply to the JSE for the Shares to be admitted to the Junior Market

Contact a Financial Advisor Today!!

(876) 929-7159

Or

Schedule an appointment

www.jnfunds.com

Invitation Details

Spur Tree Spices is inviting offers for the subscription of **335,391,848** Ordinary Shares (the capital of the Company) at a price of **J\$1.00**. Please see the Summary of the Terms of the Offer for more details. If the offer is fully subscribed, the number of shares issued shares after the successful completion of IPO will be **1,676,959,244**.

Summary of the Terms of the Offer				
Company	Spur Tree Spices Jamaica Limited - Manufacturer of sauces and spices and other related products			
Arranger / Lead Broker	GK Capital Management Limited			
Co-Broker	Sagikor Investments Jamaica Limited			
Shares the subject of the Invitation	Up to 335,391,848 Ordinary Shares			
Offer Opens	9:00 am on Wednesday , December 29, 2021			
Closing Date	4:30 pm on Wednesday, January 19, 2022			
	General Public	Spur Tree Staff	Key Strategic Partners	GK Investments
Price	J\$1.00	J\$1.00	J\$1.00	J\$1.00
Share Allotment	177,283,740	10,000,000	40,000,000	108,108,108
Use of Proceeds	Proceeds will be used to pay the Invitation and Listing Expenses and the remainder to go to the Company to be used for the repayment of debts and to facilitate business expansion. The total Invitation and Listing Expenses should not exceed J\$25M. The total debt to be repaid from the proceeds raised is J\$169,247,331, broken down as a payment of J\$156,755,412 to GK Investments and J\$12,491,919 to reduce Directors' Loan.			
Minimum Share Offering	Each application must be for a minimum of 1,000 Shares and in multiples of 100 Shares thereafter			

Corporate Governance

The board comprises seven (7) members; One (1) Independent chairman, Three (3) Independent Directors, and Three (3) Executive Directors. Approximately **57.14%** of the Board of Directors are independent non-executive Directors. In theory, independent directors will not be subject to pressure, and therefore are more likely to act in the shareholders' interests when those interests run counter to those of entrenched management.

DIRECTORS	
Independent	Executive Directors
Metry Seaga - Chairman	Albert Bailey
Anand James, JP	Harrinarine "Mohan" Jagnarine
Yana R. Samuels	Dennis Hawkins
Danielle Terrelonge	

Summary Business Overview and Strategy

Spur Tree was developed to satisfy the need for “all-in-one” seasonings that offer consistent quality and authentic Jamaican flavours. The company uses local ingredients to produce quality sauces with the quality with the “home-made” authenticity. Its products were developed deliberately to appeal to a wide market by giving consumers, home and abroad, the right balance between flavour and heat.

For the customers who use Spur Tree’s products, they appreciate the consistent quality and the fact that they also facilitate a reduction in preparation time. Another very important benefit is the company’s steady pricing which is particularly important given the ongoing pandemic where many businesses and consumers are grappling with supply inconsistencies and escalating prices.

Certainly, the fact that all of Spur Tree’s fresh ingredients¹ are sourced from small farmers plays a huge role in is a big part in achieving these key advantages as it means the company may have a less of a struggle with dealing with the supply chain issues and other spill over effects that many other manufacturers have become familiar with.

Spur Tree’s main offering is its signature wet seasonings. However, to capitalize on the brand value and customer loyalty, in recent years the company has strategically sought expanded its product line to include several Jamaican staples such as festival mix, ackee and juices among others.

Spur Tree’s retail base, from which it supplies its many customers including hotels, restaurants, supermarkets and wholesales and shops, in located in Jamaica. However, the company has a deliberate export strategy and currently over 90% of revenues are generated in export markets. Over the last decade the company has been supplying customers in the US, Canada, UK and the Cayman Islands and recently in Costa Rica, Panama and as far as Australia. The company’s is FDA approved and the US is currently its largest market.

To further grow its exports, Spur Tree acquired a local producer of canned ackee and callaloo, Exotic Products Jamaica Limited (Exotic), with the intention of streamlining and integrating the business and expects that based on the trajectory so far in 2021, profits could almost double by the end of the year. Profits for Exotic was J\$6.70M in FY 2020. The company sees the purchase of Exotic as an important strategic initiative geared at future growth. Currently, Exotic is only one of 9 local manufacturers approved by the FDA to export ackee to the US. Spur Tree expects to expand Exotic’s productive capabilities over the next two years, by upgrading its infrastructure and personnel capable of maximising the opportunities.

Distributed Globally

Distributed in Jamaica by:
Frozen Delights Distributors

And in these countries globally

United States of America
New York: G Kenneth Imports Inc
Miami: Guisens Food Group
Sub Distributors:
New Jersey: NAC Foods Corp
New York: United Food Brands Ltd
New York: Dave West Indian Imports, Inc
Orlando: Caribbean Supercenter

Australia
New South Wales: Jamaican Products
Canada
Ontario: Encompass Sales
Cayman
Grand Cayman: VPN Distributors
Costa Rica
San Jose: Pequeño Mundo

United Kingdom
Croydon: National Baking Company

*Full list of distributors can be seen in the prospectus: <https://www.jamstockex.com/>

¹ Spur Tree’s fresh ingredients include those food items picked or produced recently, and likely not preserved, for example by being frozen or put in a tin.

Financial Analysis

Revenue & Profitability

In its most recently completed financial year Spur Tree generated revenues record revenues in excess of J\$700M and profits of J\$69.65M. Despite the COVID-19 pandemic effects, the company delivered strong results in FY 2020, which saw the wet ingredients manufacturer improving its gross profits to over J\$186M and its gross margin by approximately 2 percentage points. Over the preceding five years, the gross margin declined from a high of 38% in 2016 to 25% in 2019 before improving to about 27% last year. Despite this, the company's return on average equity was 47.18% while its return on average asset was 19.16% in FY 2020.

Over the last five year the company has also seen significant improvements in its operational efficiency as measured by its expense ratio which moved from 30% in FY 2016 to 13% in FY 2020. In FY 2020, despite the pandemic the company managed to record an improvement its efficiency ratio, led mainly from its decision to pivot and migrate its marketing and promotional activities online. This shift in strategy resulted in significant marketing related savings with no negative sales fallout and as a result the company plans to use this plan onward, post COVID-19.

Finance expense in 2020 amounted to J\$16.47M and the lion's share of this expense relates to interest expense on loans outstanding. In FY 2019, Spur Tree initiated a drawdown (J\$110M) on a loan facility with GK Investments Limited. The facility attracted a coupon of 9.25%, was secured by debenture over the company's fixed assets and had a maturity of twelve months after the drawdown date or at the completion of an IPO. It is therefore anticipated that upon successful completion of this IPO the loan will be repaid, and the company will be debt free.

Spur Tree's relatively strong performance in 2020, within the context of the pandemic, has been carried forward in 2021. For the 8 months period ended August 31, 2021 the company reported revenues of J\$542.17M, almost 80% of the amount generated in all of FY 2020 and net profits at J\$67.40M, which was 97% of the profits generated in FY 2020. Spur Tree's improved profitability comes amid a 3% improvement in gross margin within the 8 months period, as well as other operational improvements which have resulted in its expense ratio stabilize at 13%, in line with the previous year and significantly below the previous five-year's average.

Balance Sheet

As at the end of FY 2020 Spur Tree's Asset base stood at J\$402.38M, a growth of ~24% above the amount reported at the end of the previous year. The growth in its assets was driven by increased receivables, consistent with its aggressive revenue growth, and higher cash balances. This was partially offset by a reduction in Non-current Assets largely because of the decline in Rights-of-use-assets. Spur Tree leases its office and production space for up to five years and the reduction in Rights-of-use-assets is due to the amortisation of J\$14.54M in FY 2020 as required by IFRS 16. At the end of the 8 months period ended August 31, 2021, Spur Tree's Total assets stood at J\$508.38M largely attributable to further growth in its cash resources and investments which when combined expanded by over J\$88.0M year-over-year.

The Company's total liabilities stood at J\$219.94M, up 14.03% versus the previous year's ending balance and was attributable to growth of J\$18.61M or 58% in payables and a moderate increase in its short-term loans of J\$5.50M. At the end of the 8 months period ended August 31, 2021, Spur Tree's Total Liabilities climbed to J\$258.53M owing to a J\$38.78M increase in short term loan and a further J\$6.48M expansion in its payables.

As a result of the growth in profitability and strong stewardship, the company's equity base climbed to J\$182.44M which was more than J\$69.00M above the amount reported at the end of FY 2019 and more than 3 times the amount reported in FY 2016. Further, at the end of August 2021, the company's equity based stood at J\$249.84M. Its growing asset base is a sign of the company's improving capacity to withstand shocks, which is particularly important in periods of high uncertainty, like the one currently being experienced due to the pandemic.

Valuation Analysis

To arrive at a fair price for the Spur Tree's shares we used the Price to Earnings (P/E) method. As the company is in the business of manufacturing food, the industry's average was derived by reviewing and calculating the average P/E of all food manufacturers listed on JSE's Junior Market². The industry average P/E for Junior Market listed food manufacturers is 19.83x. Spur Tree's forward earnings per share is estimated at J\$0.0975 and when multiplied by the industry's P/E produces a fair value of J\$1.93. As the share are being offered to the general public at J\$1.00 per share the shares on offer at IPO are undervalued.

² JSE Junior Market P/Es adjusted for outliers with negative P/Es.

Investment Positives and Negatives

Investment Positives

Diversified Product Offering: In keeping with the company's export growth strategy, Spur Tree expanded its product line to include Jamaican staples such as Ackee, Callaloo, Festival Mix, Juices, and other related products to augment its traditional wet seasonings offering.

Strong Global Distribution: Spur Tree has a strong distribution network. Its local distribution channels include hotels, restaurants and supermarkets, wholesales, and corner shops. Internationally the company has formed relationships with several companies in the US, Australia, Cayman Islands, and the UK. Consequently, over 90% of revenues are generated outside of Jamaica.

High Potential for Short Term Gain: The relatively small offer size to the general public increases the likelihood of the offer being oversubscribed. Additionally, given the generally positive sentiments around the offer, this is likely to be in a high demand which amid limited supply, presents the opportunity for at least short-term capital appreciation.

Track Record of Profitability: Over the last five years the company has remained profitable recorded an average Return on Average Equity (ROAE) of over 32%. In FY 2020, the company recorded an ROAE of over 47%.

International Food Certification certified: The Company is approved by the U.S. Food and Drug Administration (FDA) and is SQF (Safe Quality Food) certified. The acquisition of Exotic Products Jamaica (Successors) Limited is in alignment with Spur Tree's future growth as it is one of approximately 9 local companies approved by the FDA to export ackee to the United States.

Investment Negatives

Competitive Landscape: The market for wet seasonings is fragmented with several well-known competitors occupying the local space. Increase competition can also erode the company's margins. However, the company's export focus has enabled it to deliver strong results despite local competition.

COVID-19 and the Economy: The pandemic and measures to control it have resulted in severe disruptions to economic activity, consumers spending patterns and business operations. The nature, scale, and timing of the risks from the pandemic varies and further restrictions could negatively impact the company's operations and profitability.

Suppliers and Distribution Risk: The company depends on key suppliers and distribution arrangements to generate revenues. Any disruption or termination could impact the company sales over the short to medium term.

Price Risk: The trading activity could result in the stock's price fluctuating without regard for the operating performance of Spur Tree and cause the stock price to remain below its fair value for an extended period, generating lower the returns for the investor.

Foreign Currency Risk: Spur Tree's reporting currency is Jamaica Dollars while over 90% of its revenues are generated in foreign currencies. If the Jamaica Dollar appreciates against the currencies in which its sales are generated the company will incur foreign exchange losses as a result. However, based on our projections this scenario is not likely over the short to medium term.

Analyst's Opinion

Spur Tree Spices manufactures and sells authentic Jamaican seasonings and sauces to both its retail and food service industry customers. Using natural ingredients from small local farmers, all its products are produced to the highest quality standards and designed to meet the needs of its customers wanting to enjoy the authentic Jamaican taste and the convenience of ready to use wet seasonings. While the company operates in a highly fragmented industry, with many established players and new entrants, it has enjoyed great success over the last five years, supported by its export focus and drive to diversify its product portfolio. As a result, the Company now boasts an expanded array of products and generates over 90% of revenues from exports.

Spur Tree has enjoyed strong growth and improved profitability over the last five years driven by strong revenue expansion as well as improvement in its operations. Its strong focus on exports plus operational improvements resulted in revenues expanding by a CAGR of almost 25% over the last five years while its expenses ratio declined year over year from a high of almost 30% in FY 2016 to just below 13% in its most recently completed financial year. Consequently, Spur Tree's profits have grown significantly, with the company posting record profits of J\$69.65M in FY 2020 which was more than 230% above the amount generated a year earlier. Further, in the 8 months period ended August 31, 2021, the Company generated profits of J\$67.40M, which was already 97% of the profits generated in all of the previous financial year.

The outlook for the company is positive and we expect the Company to continue its current growth trajectory. To this end, Spur Tree recently acquired Exotic Products Jamaica Ltd., an ackee factory, given that ackee is a product with strong demand in its export markets. With the acquisition, Spur Tree intends to ramp up production and rationalize its operations in the coming years as well as continue to grow its product range and expand its current market. If successful, we anticipate that these will improve its revenue and profit performance going forward.

With forward earnings of J\$0.0975, and industry P/E of 19.93x, we have an estimated fair value of J\$1.93 for the Spur Tree shares, implying that the shares are undervalued and investors who chose to invest at the IPO could get a discount of up to 52%. Based on the foregoing we therefore recommend that investors **PARTICIPATE** in this offer.

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