

Dusk Group Ltd

A more favourable comparable period in sight

Dusk Group Ltd (ASX:DSK) is Australia's market leading omni-channel retailer of home fragrance products with an estimated 24% market share. The group is vertically integrated with products developed in-house and sold under the Dusk brand via the ~132 store portfolio and on-line network. Products include candles, diffusers and essential oils. 'Gift giving' periods are key for sales and earnings with the FY22 EBIT skew 80%/20% towards the first half (Christmas). The group operates a paid loyalty programme with its ~755k members accounting for 62% of revenues, providing a cost-effective marketing channel and higher average spend relative to non-members. Dusk listed in November 2020 in what was essentially a shareholder sell-down of 56% of the company or 35m shares at \$2.00/share. The group showed its growth intentions by announcing the acquisition of Eroma in December 2021 pending due diligence for \$28m, but this acquisition was abandoned in March 2022 as certain conditions were not met. Pro-forma FY22 sales declined 7% and EBIT 31% as the group lost ~24% of its trading days in H1 FY22 due to mandated lockdowns and cycled particularly strong comps in H2 FY22. The group will now cycle lockdowns over H1 FY23 but navigate a likely more cautious consumer due to rising interest rates and cost of living. Near-term multiples for both DSK and peers reflect this caution.

Business model

DSK operates a vertically integrated, omni channel retail model with products designed in-house and distributed under the Dusk brand through the group's store and on-line networks. The group's gross margin of ~68% is reflective of this vertical integration. Customer marketing is aided by the 755k paying loyalty programme members who on average spend more than non-members. Dusk rewards' average transaction value (ATV) increased 4.0% to \$60 in FY22. Growth avenues include further store openings, growing the on-line presence (8.3% of total sales currently), product innovation and potentially international expansion.

FY22 a tale of two halves

While like-for-like sales declines were similar across both H1 FY22 and H2 FY22 at -10%, the drivers were completely different. H1 FY22 was impacted by mandated store closures which reduced trading days by 24% over the half, and trading over the key Christmas period was affected by Omicron concerns. H2 FY22 was impacted by the cycling of particularly strong comparable sales. With the group about to cycle mandated lockdowns in H1 FY23, a true reflection of trading conditions in a rising interest rate/cost of living environment is unlikely until H2 FY23. Prior to Covid, DSK averaged 9.6% like-for-like store growth between Q1 FY18 and Q3 FY20, highlighting sustained customer loyalty.

Comparables are vertically integrated specialty retailers

There are not many pure vertically integrated omni-channel retailers listed on the ASX but two that come to mind are furniture and homewares retailer Adairs (ASX:ADH) and lighting specialist Beacon Lighting (ASX:BLX). Both are homewares retailers while ADH also operates a paid loyalty programme. Like DSK, the forward PER multiples for these retailers is well below 10x with investors cautious around discretionary trading.

Historical earnings and ratios (in A\$m unless otherwise stated)

Year end	Revenue	EBIT adj.*	NPAT adj.	Adj. EPS (c)	PER (x)	EV/EBIT (x)	Dividend (cps)	Yield (%)
06/19a	86.1	6.4	4.5	0.072	30.2	18.1	nm	nm
06/20a	100.8	11.8	8.3	0.133	16.4	11.1	0.16	7.5
06/21a	148.6	38.4	26.8	0.430	5.1	3.0	0.25	11.5
06/22a	138.3	26.5	18.6	0.298	7.3	4.3	0.20	9.2

Source: Company data; *EBIT, NPAT and EPS adjusted for one-time, non-cash items

Specialty Retailing

9th September 2022

Share Details

ASX code	DSK
Share price (8-Sept)	\$2.18
Market capitalisation	\$135.8M
Shares on issue	62.3M
Net cash at 30-Jun-2022	\$21.3M
Free float	66.2%

Share Performance (12 months)



Upside Case

- Store growth without cannibalisation
- EPS accretive acquisition
- Consumer spending holds firm

Downside Case

- Higher input costs cannot be recouped
- Consumer spending declines further than expected
- New products fail to resonate with customers

Catalysts

- AGM trading update
- Use of strong balance sheet

Comparable Companies (Aust/NZ)

Adairs (ASX:ADH), Beacon Lighting (ASX:BLX)

Board and Management

Peter King	CEO & Executive Director
Kate Sundquist	CFO
John Joyce	Chairman
Trent Peterson	Non-Executive Director
David MacLean	Non-Executive Director
Katherine Ostin	Non-Executive Director
Tracy Mellor	Non-Executive Director

Company Contact

Peter King (CEO) +61 2 9308 3600
investorrelations@dusk.com.au

RaaS Contact

John Burgess +61 410 439 723
john.burgess@raasgroup.com

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 6th May 2021

About Us

BR Securities Australia Pty Ltd (BR) is the holder of Australian Financial Services License ("AFSL") number 456663. RaaS Advisory Pty Ltd (RaaS) is an Authorised Representative (number 1248415) of BR. This Financial Service Guide (FSG) is designed to assist you in deciding whether to use RaaS's services and includes such things as

- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

Contact Details, BR and RaaS

BR Head Office: Level 14, 344 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

RaaS is the entity providing the authorised AFSL services to you as a retail or wholesale client.

What Financial Services are we authorised to provide? RaaS is authorised to

- provide general advice to retail and wholesale clients in relation to
 - Securities
- deal on behalf of retail and wholesale clients in relation to
 - Securities

The distribution of this FSG by RaaS is authorized by BR.

Our general advice service

Please note that any advice given by RaaS is general advice, as the information or advice given will not take into account your particular objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Prospectus, Product Disclosure Statement or like instrument. As we only provide general advice we will not be providing a Statement of Advice. We will provide you with recommendations on securities

Our dealing service

RaaS can arrange for you to invest in securities issued under a prospectus by firstly sending you the offer document and then assisting you fill out the application form if needed.

How are we paid?

RaaS earns fees for producing research reports. Sometimes these fees are from companies for producing research reports and/or a financial model. When the fee is derived from a company, this is clearly highlighted on the front page of the report and in the disclaimers and disclosures section of the report.

We may also receive a fee for our dealing service, from the company issuing the securities.

Associations and Relationships

BR, RaaS, its directors and related parties have no associations or relationships with any product issuers other than when advising retail clients to invest in managed funds when the managers of these funds may also be clients of BR. RaaS's representatives may from time to time deal in or otherwise have a financial interest in financial products recommended to you but any material ownership will be disclosed to you when relevant advice is provided.

Complaints

If you have a complaint about our service you should contact your representative and tell them about your complaint. The representative will follow BR's internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren't satisfied with an outcome, you may contact AFCA, see below. BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.

DISCLAIMERS and DISCLOSURES

This report has been prepared and issued by RaaS Advisory Pty Ltd trading as Research as a Service ("RaaS"). This research is issued in Australia by RaaS and any access to it should be read in conjunction with the Financial Services Guide on the preceding two pages. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. Opinions contained in this report represent those of the principals of RaaS Advisory at the time of publication. RaaS Advisory provides this financial advice as an honest and reasonable opinion held at a point in time about an investment's risk profile and merit and the information is provided by the RaaS Advisory in good faith. The views of the adviser(s) do not necessarily reflect the views of the AFS Licensee. RaaS Advisory has no obligation to update the opinion unless RaaS Advisory is currently contracted to provide such an updated opinion. RaaS Advisory does not warrant the accuracy of any information it sources from others. All statements as to future matters are not guaranteed to be accurate and any statements as to past performance do not represent future performance. RaaS Advisory's principals, employees and associates may hold shares in companies that are covered and, if so, this will be clearly stated on the front page of each report.

Assessment of risk can be subjective. Portfolios of equity investments need to be well diversified and the risk appropriate for the investor. Equity investments in listed or unlisted companies yet to achieve a profit or with an equity value less than \$50 million should collectively be a small component of a balanced portfolio, with smaller individual investment sizes than otherwise.

The science of climate change is common knowledge and its impacts may damage the global economy. Mitigating climate change may also disrupt the global economy. Investors need to make their own assessments and we disclaim any liability for the impact of either climate change or mitigating strategies on any investment we recommend.

Investors are responsible for their own investment decisions, unless a contract stipulates otherwise. RaaS Advisory does not stand behind the capital value or performance of any investment. Subject to any terms implied by law and which cannot be excluded, RaaS Advisory shall not be liable for any errors, omissions, defects or misrepresentations in the information (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the information. If any law prohibits the exclusion of such liability, RaaS Advisory limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable. Copyright 2022 RaaS Advisory Pty Ltd (A.B.N. 99 614 783 363). All rights reserved.