Guzman y Gomez (ASX: GYG)

Sell: AU$16.79 (-54.25%)

Burritos Aren't the New Burgers
SELL Recommendation

We initiate coverage on Guzman y Gomez Limited (ASX:GYG) with a **SELL** recommendation and a target price of **AU$16.79**, representing a –**54.25%** downside based of its current price of AU$36.70 as of 15/10/2024. Our target price was derived using a discounted cash flow valuation method and performing a relative valuation as a sanity check.

Investment Summary

1. Weakening Franchise Attractiveness Constrict GYG's Store Potential:

We raise dubiety on the potential for GYG to reach their **lofty store growth targets of 514 stores by 2033E**. We believe this is unattainable due to; (1) Recent hikes in franchise pricing, placing royalty premiums over competitors and (2) Shortcoming in GYG's expansion plans across Australia and worldwide. This leads us to expect **store growth** of **~15-25 in Australia** in FY25, impacting top-line growth.

2. Fresh Fast Food Isn't Cheap:

GYG's unwillingness to reduce/revise (1) ingredient supply options (2) portion sizes and (3) clean initiatives, results in them being chewed out by external factors, while other QSRs do not make the same promise. These factors impact GYG's operating efficiency, limiting ability to expand margins, with the forecasted rise in fresh food prices of **4-5% CAGR through 2028**, we **forecast ~31-33% gross margins through 2028.**

3. Lack of Moat in a Cut-throat Environment:

Despite growing to 194 stores in Australia, GYG has **struggled to build a competitive moat.** Due to this, we believe GYG is nearing the peak of its **attainable market share at its current 2%.** GYG's customer retention ability is significantly lower than its peers, with proportion of youths who visiting GYG at least once a month at **36%, less than half that of McD.**

Risk

Growth exceeding expectations:

B1: GYG could source cheaper, less quality ingredients which would decrease COGS and improve gross margins. **B2:** Continued investment and successful rollout of limited-time menu items would improve SSSg allowing them to attract new customer segments and increased visit frequency. **M1:** Increasing consumer expenditure growth could further improve topline and bottom line. **F1:** GYG's low leverage allows the opportunity to raise debt for aggressive store expansion.

These risks underscore the potential for GYG to capitalize on profitability and growth opportunities.

Prepared by:

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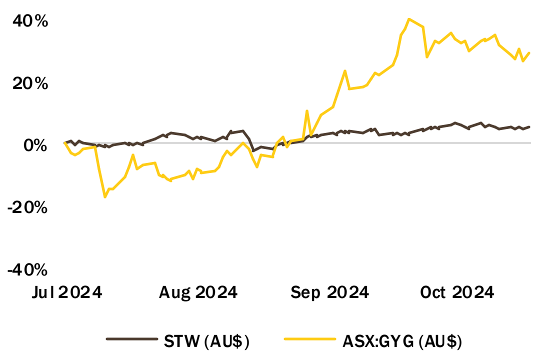
Basic Information

Ticker	ASX: GYG
Sector	Consumer Discretionary
Current Price (AU$$)	36.70
Target Price (AU$$)	16.79
Market Capitalisation (AU$$b)	3802.4
Shares Outstanding (mn)	101.5

Key Management

Steven Marks	Co-Chief Executive Officer
Hilton Brett	Co-Chief Executive Officer
Erik du Plessis	Chief Financial Officer
John Morrison	Chief Operating Officer

GYG Since Listing vs ASX 200 (Rebased)



Source: S&P Capital IQ

	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
Key Growth									
Revenue Growth	NA	-30.4%	-37.9%	-24.2%	-13.4%	-13.7%	-13.1%	-11.8%	-12.0%
Gross Profit Margin	73.4%	74.3%	33.5%	33.9%	33.1%	33.2%	33.1%	32.5%	31.9%
EBIT Margin	7.2%	5.4%	1.5%	-1.1%	1.1%	1.9%	2.6%	2.8%	3.1%
EBT Margin	5.3%	3.8%	0.1%	-3.2%	-1.1%	0.1%	1.0%	1.7%	2.3%
Net Income Margin	3.4%	2.2%	-0.8%	-3.8%	-1.1%	0.1%	0.7%	1.2%	1.6%
Return on Assets	1.9%	1.5%	-0.7%	-2.1%	-0.6%	0.0%	0.5%	0.9%	1.4%
Return on Equity	6.1%	4.7%	-2.6%	-3.9%	-1.3%	0.1%	1.1%	2.1%	3.2%
Liquidity									
Current Ratio	2.1	1.6	1.2	4.0	3.5	3.1	2.7	2.4	2.1
Quick Ratio	2.0	1.6	1.1	4.0	3.4	3.0	2.6	2.3	2.0
Cash Ratio	1.6	1.0	0.5	0.2	2.9	2.4	2.0	1.6	1.3

Business Overview

Background and Offering:

Founded in 2005, Guzman y Gomez (GYG) is a founder-led quick service restaurant (QSR), by Steven Marks and Robert Hazan. The chain sells Mexican-inspired food with a strong emphasis on fresh ingredients and authentic flavours. The restaurant has various distribution channels such as physical stores, drive-thru, catering and franchising.

Revenue Sources:

Today, GYG is one of Australia's fastest growing quick service restaurant businesses. As of FY2024, they operate 64 corporate and 130 franchised restaurants (fig 1.1) within Australia, 4 restaurants in the United States, 17 restaurants in Singapore, 5 restaurants in Japan, which are operated under a master franchise arrangement (fig 1.2). Despite its recent initial public offering on 20 June 2024, it has reached a market capitalisation of AU$3.78 bn as of the valuation date. The company reports revenue from two main sources: Operating revenue and franchise fees. GYG charges a fixed upfront franchise fee of $90,000 per restaurant, plus a tiered franchise royalty structure that takes 8% of net weekly sales below $60,000 and 15% above that, among a few other fees.

Growth Sources:

The chain has experienced substantial growth, increasing its store count from 53 in 2014 to 220 by 2024 with 15.3% CAGR. This expansion is due to its business model, which combines the efficiency of fast food with the appeal of more traditional restaurant-quality offerings.

GYG's revenue is largely concentrated in Australia, with 93% sales being domestic and remaining 7% international. Amongst the network sales, 29% sales originate from corporate owned stores. The CAGR for global network sales from FY15 to FY24 stands at 28%, which is notably higher than the average CAGR for QSRs. As such, the market is pricing in close to 600 stores by 2033 (fig 1.3).

Competitive Positioning

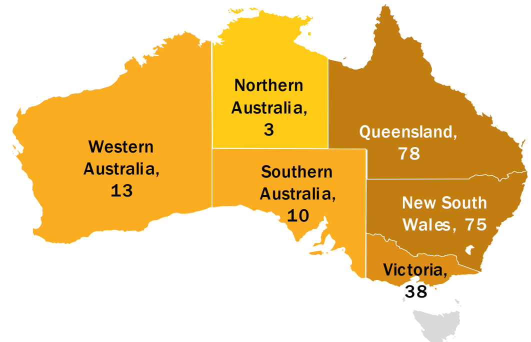
Market Expectations:

The market views that GYG will be able to achieve their 2042 goal of opening 1,000 stores and expects GYG to more than triple revenue by 2030, from 2024. Additionally, GYG reported upwards guidance revisions for FY25 onwards, primarily driven by daypart expansion (successful breakfast implementation, which saw an 18% increase in comparable sales), which, in our opinion, has been priced in by market participants.

GYG Remains Inflated as Compared to Peers

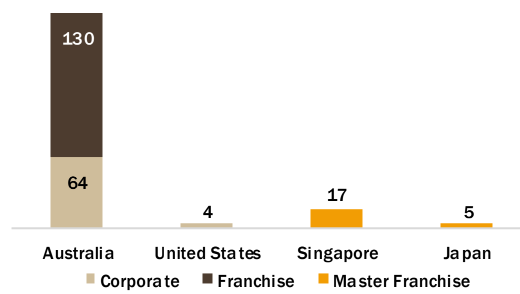
Guzman y Gomez recorded FY24 revenue of AU$365mn, while making a net loss of AU$13.7mn. In comparison, Domino's Pizza has a total revenue of AU$2,376.7mn, with around 20,900 stores in 2024, making net profit of AU$96mn. Yum! Brands, which operates quick service restaurants such as KFC, Pizza Hut, Taco Bell, and The Habit Burger Grill, has a total revenue of AU$10,436.25mn, and making net income of AU$2,291.42mn (as of 22/09/2024) Currently, Guzman y Gomez has EV/EBITDA of 172.0x. This is higher than their competitors like McDonald's EV/EBITDA at 17.0x, or Domino's Pizza EV/EBITDA at 13.9x. This is due to investor's pricing in Guzman y Gomez's projection growth by management. The average industry EV/EBITDA is around 12.8, indicating Guzman y Gomez has a very premium valuation.

Fig. 1.1: Distribution of Stores Across Australia



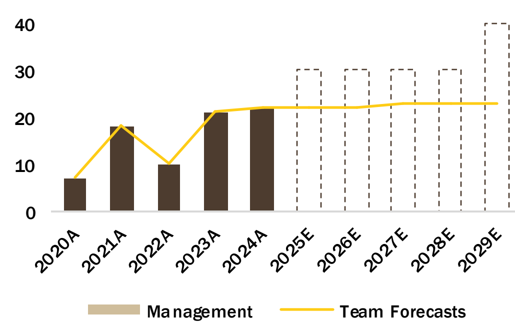
Source: Company Filings

Fig. 1.2: GYG Global Operations Distribution in FY2024A



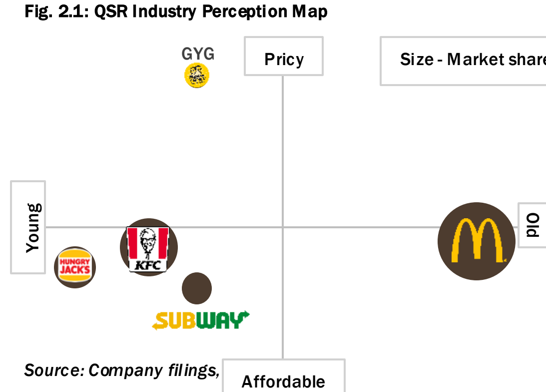
Source: Company Filings

Fig. 1.3: Store Openings in AU (Historical vs Forecasted)



Source: Company Filings, Team Analysis

Fig. 2.1: QSR Industry Perception Map



Source: Company filings,

GYG Market Positioning

GYG operates as a niche player in the QSR industry, branding itself as a healthy, quick-service Mexican restaurant. While it has expanded rapidly, its market segment remains relatively small. Positioned in the upper price bracket, GYG targets young adults, a limited demographic in Australia, where the young adult population is small and often has less disposable income than older adults who can afford premium dining options. (fig 2.1)

Limited Pricing Power

GYG's ability to raise prices, even amidst inflation, may be restricted by the more competitive pricing of other QSR options. Price-sensitive consumers are likely to choose lower-priced alternatives, which could impact GYG's same-store sales growth (SSSG) and gross margins. Furthermore, GYG may struggle to gain market share from established industry leaders like McDonald's, Hungry Jack's, and Domino's Pizza, as its premium pricing makes it less appealing to a broader consumer base.

Industry Overview

While the global QSR market is valued at AU$693.86bn in 2023 and is projected to expand to AU$753.03bn in 2024 with a forecasted CAGR of 4.02% till 2028 (fig 2.2), the rapid expansion could lead to market saturation and intensified competition. Established players are expected to dominate, leaving new entrants the challenge of carving out market share in an increasingly crowded space.

Market Expectations

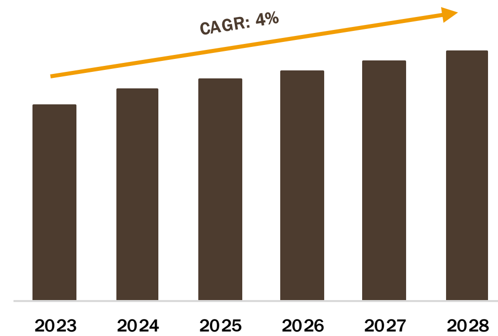
Consumer preferences in Australia have shifted towards healthier and actively seeking out brands that prioritize sustainability in their products and practices, shifting the demand for healthier yet eco-friendly menu options as 93% of Australians are willing to spend on healthier food despite half (51%) believing eating healthy is costly. This shift is coupled with rising cost-of-living pressures, with 75% of Australians reporting financial strain leading them to opt for cheaper, healthier alternatives when dining out or cooking at home. Brands that fail to innovate and reduce prices risk losing customer loyalty, posing a significant challenge to traditional QSR.

Investment Thesis

1. Weakening Franchise Attractiveness Constrict GYG's Store Potential

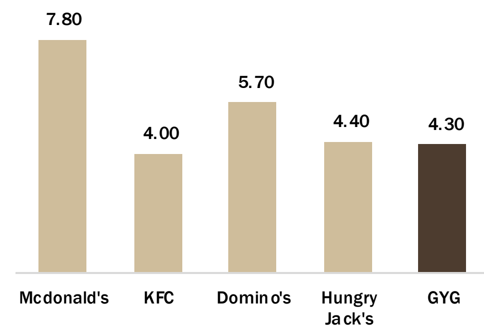
GYG guidance shows a target for the company to reach 514 stores by 2033E, with market consensus pricing over 600 stores within the same period. We believe this is unattainable due to; (1) Franchise pricing premiums over competitors and (2) Shortcoming in GYG's expansion plans across Australia and worldwide. We believe that GYG's increase in royalty rates from a fixed 6.4%, to a tiered; 8% and 15% above AU$60,000 weekly sales (Fig 3.2), and AU$90,000 upfront franchise fee, will negatively impact franchisee attractiveness. With this, GYG plans to raise the effective average franchise royalty rate to more than 10.0% from the current 7.8%. This would put pressure on GYG's franchisees and reduce their attractiveness in comparison to QSR competitors in Australia such as; McDonald's (5%) and AU$45,000 upfront franchise fee, KFC (4-5%) and AU$45,000 upfront franchise fee, Dominoes (5.5%) and AU$10,000 upfront franchise fee, and Hungry Jack's (4.5%) and AU$33,000 upfront franchise fee. This is despite lower annual sales per store with McDonald's (~AU$7.8 mn in CY2023), Hungry Jack's (AU$4.4 mn in CY2023), but edged slightly higher above KFC (AU$4.0 mn in CY2023), whereas GYG came in at AU$4.3 million in CY2023. Despite GYG's revenue per store being competitive, the higher costs and fees limits its attractiveness compared to its QSR rivals (Fig 3.1) (Fig 3.2).

Fig. 2.2: QSR Industry Market Size (AU$$bn)



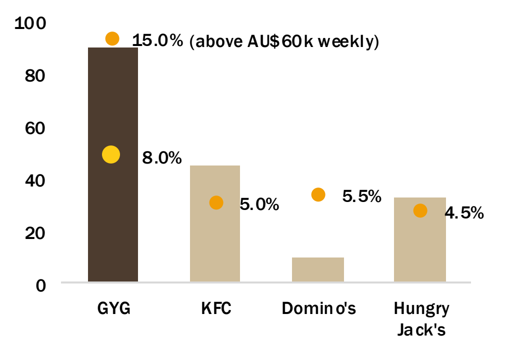
Source: Statista

Fig. 3.1: CY2023 Sales per Store (AU$ mn)



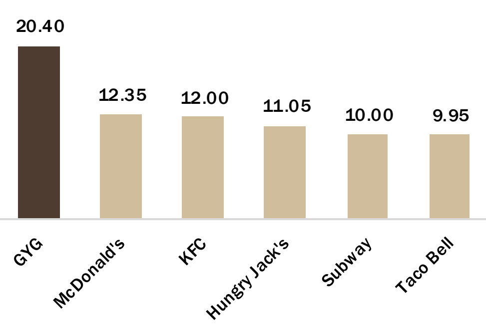
Source: Company Data, Projection

Fig 3.2 GYG Upfront Fee (AU$ '000) and royalty rate (%) vs QSR peers



Source: Company Data

Fig. 3.3: Comparison of Signature Meal Price Across QSR (AU$)



Source: Company Data

Additionally, we expect demand shortcomings, a set meal at GYG which includes a grilled chicken burrito and drink costs AU$20.40. In comparison, the signature Big Mac Meal at McDonald's costs AU$8.50, Subway's set meal consisting of BLT Sub, 2 Cookies and a drink is priced at AU$11.95. KFC has a set with a price as low as AU$4.95, while Nando's has a meal priced at AU$10.95, Burger king has a combo as low as AU$10.8, Hungry Jack's has a set as cheap as AU$6.15. As consumers are getting prudent, cost puts a greater pressure on QSR stores to attract consumers through competitive pricing, as 21% of customer satisfaction is attributed to pricing (Fig 3.3).

We also foresee shortcomings in GYG's expansion in less densely populated cities due to lack of visibility, branding, and network effect. New South Wales (NSW), Victoria, Queensland makes up around 79.0% of discretionary spending, and 75% of total Australian population. We forecast expansion outside densely populated cities to prove challenging with addressable markets in the regions making up 21.0%. (Fig 3.4)

With targeted future stores of 1000, GYG would have to compete with the major dominant players like McDonald's, in sparse areas with little to no network effect. Over-expansion also would also cannibalise sales from new nearby opened restaurants, eroding Same Store Sales growth (SSSg). This will lead to diminished returns for franchisees, reducing the attractiveness of these locations for expansions, we forecast this to result in GYG franchise openings at ~50-60 stores below the street's expectation by FY29.

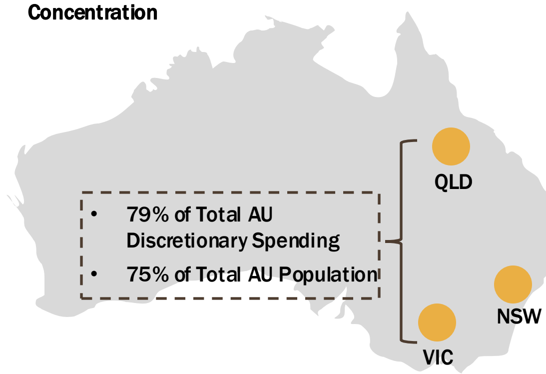
Catalyst: **With ~17 franchisee lease terms maturing within FY24-25,** it will be difficult for franchise openings to cover the reduction, as we expect **the new franchise terms** to turn away franchise lease renewals. We expect **store growth of ~15-25 in Australia** in FY25, impacting top-line growth.

2. Fresh Fast Food Isn't Cheap

The primary cost component of GYG's COGS is the fresh, high-quality ingredients used in its menu items. Unlike other QSRs that opt for frozen or pre-prepared ingredients, GYG's focus on fresh produce results in significantly higher costs (Fig 4.1). With freshness typically accompanied with higher spoilage rates and wastage at approximately 22%, directly increasing the COGS. On average, fresh food prices have been increasing at a rate of 3-7% annually. Additionally, fresh food limits GYG's ability to utilize automated food processing systems which can be seen by the significant difference in COGS, with food costs and employee expenses accounting for 26% and 45% margin of revenues, respectively.

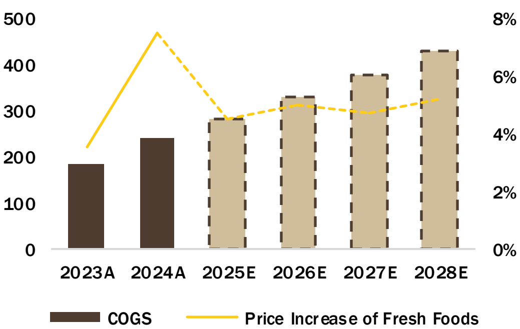
Moreover, with GYG's unwillingness to reduce portion sizes and clean initiatives, it may result in them being chewed out by external factors, while other QSRs do not make the same promise. While this strategy enhances its brand appeal, it puts pressure on its corporate restaurant margins (FY2024: 17.4%), with an aim to reach 20%, which would be difficult to reach. Additionally, it also pressures overall gross margins (GYG FY2024 Gross margin: 34%), where other QSRs outperforms GYG's gross margins, Chipotle (Gross Margin: 40.7%), Domino's Pizza (Gross Margin: 39.8%) and Collins Food (AKA KFC/Tacobell; Gross Margin: 50%) (Fig 4.2) these QSRs are more cost effective due to their use of frozen or pre-prepared ingredients, operational efficiency, and lower wastage. This is in addition to fresh food prices in Australia rising by 3.5% in 2023, with a forecasted CAGR of 4-5% through 2028. These factors impact GYG's operating efficiency, limiting ability to expand margins (team forecasts ~31-33% gross margins through 2028), without passing on costs to consumers and franchisees.

Fig. 3.4: Australian Population and Spending Concentration



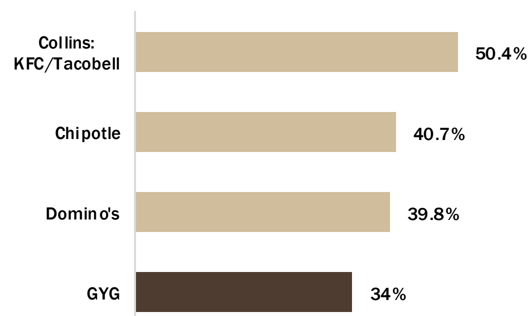
Source: Australian Bureau of Statistics

Fig. 4.1: Fresh Food Price Increase



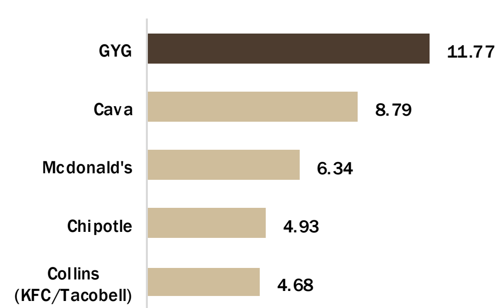
Source: Australian Bureau of Statistics, Team Analysis

Fig. 4.2: Gross Profit Margin comparison



Source: Company Filings

Fig. 4.3: Inventory days comparison



Source: Company Filings, Team Analysis

With GYG leading in terms of inventory days at 11.77 days, compared to its competitors Cava: 8.79 days, McDonald's: 6.34 days, Chipotle: 4.93 days, and Collins: 4.68 days (fig 4.3), it indicates that GYG takes a longer time to turn over its inventory. This places significant pressure on its top line, contributing to a gross margin that lags behind its competitors.

Furthermore, the higher inventory days translate to a heightened risk of wastage ~22%. This heightened wastage, combined with higher ingredient costs, directly impacts GYG's gross margin. Unlike competitors who rely on shelf-stable ingredients, GYG's conviction on utilising fresh and high-quality ingredients presents greater challenges in inventory management and gross margin expansion.

With a shift in consumer preference in Australia, one-in-three Australians agree that a low-fat diet is a way of life. In comparison of GYG's Mild Slow Cooked Beef burrito reveals that it contains 2030 mg of sodium (daily recommended intake: 2000 mg), 860 KCal, and 17g of Saturated fat. Despite their 'healthy' proposition, GYG's nutritional values lags behind McDonald's (Big Mac: 564 KCal, 12g saturated fat, 1020 mg sodium), KFC's (2pcs Original Recipe Chicken: 709 KCal, 4g saturated fats, 500 mg sodium), Subway's (Chicken Ham: 272 KCal, 5g Saturated fats, 750 mg sodium) (Fig 4.4). With the discrepancy found in its marketing statement 'clean is the new healthy', consumers may begin to take notice of this. As a result, consumers may opt for healthier option, loosing market share to its competitors.

Catalyst: **Spiking global demand for Australian meat** in 2024-2025 will drive **prices higher than the expected 4-5%.** As such, we believe locally sourced options will negatively impact GYG's gross margins, resulting in earnings miss in FY25-26.

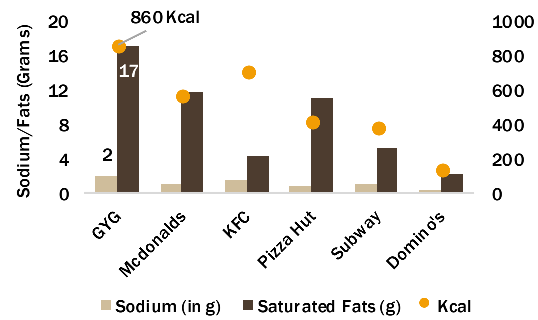
3. Lack of Moat in a Cut-throat Environment

GYG, despite its growing network of 194 stores in Australia, has struggled to build a competitive moat. Although GYG has managed to etch a 2% market share in the Australian QSR market, this figure pales in comparison to McDonald's 22.8%, KFC's 12.7%, Hungry Jack's 6.6% and Domino's 5.7% (fig 5.1). Moreover, we believe this figure will not rise for long, due to the highly competitive nature of the QSR industry, highlighted by the lack of switching costs, and volatility in consumer preferences. Despite this, dominant QSR players have carved out a moat, which is the hallmark of QSR survival, such as Domino's delivery strategy, with digital channels accounting for 90% of sales.

Primary research done by the team in GYG's target segment (18-34 y/o in AU major cities), showed that GYG's customer retention ability is significantly lower than its peers. Proportion of youths who visited GYG at least once a month was 36% (fig 5.2), with 0% visiting more than 5x a month. These figures fall below QSR competitors McD (73% >1x monthly, 13% >5x monthly), KFC (60% > once monthly, 4% > 5x monthly), Domino's (38% >1x monthly, 2% >5x monthly), Hungry Jacks (53% >1x monthly, 2% >5x monthly). This lack of recurring visitors within GYG's target group highlight weaknesses, showing that 64% of GYG customers do not return at least monthly, represents a key weakness in GYG's ability to capture mindshare amongst Australian youths, where they are most popular, let alone greater Australia.

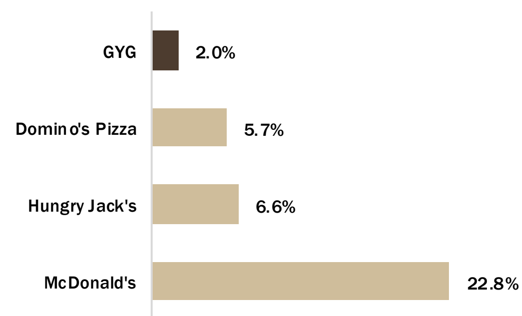
This puts further pressure on GYG's corporate-owned venture into the US, with their current 4 stores in the US, with SSSg lagging behind their Australian peers, recording ~ -15% SSSg in FY24, in comparison to GYG's overall 8.1% SSSg in the same period.

Fig. 4.4: Nutritional Comparison vs "Unhealthy" Peers



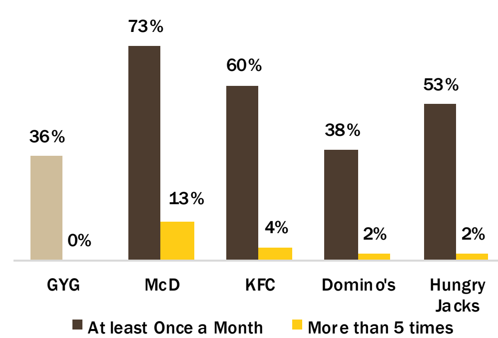
Source: Company Filings, Team Analysis

Fig. 5.1: QSR Market share in Australia



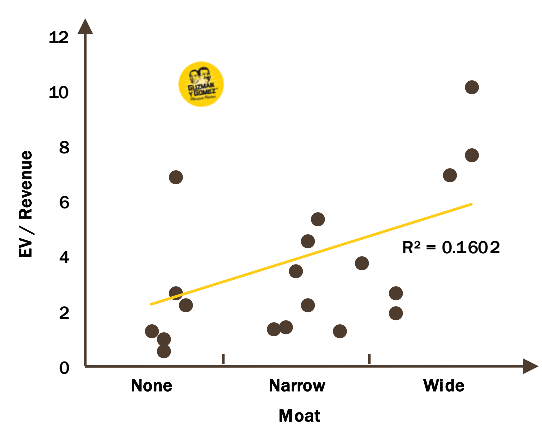
Source: Company Filings, Team Analysis

Fig. 5.2: Returning Customers Analysis of QSRs



Source: Team Analysis

Fig. 5.3: QSR Moat Rating Plotted Against EV/R



Source: Morningstar, Team Analysis

Thus, highlighting their inability to effectively compete against American-Mexican sensations; Tacobell (~5% SSSg in 1H2024) and Chipotle (~11% SSSg in 1H2024). Thus, highlighting their lack of moat and comparative advantage (higher prices + lack of a recognisable brand) when pitted against real competition. We forecast that GYG's expansion into the US will drive ~AU$$2.1M of fruitless additional CapEx per store, or ~AU$$21M over the next 4-5 years.

Catalyst: We expect GYG to **pull out of the US market by FY28/29**, without being able to reach profitability, leading to an **~AU$30-40mn in cumulative losses** in the US. This will undermine investor confidence in GYG will have a **material effect on their share price.**

Financial Analysis

Waning Top-line Growth

GYG generates revenue primarily through two segments, revenue from corporate-owned stores, as well as franchise revenue. While GYG has been able to grow revenues at ~25% CAGR over the past 4 years, the street expects GYG to continue this performance, and to almost triple revenue within the next 5 years. However, we believe this is fundamentally difficult to achieve due to (1) changes in franchise pricing, (2) lack of a competitive edge to scale further. The changes in franchise pricing includes higher upfront fees and a tiered royalty structure which makes GYG's franchise offering less attractive compared to competitors such as McDonald's, Domino's and KFC who offers lower costs of entry and ongoing fees. This pricing strategy could deter potential franchisees which slows the pace of expansion. GYG's lack of significant competitive advantages limits its ability to grow its market share against entrenched players with established brand loyalty and economies of scale. Despite all these challenges, our team has forecasted a generous 22-23 yearly store openings and an annual Same Store Sales Growth (SSSG) of 5-6%. These projections rely on GYG's ability to sustain its current growth trajectory and continue expanding into less densely populated regions. Expansion into less populated regions would be constrained by the limited customer bases and higher operational costs which further reduces profitability. Nevertheless, these forecasts still leads to a 14.7% Revenue CAGR from FY2024-FY2029, however the team's expectations for FY2029E revenue come ~21% below street expectation (fig 6.1).

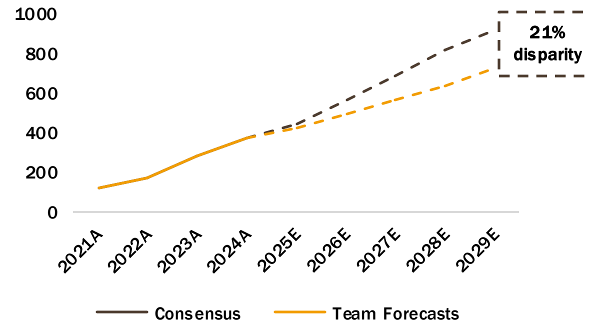
Stagnant EBIT Margin Forecast and Declining Gross Profit Margins

GYG is anticipated to achieve EBIT positive by FY2025 however the EBIT margin is projected to stagnate at ~3% in subsequent years, remaining far below industry peers. The stagnation in margins is directly attributed to a projected decline in gross profit margins, which are expected to drop from 34% in FY2024A to 32% in FY2029E (fig 6.2). This decline is driven primarily by rising food costs, which significantly impact the COGS. GYG's reliance on fresh, high-quality ingredients which is a core component of its brand identity, leaves GYG exposed to inflationary pressures and supply chain volatility. As food prices are forecasted to increase at a CAGR of 4-5% through 2028, the company's profitability will remain under pressure with limited ability to pass these costs onto price-sensitive consumers. Moreover, GYG's competitors such as Chipotle with a gross margin of 40.7% and Domino's Pizza with a gross margin of 39.8% outperforms GYG by maintaining cost-effective operations while delivering comparable product offering which highlights GYG's structural disadvantage in achieving meaningful margin expansion.

Stagnant Lease Additions but Steady Rising CapEx

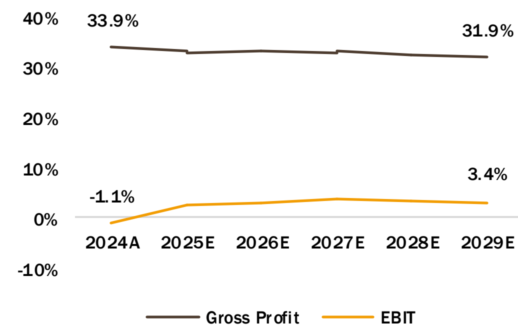
Based on our forecast of lower-than-expected store growth, we estimate the lease additions to be at AU$2.68mn per store for FY2024 with projections indicating that lease additions will remain mostly flat through FY2029E.

Fig. 6.1: Consensus Estimated Revenue vs Team Estimates (AU$mn)



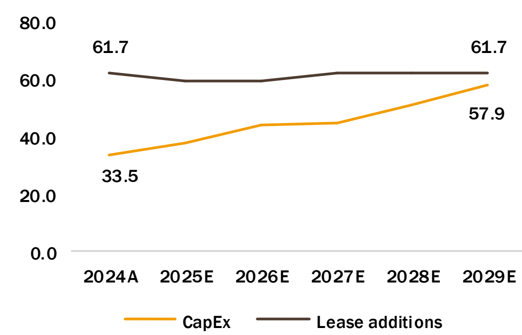
Source: Team Analysis

Fig. 6.2: Profit Margins



Source: Team Analysis

Fig. 6.3: CapEx & Lease Additions (AU$mn)



Source: Team Analysis

Fig. 7.1: Weighted Average Cost of Capital

Cost of Equity	**12.02%**
Risk-Free Rate	4.31%
Unlevered Beta From Peers	1.60
Re-levered Beta	1.68
Equity Risk Premium	4.60%
Cost of Debt	**4.12%**
Pre-tax Cost of Debt	5.89%
Tax-Rate	30.00%
WACC	**11.55%**

Source: Company Filings, Damodaran, S&P Capital IQ

This stagnation reflects GYG's challenges in maintaining franchise attractiveness particularly due to the increased upfront fees and royalty rates which deters prospective franchisees. Despite the flat lease additions, CapEx is expected to rise steadily from FY2029E. This increase underscores the financial strain associated with maintaining the existing store network and investing in operational improvements.

Valuations

We derived a 1-year implied share price target of AU$16.79, representing a 54.25% downside based on a discounted cash flow (DCF) valuation approach using the EBITDA exit multiple method. We considered the mean exit multiple for EBITDA to support our valuation. Our terminal valuation was derived from median EBITDA multiple from peers of 30.01x which adds significant weight to the projected equity value of AU$1.68 bn translating to the AU$16.79 price target.

Weighted Average Cost of Capital (WACC)

We then employed capital asset pricing model (CAPM) to calculate GYG's cost of equity (COE). Given that majority of GYG's revenue is derived from the Australian market, we assumed a risk-free rate of 4.31% based on the yield of the 10-year Australian government bond. Using a beta re-levered from peers through the Hamada equation, we then derive a beta of 1.68 We also utilized an equity risk premium of 4.60% sourced from Damodaran's 2024 Australia ERP dataset ultimately coming up with a COE of 12.02%. As for the cost of debt, we derived GYG's pre-tax COD from lease interest rates arriving at 5.89%. After applying a tax rate of 30% and leveraging the tax shield, the after-tax COD was calculated to be at 4.12%. Given that the market debt to equity ratio of 0.06, we then finally arrive at a WACC of 11.55%.

Discounted Cash Flow (DCF) Model

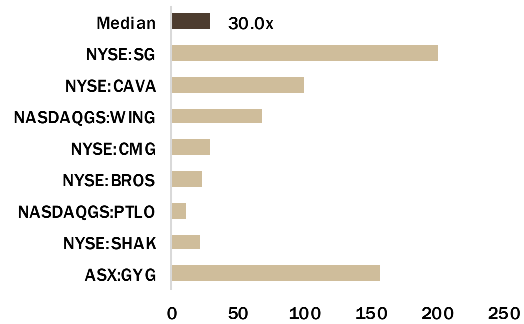
Using a 5-year discounted cash flow (DCF) analysis as our primary valuation methodology for GYG. This approach is particularly valuable for evaluating GYG as it accounts for expected future cash flows and incorporates for both growth and risk factors. For terminal growth rate, we applied 4% which is aligned with Australia's nominal GDP forecast for 2025-2054. Taking into account GYG's projected free cash flow improvements and margin expansion alongside potential top-line growth driven by continued international expansion we then derived an implied 1-year share price target of AU$16.79. This valuation implies a 54.79% downside based on current share price of AU$36.70. Our analysis suggests that GYG is current valuation is overly optimistic given the company's cost structure and market dynamics.

Fig. 7.2: Weighted Average Cost of Capital

	EV/Revenue	EV/EBITDA	EV/EBIT
Min	2.06	12.15	0.00
1st Quartile	4.17	22.44	35.08
3rd Quartile	12.92	84.37	132.55
Max	20.63	202.29	465.92
Mean	9.10	65.44	121.53
Median	**6.82**	**30.01**	**49.55**

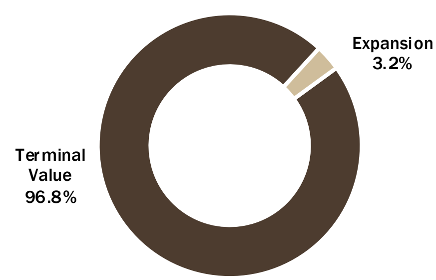
Source: S&P Capital IQ

Fig. 7.3: EV/EBITDA vs Peers



Source: S&P Capital IQ

Fig. 7.4 Portion of Enterprise Value



Source: Team Analysis

Relative Valuation

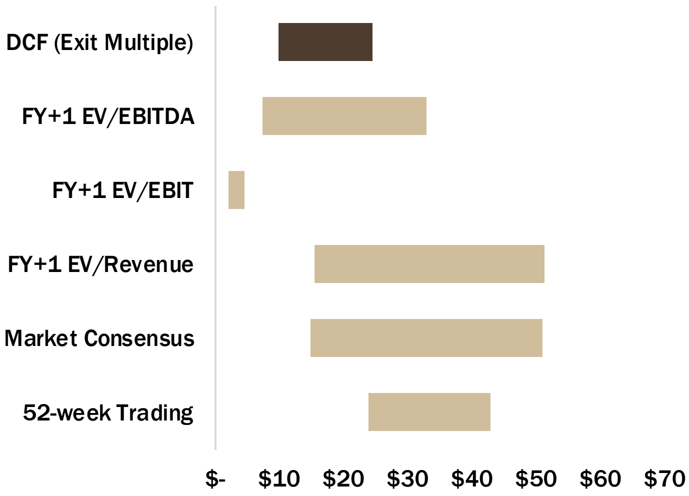
We performed a relative valuation derived from comparable companies in the QSR industry, using forward looking (FY+1) EV/Revenue, EV/EBITDA, and EV/EBIT ratios to support our valuation. The result returned a median EV/Revenue of 6.82x, EV/EBITDA of 30.01x, EV/EBIT of 49.55x, resulting in median respective valuations of $26.16, $10.36 , $2.00. Even by remaining conservative with our assumptions, all relative valuations supported our main valuation approach. Even at 75th percentile of our relative valuation multiples, GYG's current price exceeds all but EV/Revenue.

Sensitivity Analysis

We evaluated GYG's target share price across varying scenarios and EBITDA exit multiples. Using WACC of 11.55% as base, our analysis indicates that at an EBITDA multiple of 30.01x, GYG target price is approximately $16.79% which is significantly lower than current market price of $36.70. This suggests potential downside risk if market expectations adjust downwards. Even with an EBITDA multiple of 40.0x and WACC of 9.55%, the implied target price of $24.63 remains below the current trading price which shows that the market overly priced GYG.

Relative Valuation, Football Field, and Sensitivity Analysis

Fig. 7.6: Football Field Analysis



Source: Team Analysis

Fig. 7.7: Sensitivity Analysis

WACC \ EBITDA Exit Multiple	20.00 x	25.01 x	30.01 x	35.01 x	40.00 x
13.55%	9.86	12.73	15.60	18.47	21.33
12.55%	10.25	13.22	16.18	19.15	22.11
11.55%	10.66	13.73	16.79	19.85	22.91
10.55%	11.08	14.25	17.42	20.59	23.75
9.55%	11.52	14.80	18.08	21.36	24.63

Source: Team Analysis

Investment Risks

Business Risk (B1) – Alternative Supplier

Probability: Low | Impact: Medium

GYG could source cheaper, less quality ingredients which would decrease COGS and improve EBITDA margins. Lower COGS would allow GYG to sell at a cheaper price, thus increasing retail demand, increasing customer acquisition rate and market share. This would affect Thesis 1 as the increased demand from retail could make GYG more attractive to franchisee as the brand name of GYG is more known, increasing GYG's number of annual store opening.

B1 Mitigation

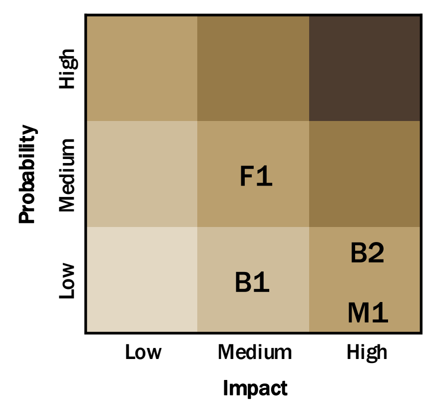
With GYG unwillingness to compromise on its promise in delivering fresh food, the pressure on its COGS and EBITDA margin would remain. (Fig 8.2) Sourcing less quality ingredient would damage their image of trying to be the healthy Mexican QSR.

Business Risk (B2) – GYG exceeding expectation

Probability: Low | Impact: High

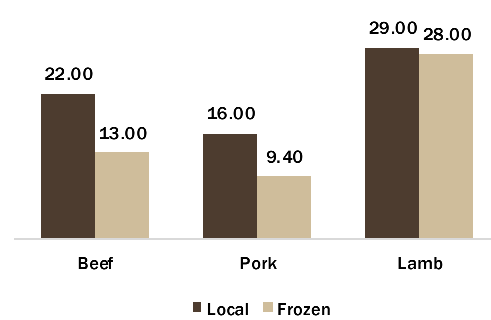
Despite our forecast for them being unable to hit their store growth target, SSSg might exceed expectations due to the successful rollout of limited-time menu items and promotional campaigns, which have attracted new customer segments and increased visit frequency. Additionally, GYG's continued investment in technology-driven initiatives, such as improved delivery integration and a loyalty rewards program, has enhanced customer convenience and retention. Additionally, GYG could increase average food price and expand gross margin with the pretext of riding inflation (Fig 8.3). Higher SSSg would help GYG grow its revenue, as royalties from franchisees would increase, potentially weakening Thesis 1 by providing GYG with more fuel to open additional corporate stores.

Fig. 8.1: Risk Matrix



Source: Team Analysis

Fig. 8.2: Local vs Frozen Food Price (AU$/kg)



Source: Master Grocer, Australian Butchers Store, Woolsworth, Coles

B2 Mitigation
With current SSSg boost is largely attributed to short-term promotional efforts and one-time events that are difficult to sustain over the long term. Current sales per store is at an all-time highs, rivalling KFC and Hungry Jack's (Fig 3.1). The next competitors would be Mc Donald's and Domino's which control 22.8% and 5.7% market share(Fig 5.1) making it unlikely for GYG to compete with established QSRs with higher market share.

Market Risk (M1) – Faster Than Expected Consumer Expenditure Growth
Probability: Low | Impact: High
A faster than expected consumer expenditure growth would increase GYG's top and bottom line. Additionally, if the less dense regions would grow faster than the urban region, and the population adopts a consumerist culture that would increase spending would prove helpful to GYG as they would increase the TAM in rural regions and fuel their expansion. This rising demand for QSR would strengthen GYG's operations by providing cash and enhance its expansion plans, undermining the argument for Thesis 1 and increasing its overall valuation.

M1 Mitigation
While QSR are considered consumer discretionary expenditure, they largely remain sticky within consumer diets, regardless of rough waters during inflationary periods. As such, QSR growth remain largely uncorrelated to inflation. (Fig8.3)

Finance Risk (F1) – Debt Structure
Probability: Medium | Impact: Medium
Due to GYG's low leverage, GYG can potentially lower their Cost of Capital through capital raising via debt and expand their market value. GYG's low leverage provides opportunity to obtain short term debt.

With a LT Debt of 0, GYG can expand its store network with increased aggressiveness, taking on debt to fund expansion, supporting its goal to reach 1,000 stores.

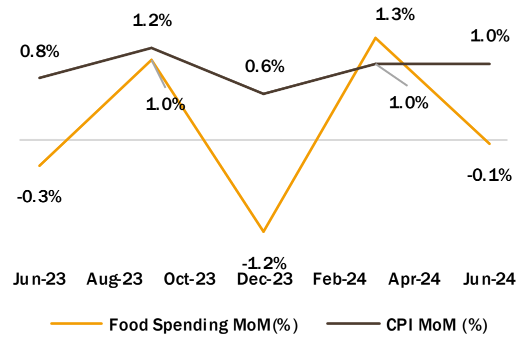
F1 Mitigation
However, since GYG's synthetic credit rating is D, issuing debt may not be advantageous due to the high cost of borrowing. Increasing lease liabilities would also raise GYG's debt-to-equity ratio.

Environment, Social, and Governance

GYG has commitment to sustainability and social responsibility. The company has taken significant steps to minimize its environmental impact by adopting compostable sugarcane-based packaging and removing harmful additives from its products, ahead of national and state bans. GYG also actively supports global and local communities, partnering with the Misión México Foundation provide food, education, and empowerment programs. GYG reports its sustainability progress through initiatives aligned with climate action and sustainable sourcing.

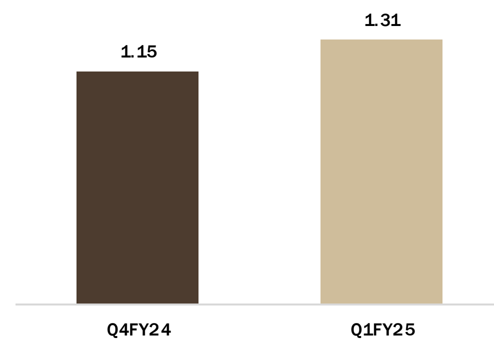
Environment
GYG's 100% Clean food philosophy is centered on optimising nutrition and sourcing ingredients with consideration for people, animals, and the planet. This commitment includes food free from preservatives, artificial flavours, added colours, and unacceptable additives. An independent Accredited Practising Dietitian oversees menu development to maintain nutritional standards. GYG prioritises animal welfare by sourcing free-range chicken and eggs and sow-stall-free pork.

Fig. 8.3: Australians Food Spending Change MoM(%) vs Australia Consumer Price Index MoM(%)



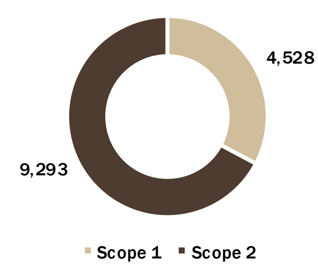
Source: Australian Bureau of Statistics

Fig. 8.4: Sales Per Store (AU$mn) Per Quarter



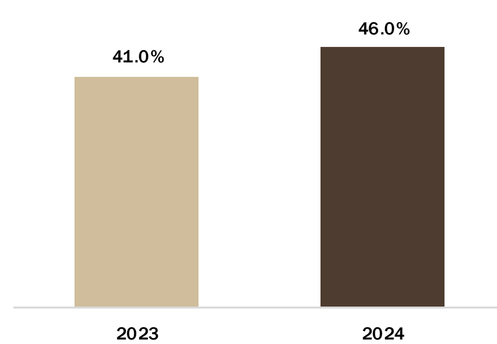
Source: Company Data

Fig. 9.1: Carbon emission (Tonnes)



Source: Australian Bureau of Statistics

Fig. 9.2: Female in leadership role



Source: Company Filings

GYG is aware of the impacts of climate change on the environment across all sectors and recognises the role it can play in taking positive climate action by reducing and mitigating emissions across its operations. A greenhouse gas ("GHG") Assessment was conducted for FY2024, to calculate GYG's carbon inventory in alignment with the GHG Protocol Corporate Accounting Standard. It was found that direct emissions totaled 4,528 Tonnes of carbon dioxide equivalent and indirect electricity emissions made up 9,293 Tonnes (t) of carbon dioxide (CO_2) equivalent (e) (fig 9.1). IN FY2025, GYG plans to review indirect upstream and downstream (Scope 3) emissions across the company's value chain and set reduction of emissions in the future and create a roadmap for decarbonization.

Social

Gender diversity is evident at GYG, with women in leadership roles increasing by 5% from FY2023-FY2024, reaching 46% in GYG's corporate restaurants (fig 9.2). Female representation across the corporate restaurant network stands at 55% (fig 9.3). GYG has also enhanced its Parental Leave Policy to offer improved benefits for parents and has launched a new Women in Leadership program aimed at developing aspiring female leaders within the company.

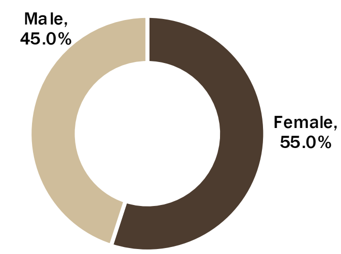
GYG's nutritional offerings have faced scrutiny compared to competitors, raising concerns about the integrity of its marketing practices. The gap between health claims and actual nutritional content could mislead health-conscious consumers, risking legal issues, regulatory actions, and potential damage to the company's reputation and finances.

Despite GYG's effort to enhance its social commitments, former consultants have accused GYG's leadership team of racism and ageism. The allegations includes a statement by a marketing manager of "We don't give T-shirts to fat people," during a promotional t-shirt giveaway and prejudiced against individuals over the age of 40 was claimed. The lawsuit was settled in 2023, with a payment of $1.5 million to the six complainants, and a share buyback of what was purchased a year and a half earlier.

Governance

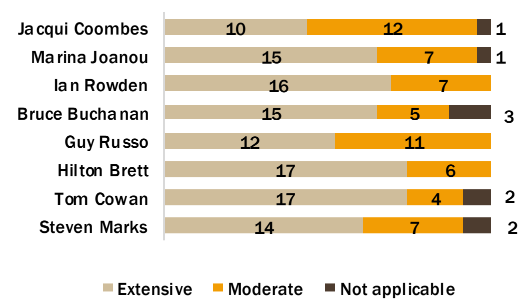
GYG's Board and its committees are composed of current and former senior executives from QSR, retail, technology, and investment industries. These directors bring a wealth of experience and expertise in areas such as franchising, and technology systems (fig 9.4). However, GYG traits are lacking behind other QSR players leaving a gap in areas as product offerings (fig 9.5).

Fig. 9.3: Female Representation Across Corporate Restaurant Network



Source: Company Filings

Fig. 9.4: Board skills matrix distribution



Source: Company Filling

Fig. 9.5: GYG's Traits comparison with other QSRs

	GYG	MCD	KFC
Founder-led	Y	X	X
Child Friendly	X	Y	X
Limited Transparency in Nutritional Information (Menu)	X	Y	Y
Board Diversity (Gender)	X	Y	Y

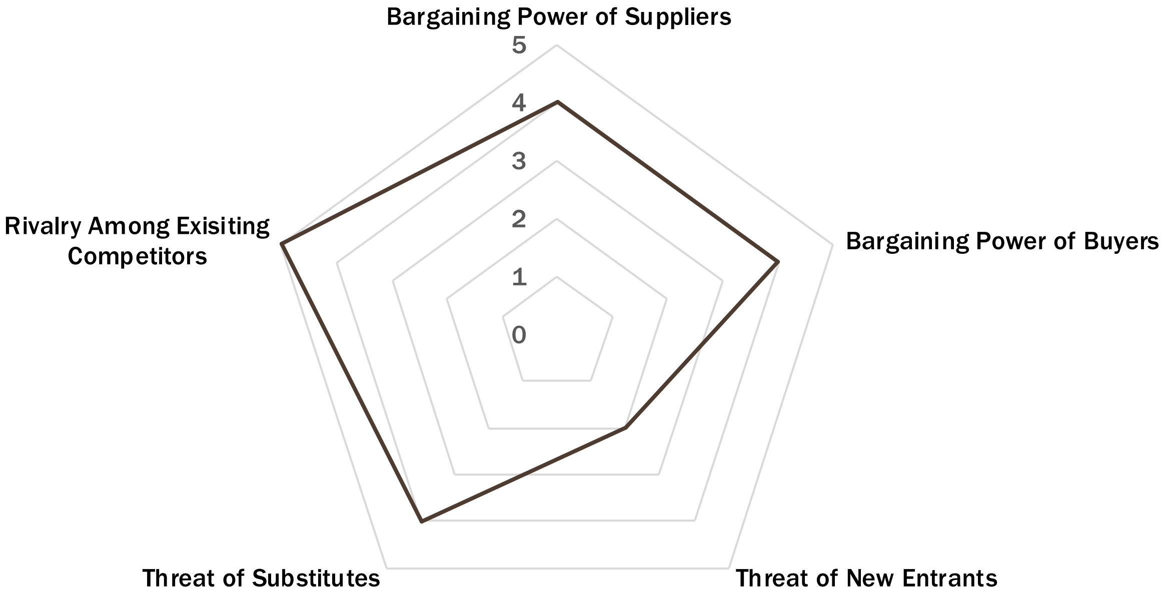
Source: Company Filings

List of Appendices

SWOT Analysis

Strength	GYG has strong brand recognition in the QSR sector as they advertise themselves as a premium Mexican food chain with a focus on fresh high-quality ingredients.
Weakness	GYG's reliance on fresh ingredients poses a significant challenge as fresh food produce is more expensive which results in higher COGS and vulnerability to price inflation. GYG's expansion strategy also requires high financial costs with high franchise fees of $90,000 upfront and increased royalty fees up to 15%. The high pricing of GYG's food compared to other QSR also reduces customer's loyalty.
Opportunity	GYG can leverage technological innovation to enhance customer experience such as implanting mobile app-based ordering systems, loyalty programs and even automated kiosks to improve customer convenience and engagement. GYG can also adopt eco-friendly packaging and reduce its carbon footprint to better position itself as a socially responsible and environmentally conscious brand.
Threat	GYG faces considerable threats is the increasing cost of fresh food where prices has risen by over 10% in recent years. This puts pressure on GYG's margins as GYG is unable to pass these costs onto consumer without risking their decline in sales due to its already high-priced food. Moreover, with the QSR industry being highly competitive the increased competition threatens GYG's market share and consumers are becoming more price sensitive amidst to the rising cost of living pressures.

Appendix B Porter's Five Forces



Porter Five Forces		
Bargaining Power of Suppliers	4	GYG relies heavily on fresh produce and ingredients for its menu which is affected by factors such as rising costs and supply chain disruptions. The global increase in fresh food cost in Australia directly impacts GYG's COGS hence suppliers can exert power on their prices as GYG needs to maintain consistent quality. This weakens GYG's margin and increases their vulnerability.
Bargaining Power of Buyers	4	With the rising cost of living, customers are being more price sensitive and are decreasing their discretionary spending. GYG's items in the menu are higher priced compared to other QSR which results in reduced customer loyalty.
Threat of New Entrants	2	Mexican QSR in Australia is adequately saturated, with MadMex, Zambrero, Tacobell, among the competitors in Australia. With no shortage of Mexican food options in Australia, threat of competitors are low. However, with American favourite Chipotle entering the arena in 2025, GYG faces slight risk of eroding market share.
Threat of Substitutes	4	The QSR industry offers a wide variety of substitutes and additionally there are healthier and more affordable options which are becoming more popular. GYG's dependence on its Mexican food identity limits its flexibility to adapt to shifts its consumer preferences which increasing the threat of substitutes.
Rivalry Among Existing Competitors	5	The QSR sector is highly competitive with established players like Chipotle, Mad Mex and Zambrero expanding in Australia and Asia. GYG's attempt to expand its franchises store requires heavy capital investment and will not be able to yield the desired return on investment due to the fierce competition.

Appendix C	Revenue and Expenses Forecast								
Guzman y Gomez (ASX: GYG) For the Financial Year Ending 30 June *All figures are expressed in AUD Millions*	Historical				Forecasted				
	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
1 Revenue Build									
Total Revenue		184.58	276.77	364.99	421.61	488.29	561.65	636.53	723.64
Revenue from corporate restaurant sales		141.7	217.9	289.7	340.7	396.7	453.9	515.9	582.9
Number of corporate restaurants			55.0	64.0	71.0	78.0	85.0	92.0	99.0
Revenue per corporate restaurants			4.0	4.5	4.8	5.1	5.3	5.6	5.9
SSSg				16%	6%	6%	5%	5%	5%
Bull Case					8.0%	8.0%	7.0%	7.0%	7.0%
Base Case					6.0%	6.0%	5.0%	5.0%	5.0%
Bear Case					4.0%	4.0%	3.0%	3.0%	3.0%
Revenue from franchise royalty		29.5	40.5	51.9	55.66	65.10	79.89	91.52	110.22
Number of total franchisees (Australia)			116.0	130.0	145	160	176	192	208
Revenue per franchisees			0.3	0.4	0.4	0.4	0.5	0.5	0.5
Effective franchise royalty (%)			0.1	0.1	8.0%	8.0%	8.5%	8.5%	9.0%
Bull Case					9.0%	9.0%	9.5%	9.5%	10.0%
Base Case					8.0%	8.0%	8.5%	8.5%	9.0%
Bear Case					7.0%	7.0%	7.5%	7.5%	8.0%
Revenue from franchise fee (Australia)		0.6	0.6	0.6	1.35	1.35	1.44	1.44	1.44
Number of new franchisees (Australia)				14.0	15	15	16	16	16
Bull Case					17	17	18	18	18
Base Case					15	15	16	16	16
Bear Case					13	13	14	14	14
Revenue from other and income		12.8	17.7	22.8	23.91	25.11	26.36	27.68	29.07
YoY growth (%)					5%	5%	5%	5%	5%
2 Expenses Forecast									
Cost of Goods Sold		44.19	184.56	241.73	282.17	326.31	376.00	429.85	492.91
Proportion of Revenue		24%	67%	66%	67%	67%	67%	68%	68%
Employee Benefit Expense		0.0	113.7	153.7	177.07	200.20	224.66	248.25	274.98
Proportion of Revenue			41%	42%	42%	41%	40%	39%	38%
Bull Case					37%	36%	35%	34%	33%
Base Case					42%	41%	40%	39%	38%
Bear Case					47%	46%	45%	44%	43%

Guzman y Gomez (ASX: GYG) For the Financial Year Ending 30 June *All figures are expressed in AUD Millions*	Historical				Forecasted				
	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
Employee Benefit Expense		0.0	113.7	153.7	177.07	200.20	224.66	248.25	274.98
Proportion of Revenue			41%	42%	42%	41%	40%	39%	38%
Bull Case					37%	36%	35%	34%	33%
Base Case					42%	41%	40%	39%	38%
Bear Case					47%	46%	45%	44%	43%
Cost of Food and Packaging		44.2	70.4	87.6	105.10	126.12	151.34	181.61	217.93
YoY Growth %			59%	24%	20%	20%	20%	20%	20%
Bull Case					15%	15%	15%	15%	15%
Base Case					20%	20%	20%	20%	20%
Bear Case					25%	25%	25%	25%	25%
Selling General & Admin Exp.		122.66	49.00	78.53	84.32	92.77	101.10	108.21	115.78
Proportion of Revenue		66%	18%	22%	20%	19%	18%	17%	16%
Bull Case					15%	15%	15%	15%	15%
Base Case					20%	19%	18%	17%	16%
Bear Case					25%	25%	25%	25%	25%
Non-rental Other Operating Expense/(Income)		-4.40	14.00	17.87	12.65	14.65	16.85	19.10	21.71
Proportion of Revenue		-2%	5%	5%	3%	3%	3%	3%	3%
Bull Case					4%	4%	4%	4%	4%
Base Case					3%	3%	3%	3%	3%
Bear Case					6%	6%	6%	6%	6%
Finance Income			4.59	6.01	7.25	9.60	10.56	13.44	14.56
Per franchised store			0.04	0.05	0.05	0.06	0.06	0.07	0.07
					0.06	0.07	0.07	0.08	0.08
					0.05	0.06	0.06	0.07	0.07
					0.04	0.05	0.05	0.06	0.06

Appendix D **Balance Sheet Schedule**

ASX: GYG For the Financial Year Ending 30 June *All figures are expressed in AUD Millions*	Historical				Forecasted				
	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
1 References									
Days in Period	365.0	365.0	365.0	366.0	365.0	365.0	365.0	366.0	365.0
Total Revenue	119.5	171.8	276.8	365.0	421.6	488.3	561.6	636.5	723.6
Cost of Goods Sold	31.8	44.2	184.2	241.3	282.2	326.3	376.0	429.9	492.9

Guzman y Gomez (ASX: GYG) For the Financial Year Ending 30 June *All figures are expressed in AUD Millions*	Historical				Forecasted				
	2021A	**2022A**	**2023A**	**2024A**	2025E	2026E	2027E	2028E	2029E
2 Working Capital Schedule									
Trade and other Receivables	15.72	27.25	34.72	38.02	46.2	53.51	61.55	69.57	79.30
Receivables days	48.01	57.90	45.79	38.12	40	40	40	40	40
Inventories	1.65	1.99	2.15	2.83	7.7	8.94	10.30	11.74	13.50
Inventories Days	18.96	16.41	4.27	4.28	10	10	10	10	10
Trade and other Payables	17.10	28.01	32.64	39.39	46.38	53.64	61.81	70.66	81.03
Payables days	196.26	231.32	64.68	59.58	60	60	60	60	60
Net Working Capital	**0.28**	**1.23**	**4.24**	**1.46**	**7.55**	**8.81**	**10.04**	**10.65**	**11.78**
Change in Net Working Capital		0.95	3.01	(2.8)	6.1	1.3	1.2	0.6	1.1
Current unearned revenue	1.29	1.35	1.68	2.05	2.37	2.75	3.16	3.58	4.07
Proportion of Revenue	1%	1%	1%	1%	1%	1%	1%	1%	1%
Current unearned revenue	2.08	1.90	2.18	2.43	2.81	3.25	3.74	4.24	4.82
Proportion of Revenue	2%	1%	1%	1%	1%	1%	1%	1%	1%
Other Current Assets	0.56	0.56	3.56	3.30	2.89	3.88	4.77	5.24	5.85
Proportion of Revenue	0%	0%	1%	1%	1%	1%	1%	1%	1%

3 PPE & CapEx Schedule									
Beginning PPE					87.6	113.0	140.0	163.5	187.9
Ending PPE	**21.52**	**36.56**	**69.49**	**87.63**	**113.02**	**140.01**	**163.50**	**187.88**	**213.45**
CapEx	11.7	19.4	39.7	33.5	37.9	43.9	44.9	50.9	57.9
% of Revenue	10%	11%	14%	9%	9%	9%	8%	8%	8%
Total PPE Depreciation					(12.6)	(17.0)	(21.4)	(26.5)	(32.3)
Assumed Useful Life				10.00					
Depreciation of Existing PPE					8.76	8.76	8.76	8.76	8.76

Guzman y Gomez (ASX: GYG) For the Financial Year Ending 30 June *All figures are expressed in AUD Millions*	Historical 2021A	2022A	2023A	2024A	Forecasted 2025E	2026E	2027E	2028E	2029E
Depreciation of New PPE					3.79	8.19	12.68	17.77	23.56
2025				$38	3.79	3.79	3.79	3.79	3.79
2026				$44		4.39	4.39	4.39	4.39
2027				$45			4.49	4.49	4.49
2028				$51				5.09	5.09
2029				$58					5.79

4 Intangibles Amortisation

	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
Goodwill				1.36	1.36	1.36	1.36	1.36	1.36
Software				3.23	2.59	1.94	1.29	0.65	-
Reacquired Rights				5.43	4.75	4.07	3.39	2.71	2.03
Other Intangibles				0.57	0.57	0.57	0.57	0.57	0.57
Total Intangible Assets				**10.59**	**9.26**	**7.94**	**6.61**	**5.29**	**3.96**
Total Intangible Asset Amortisation					(1.3)	(1.3)	(1.3)	(1.3)	(1.3)
Depreciation of software					0.65	0.65	0.65	0.65	0.65
Assumed Useful Life				5.00					
Depreciation of Reacquired Rights					0.68	0.68	0.68	0.68	0.68
Assumed Useful Life				8.00					

5 ROU and Finance Lease Schedule

	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
Finance Leases Receivable	48.87	57.54	58.56	114.40	114.40	114.40	114.40	114.40	114.40
ROU (operating leases)	46.03	49.13	98.94	93.80	128.79	160.59	191.88	219.96	244.84
Total Leases	**94.91**	**106.67**	**157.50**	**208.20**	**243.20**	**275.00**	**306.28**	**334.36**	**359.25**
Lease Liability	**96.71**	**109.76**	**161.55**	**217.30**	**255.24**	**287.18**	**314.93**	**335.10**	**346.90**
Discount Rate	5.89%		**Lease additions**	61.70	59.02	59.02	61.70	61.70	61.70
Tax Rate	30.00%		*Lease addition per new store*	2.68					
New Lease term	10								
Cash Lease Payments (principle + interest)					**37.35**	**45.32**	**53.66**	**62.00**	**70.34**

Guzman y Gomez (ASX: GYG) For the Financial Year Ending 30 June *All figures are expressed in AUD Millions*	Historical 2021A	2022A	2023A	2024A	Forecasted 2025E	2026E	2027E	2028E	2029E
Finance Cost (Lease interest)					16.27	18.24	19.71	20.47	20.44
Lease Principle Payments					21.07	27.08	33.95	41.54	49.90

				period	*1*	*2*	*3*	*4*	*5*
Interest payment of Existing Leases					12.80	11.82	10.79	9.69	8.54
Interest payment of New Leases					3.48	6.42	8.92	10.77	11.91
2025				$59	3.48	3.21	2.93	2.63	2.32
2026				$59		3.21	2.93	2.63	2.32
2027				$62			3.06	2.75	2.42
2028				$62				2.75	2.42
2029				$62					2.42
Principle payment of Existing Leases					16.57	17.55	18.58	19.68	20.83
Principle payment of New Leases					4.50	9.53	15.37	21.86	29.06
2025				$59	4.50	4.77	5.05	5.34	5.66
2026				$59		4.77	5.05	5.34	5.66
2027				$62			5.28	5.59	5.92
2028				$62				5.59	5.92
2029				$62					5.92
Lease related depreciation					(24.0)	(27.2)	(30.4)	(33.6)	(36.8)
Assumed Useful Life				10.00					
Depreciation of Existing Leases					20.82	20.82	20.82	20.82	20.82
Depreciation of New Leases					3.20	6.40	9.60	12.80	16.00
2025				$59	5.90	5.90	5.90	5.90	5.90
2026				$59		5.90	5.90	5.90	5.90
2027				$62			6.17	6.17	6.17
2028				$62				6.17	6.17
2029				$62					6.17

7 Debt

Revolving Facility

Revolving Credit Rate	5.97%	<<< Growth Facility with Australian Bank Maturing 2026					
Mandatory Cash balance			1.00	1.00	1.00	1.00	1.00

Guzman y Gomez (ASX: GYG) For the Financial Year Ending 30 June *All figures are expressed in AUD Millions*	Historical				Forecasted				
	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
Cash Balance Before Revolver					225.97	205.30	186.33	170.40	152.58
Opening Debt Balance					-	-	-	-	-
Interest Payment					-	-	-	-	-
Drawdown					-	-	-	-	-
Ending Debt Balance					-	-	-	-	-

Appendix E **Proforma Income Statement**

Guzman y Gomez (ASX: GYG) For the Financial Year Ending 30 June *All figures are expressed in AUD Millions*	Historical				Forecasted				
	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
Balance Check	- 0.0	0.0	0.0	- 0.0	- 0.0	- 0.0	- 0.0	- 0.0	- 0.0
Income Statement									
Total Revenue	119.5	171.79	276.77	364.99	421.61	488.29	561.65	636.53	723.64
Cost Of Goods Sold	(31.8)	(44.2)	(184.2)	(241.3)	(282.17)	(326.31)	(376.00)	(429.85)	(492.91)
Gross Profit	87.7	127.6	92.6	123.7	139.44	161.98	185.65	206.68	230.73
Selling General & Admin Exp.	(84.66)	(122.66)	(49.00)	(78.53)	(84.32)	(92.77)	(101.10)	(108.21)	(115.78)
R & D Exp.	-	-	-	-	-	-	-	-	-
Depreciation & Amort.	-	-	(25.56)	(31.12)	(37.90)	(45.50)	(53.19)	(61.48)	(70.47)
Other Operating (Expense)/Income	5.50	4.40	(14.00)	(17.87)	(12.65)	(14.65)	(16.85)	(19.10)	(21.71)
Operating Income/EBIT	8.6	9.3	4.1	(3.8)	4.56	9.06	14.52	17.89	22.77
Finance Cost	(5.16)	(6.01)	(8.50)	(13.72)	(16.27)	(18.24)	(19.71)	(20.47)	(20.44)
Finance Income	2.94	3.17	4.59	6.01	7.25	9.60	10.56	13.44	14.56
EBT	6.4	6.5	0.2	(11.6)	(4.46)	0.41	5.36	10.87	16.88
Income Tax Expense	(2.34)	(2.70)	(2.42)	(2.19)	-	(0.12)	(1.61)	(3.26)	(5.07)
Net Income	4.02	3.80	(2.27)	(13.75)	(4.46)	0.29	3.75	7.61	11.82

Appendix F	Pro-Forma Balance Sheet								
Guzman y Gomez (ASX: GYG) For the Financial Year Ending 30 June *All figures are expressed in AUD Millions*	Historical				Forecasted				
	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
Balance Sheet									
ASSETS									
Current Assets									
Cash And Equivalents	62.09	54.43	36.50	16.38	263.92	237.24	214.08	190.56	164.38
Term deposit	-	-	-	278.10	-	-	-	-	-
Trade and other Receivables	15.72	27.25	34.72	38.02	46.20	53.51	61.55	69.57	79.30
Inventory	1.65	1.99	2.15	2.83	7.73	8.94	10.30	11.74	13.50
Prepaid Exp.	1.50	2.24	-	-	-	-	-	-	-
Other Current Assets	0.56	0.56	3.56	3.30	2.89	3.88	4.77	5.24	5.85
Total Current Assets	**81.5**	**86.5**	**76.9**	**338.6**	**320.74**	**303.58**	**290.71**	**277.11**	**263.04**
Non-Current Assets									
Right of Use Assets	46.03	49.13	98.94	93.80	128.79	160.59	191.88	219.96	244.84
Property, Plant and Equipment	21.52	36.56	69.49	87.63	113.02	140.01	163.50	187.88	213.45
Deferred Tax Assets	5.55	2.73	4.24	16.28	16.28	16.28	16.28	16.28	16.28
Trade and Other Receivables	0.39	0.59	1.14	0.48	0.48	0.48	0.48	0.48	0.48
Finance Lease Receivables	48.87	57.54	58.56	114.40	114.40	114.40	114.40	114.40	114.40
Intangible Assets	6.49	15.41	15.20	10.59	9.26	7.94	6.61	5.29	3.96
Total Non-Current Assets	**128.9**	**162.0**	**247.6**	**323.2**	**382.23**	**439.70**	**493.14**	**544.29**	**593.41**
Total Assets	**210.38**	**248.43**	**324.51**	**661.80**	**702.97**	**743.28**	**783.85**	**821.39**	**856.45**
LIABILITIES									
Current Liabilities									
Trade and Other Payables	17.10	28.01	32.64	39.39	46.38	53.64	61.81	70.66	81.03
Curr. Port. of LT Debt	0.49	3.36	-	-	-	-	-	-	-
Curr. Port. of Leases	15.39	16.81	20.17	22.20	22.20	22.20	22.20	22.20	22.20
Curr. Income Taxes Payable	-	-	3.64	10.14	10.14	10.14	10.14	10.14	10.14
Unearned Revenue, Current	1.29	1.35	1.68	2.05	2.37	2.75	3.16	3.58	4.07
Provisions	5.46	3.52	8.35	10.51	10.51	10.51	10.51	10.51	10.51
Total Current Liabilities	**39.7**	**53.1**	**66.5**	**84.3**	**91.60**	**99.23**	**107.81**	**117.09**	**127.94**

Guzman y Gomez (ASX: GYG) For the Financial Year Ending 30 June *All figures are expressed in AUD Millions*	Historical 2021A	2022A	2023A	2024A	Forecasted 2025E	2026E	2027E	2028E	2029E
Non-Current Liabilities									
Long-Term Debt	3.36	-	3.00	-	-	-	-	-	-
Long-Term Leases Liabilities	96.71	109.76	161.55	217.30	255.24	287.18	314.93	335.10	346.90
Unearned Revenue, Non-Current	2.08	1.90	2.18	2.43	2.81	3.25	3.74	4.24	4.82
Other Non-Current Liabilities	2.19	2.61	3.35	3.81	3.81	3.81	3.81	3.81	3.81
Total Non-Current Liabilities	**104.3**	**114.3**	**170.1**	**223.5**	**261.85**	**294.24**	**322.47**	**343.14**	**355.52**
Total Liabilities	**144.1**	**167.3**	**236.5**	**307.8**	**353.46**	**393.47**	**430.29**	**460.23**	**483.46**
Common Stock	90.26	99.16	104.05	372.71	372.71	372.71	372.71	372.71	372.71
Retained Earnings	(28.50)	(24.60)	(26.90)	(36.10)	(40.56)	(40.27)	(36.52)	(28.91)	(17.09)
Comprehensive Inc. and Other	4.57	6.53	10.78	17.42	17.42	17.42	17.42	17.42	17.42
Total Equity	**66.3**	**81.1**	**87.9**	**354.0**	**349.57**	**349.85**	**353.61**	**361.21**	**373.03**
Total Liabilities And Equity	**210.38**	**248.42**	**324.46**	**661.84**	**703.02**	**743.32**	**783.89**	**821.44**	**856.50**

Appendix G **Pro-Forma Cashflow Statement**

Guzman y Gomez (ASX: GYG) For the Financial Year Ending 30 June *All figures are expressed in AUD Millions*	Historical 2021A	2022A	2023A	2024A	Forecasted 2025E	2026E	2027E	2028E	2029E
Cash Flow									
Net Income					(4.46)	0.29	3.75	7.61	11.82
Depreciation					37.90	45.50	53.19	61.48	70.47
Less: Change in NWC									
Trade and finance receivables					(8.18)	(7.31)	(8.04)	(8.02)	(9.74)
Inventory					(4.91)	(1.21)	(1.36)	(1.44)	(1.76)
Trade and other payables					7.00	7.26	8.17	8.85	10.37
Change in other current assets					0.41	(0.99)	(0.89)	(0.46)	(0.62)
Unearned Revenue					0.70	0.82	0.90	0.92	1.07
Cash from Ops.					**28.45**	**44.35**	**55.72**	**68.94**	**81.61**
Capital Expenditure					(37.94)	(43.95)	(44.93)	(50.92)	(57.89)
Lease Additions					(59.02)	(59.02)	(61.70)	(61.70)	(61.70)
Sale (Purchase) of Intangible assets					-	-	-	-	-
Other Investing Activities					278.10	-	-	-	-
Cash from Investing					**181.14**	**(102.96)**	**(106.63)**	**(112.62)**	**(119.59)**

Guzman y Gomez (ASX: GYG) For the Financial Year Ending 30 June *All figures are expressed in AUD Millions*	Historical 2021A	2022A	2023A	2024A	Forecasted 2025E	2026E	2027E	2028E	2029E
Repayments of Borrowings					-	-	-	-	-
Lease Additions					59.02	59.02	61.70	61.70	61.70
Repayment of Lease Principle					(21.07)	(27.08)	(33.95)	(41.54)	(49.90)
Issuance/Repurchase of Common Stock					-	-	-	-	-
Cash from Financing					**37.95**	**31.94**	**27.75**	**20.16**	**11.80**
Net Change in Cash					**247.54**	**(26.67)**	**(23.16)**	**(23.52)**	**(26.18)**
Beginning Cash Balance					16.38	263.92	237.24	214.08	190.56
Ending Cash Balance					**263.92**	**237.24**	**214.08**	**190.56**	**164.38**

Appendix H Valuation

Guzman y Gomez (ASX: GYG) For the Financial Year Ending 30 June *All figures are expressed in AUD Millions*	Historical 2021A	2022A	2023A	2024A	Forecasted 2025E	2026E	2027E	2028E	2029E

1 WACC Calculation

Capital Structure		Notes
Market Cap	3802.4	
Book Value of Debt	239.50	<< Leases + Debt
Market D/E	0.06	
% of Equity	94.07%	
% of Debt	5.93%	

Cost of Debt		Notes
Pre-Tax Cost of Debt	5.89%	<< Lease interest rate
Tax Rate	30.00%	
After-Tax Cost of Debt	**4.12%**	

Weighted Average Cost of Capital		Notes
WACC	**11.47%**	

Cost of Equity		Notes
Risk-Free Rate	4.31%	<< AU 10-year bond yield
Unlevered beta from Peers	1.59	
Re-levered Beta	1.66	<< Hamada Equation
Equity Risk Premium	4.60%	<< Damodaran 2024 AU ERP
Cost of Equity	**11.93%**	<< CAPM

2 FCFF Calculation

	2025E	2026E	2027E	2028E	2029E
EBIT	4.56	9.06	14.52	17.89	22.77
EBIT*(1-T)	3.19	6.34	10.16	12.53	15.94
Add: Depreciation & Amortisation	37.90	45.50	53.19	61.48	70.47
Less: CapEx	-37.94	-43.95	-44.93	-50.92	-57.89
Less: NWC Changes	-6.09	-1.26	-1.23	-0.61	-1.13
FCFF	**(2.94)**	**6.63**	**17.18**	**22.48**	**27.38**

Guzman y Gomez (ASX: GYG) For the Financial Year Ending 30 June *All figures are expressed in AUD Millions*	Historical				Forecasted				
	2021A	**2022A**	**2023A**	**2024A**	2025E	2026E	2027E	2028E	2029E

3 Discounted Cash Flow

Valuation Date	15/10/2024				
Fiscal Year End	30/6/2023	30/6/2024	30/6/2025	30/6/2026	30/6/2027	30/6/2028
Period		0.29	0.71	1.71	2.71	3.71
Mid-Year Adjustment		0.15	0.35	0.85	1.35	1.85
FCFF		-2.94	6.63	17.18	22.48	27.38
PV of FCFF		**(2.89)**	**6.38**	**15.66**	**19.40**	**22.39**

Sum of PV of FCFF	**60.94**

5 EBIT Exit Multiple Method

EBIT Multiple	43.86
Terminal Value	4089.09
PV of Terminal Value	2734.09
Enterprise Value	2795.04
Less: Debt	(239.50)
Add: Cash	16.38
Equity Value	2571.92
Share Outstanding	101.45
Value Per Share (AU$)	**25.35**
Current Share Price (AU$)	36.70
Upside / Downside	-30.92%

Sensitivity Analysis

Increment for WACC	0.50%
Increment for EBITDA Multiple	10.00

EBITDA Exit Multiple

		108.60 x	118.60 x	128.60 x	138.60 x	148.60 x
	9.68%	69.27	75.79	82.32	88.84	95.36
	10.18%	68.08	74.49	80.91	87.32	93.74
WACC	10.68%	66.92	73.22	79.53	85.84	92.15
	11.18%	65.78	71.98	78.18	84.39	90.59
	11.68%	64.66	70.76	76.86	82.96	89.07

4 Perpetual Growth Method

Terminal Growth Rate	4.40%	<< AU nominal GDP forecast 2029-2054
Terminal Value	404.63	
PV of Terminal Value	270.55	
Enterprise Value	**331.49**	
Less: Debt	(239.50)	
Add: Cash	16.38	
Equity Value	**108.37**	
Share Outstanding	101.45	
Value Per Share (AU$)	**1.07**	
Current Share Price (AU$)	36.70	
Upside / Downside	-97.09%	

Sensitivity Analysis

Increment for WACC	0.50%
Increment for TGR	0.50%

Terminal Growth Rate

		3.40%	3.90%	4.40%	4.90%	5.40%
	9.68%	1.57	1.86	2.20	2.62	3.13
	10.18%	1.28	1.53	1.81	2.15	2.57
WACC	10.68%	1.04	1.25	1.49	1.77	2.11
	11.18%	0.83	1.00	1.21	1.45	1.73
	11.68%	0.64	0.79	0.97	1.17	1.41

Appendix I	**Comparable Comps**								
Guzman y Gomez (ASX: GYG) For the Financial Year Ending 30 June *All figures are expressed in AUD Millions*	**Historical**				**Forecasted**				
	2021A	**2022A**	**2023A**	**2024A**	2025E	2026E	2027E	2028E	2029E

Valuation Date:	**15/10/2024**

	Ticker	**Multiples** **EV/Revenue**	**EV/EBITDA**	**EV/EBIT**	**Beta** **Beta**	**Tax Rate**	**Unlevered Beta**
	Target Company						
0	ASX:GYG	10.1	157.5	0.0		30.00%	
	Comparable Companies						
1	NYSE:SHAK	4.1	21.9	186.1	1.83	11.70%	1.58
2	NASDAQGS:PTLO	2.1	12.2	25.5	1.79	25.00%	1.16
3	NYSE:BROS	4.3	23.0	49.5	2.50	23.00%	2.12
4	NYSE:CMG	7.7	30.0	44.6	1.26	26.00%	1.21
5	NASDAQGS:WING	20.6	68.5	79.0	1.69	24.00%	1.60
6	NYSE:CAVA	18.1	100.3	465.9	1.88	23.00%	1.85
7	NYSE:SG	6.8	202.3	0.0	2.34	21.00%	2.22

	EV/Revenue	EV/EBITDA	EV/EBIT		Unlevered Beta
Min	**2.06**	**12.15**	**0.00**	**Min**	**1.16**
1st Quartile	**4.17**	**22.44**	**35.08**	**1st Quartile**	**1.39**
Median	**6.82**	**30.01**	**49.55**	**Median**	**1.60**
3rd Quartile	**12.92**	**84.37**	**132.55**	**3rd Quartile**	**1.98**
Max	**20.63**	**202.29**	**465.92**	**Max**	**2.22**
Mean	**9.10**	**65.44**	**121.53**	**Mean**	**1.68**

Appendix J **Financial Analysis**

Guzman y Gomez (ASX: GYG) For the Financial Year Ending 30 June *All figures are expressed in AUD Millions*	Historical				Forecasted				
	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E
1 Key Growth									
Revenue Growth	NA	43.7%	61.1%	31.9%	15.5%	15.8%	15.0%	13.3%	13.7%
2 Margins									
Gross Profit Margin	73.4%	74.3%	33.5%	33.9%	33.1%	33.2%	33.1%	32.5%	31.9%
EBITDA Margin	7.2%	5.4%	10.7%	7.5%	10.1%	11.2%	12.1%	12.5%	12.9%
EBIT Margin	7.2%	5.4%	1.5%	-1.1%	1.1%	1.9%	2.6%	2.8%	3.1%
EBT Margin	5.3%	3.8%	0.1%	-3.2%	-1.1%	0.1%	1.0%	1.7%	2.3%
Net Income Margin	3.4%	2.2%	-0.8%	-3.8%	-1.1%	0.1%	0.7%	1.2%	1.6%
Return on Assets	1.9%	1.5%	-0.7%	-2.1%	-0.6%	0.0%	0.5%	0.9%	1.4%
Return on Equity	6.1%	4.7%	-2.6%	-3.9%	-1.3%	0.1%	1.1%	2.1%	3.2%
3 Liquidity									
Current Ratio	2.1	1.6	1.2	4.0	3.5	3.1	2.7	2.4	2.1
Quick Ratio	2.0	1.6	1.1	4.0	3.4	3.0	2.6	2.3	2.0
Cash Ratio	1.6	1.0	0.5	0.2	2.9	2.4	2.0	1.6	1.3
5 Efficiency									
Asset Turnover Ratio	0.6	0.7	1.0	0.7	0.6	0.7	0.7	0.8	0.9
Receivables Turnover Ratio	7.6	8.0	8.9	10.0	10.0	9.8	9.8	9.7	9.7
Payables Turnover Ratio	1.9	2.0	6.1	6.7	6.6	6.5	6.5	6.5	6.5

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