

Dim the lights and HOLD me

We initiate coverage with a HOLD rating and \$1.85/sh price target. Beacon Lighting (BLX), Australia's largest specialty lighting retailer, has many of the key attributes we look for in a retailer, being vertically integrated, with a strong existing network (95 stores), robust gross profit margins (65%) and a solid store roll-out program (+6 store pa). However, Beacon's growth profile does not come cheap, with the stock trading on an FY16 PE ratio of 19.3x, or a PEG ratio of 1.2x. Beacon has undoubtedly been a key beneficiary of growth in the household goods segment, a segment we believe to be correlated with house prices. Whilst we view Beacon as a high quality business, we initiate with a HOLD recommendation on valuation grounds - we would be a buyer of Beacon below \$1.65/sh.

Investment thesis

Business overview: Beacon is Australia's largest specialist retailer of lighting, ceiling fans and light globes with 80 owned stores, 11 franchised stores and 4 commercial sales offices. Many of the products offered are exclusive to Beacon and encompass both fashion and design elements pursuing the latest technology for energy efficiency.

Growth strategy: Beacon estimates it can add approximately 6 stores per year to the existing store network of 95. Sales growth from the store roll-out will likely be further aided by the strong like-for-like sales being achieved by the group (+10.4% in FY15). The strength in like-for-like sales continues to be driven by a robust housing market and the transition to more power-efficient lighting.

Forecasts: We forecast FY16 EPS of 9.7 cps, with EPS forecast to grow at 15.3% (CAGR) between FY15-19. The growth profile for Beacon is outstanding relative to comparable companies. That said, with the stock trading at 19.3x FY16 earnings and 13.0x FY19 earnings, the growth does not come cheap.

Valuation: Our 12-month target of \$1.85/sh is based on the average of EV/EBITDA (11.1x, \$1.66/sh), PER (19.0x, \$1.77/sh) and DCF (9.7% WACC, \$2.09/sh) valuations.

Risks and catalysts

Risks include the falling AUD impacting margins, deterioration in the housing market impacting sales and the potential for currency led price inflation to result in volume reductions. **Catalysts** include new technological innovation driving product churn, improved consumer sentiment and the effective roll-out of additional stores.

Year-end June (AUD)	FY14A	FY15A	FY16F	FY17F	FY18F
NPAT rep (\$m)	11.5	17.9	20.0	23.2	26.5
NPAT norm (\$m)	11.8	16.9	20.0	23.2	26.5
Consensus NPAT (\$m)			19.5	21.9	24.4
EPS norm (cps)		7.9	9.7	11.0	12.4
EPS growth (%)			18.2	15.9	14.3
P/E norm (x)		22.9	19.3	16.7	14.6
EV/EBITDA (x)	19.8	14.5	12.0	10.4	9.1
FCF yield (%)	4.1	2.3	3.9	4.4	5.3
DPS (cps)		4.2	5.4	6.1	6.8
Dividend yield (%)	0.8	2.3	2.6	2.9	3.2
Franking (%)	0	100	100	100	100

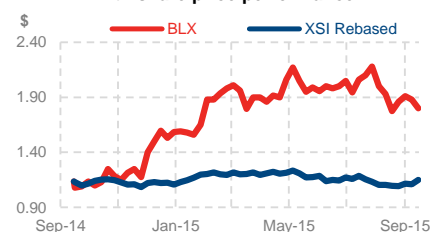
Source: Company data, WHTM estimates, S&P Capital IQ

12-mth target price (AUD)	\$1.85
Share price @ 06-Oct-15 (AUD)	\$1.80
Forecast 12-mth capital return	2.8%
Forecast 12-mth dividend yield	2.6%
12-mth total shareholder return	5.4%

Market cap	\$387m
Enterprise value	\$395m
Shares on issue	215m
Sold short	0.0
ASX 300 weight	n/a
Median turnover/day	\$0.1m

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12-mth share price performance



	1-mth	6-mth	12-mth
Abs return (%)	2.9	-3.0	62.2
Rel return (%)	-3.0	1.9	61.0

KEY CHANGES	Before	After	Var %
NPAT: FY16F		20.0	
norm FY17F		23.2	
(\$m) FY18F		26.5	
EPS: FY16F		9.3	
norm FY17F		10.8	
(cps) FY18F		12.3	
DPS: FY16F		4.8	
(cps) FY17F		5.3	
FY18F		5.8	
Price target:		1.85	
Rating:		HOLD	



PRICE TARGET		
	Multiple	Valuation
Enterprise Value		405.5
Net Debt		7.6
Equity Value		397.9
Shares on issue		215.1
Valuation		1.85
Prem. Disc (%)		2.8
Dividend Yield (%)		2.7
TSR (%)		5.5
EV/EBITDA	11.1x	1.7
PER	19x	1.8
DCF		2.1

INTERIMS (\$m)				
Half-year (AUD)	Dec 14	Jun 15	Dec 15	Jun 16
	1HA	2HA	1HE	2HE
Sales revenue	90.8	88.6	107.7	104.8
EBITDA	14.5	12.8	18.3	14.7
EBIT	13.4	11.6	16.6	13.1
Net profit	9.1	7.9	11.2	8.8
Norm EPS	4.2	3.6	5.2	4.1
EBIT/sales (%)	14.7	13.1	15.4	12.5
Dividend (c)	1.8	2.4	2.3	2.5
Franking (%)	100.0	100.0	100.0	100.0

FINANCIAL STABILITY			
Year-end June (AUD)	FY15A	FY16F	FY17F
Net debt	7.6	6.6	3.6
Net debt/equity (%)	15.4	11.1	5.1
Net debt/EV (%)	1.9	1.7	0.9
Current ratio (x)	2.3	2.4	2.5
Interest cover (x)	22.3	26.6	30.6
Adj cash int cover (x)	15.3	22.2	25.0
Debt/cash flow (x)	1.6	1.1	1.0
Net debt (cash)/share (\$)	0.0	0.0	0.0
NTA/share (\$)	0.2	0.2	0.3
Book value/share (\$)	0.2	0.3	0.3
Payout ratio (%)	53	51	49
Adj payout ratio (%)	76	66	64

EPS RECONCILIATION (\$m)				
	FY15A		FY16F	
	Rep	Norm	Rep	Norm
Sales revenue	179	179	213	213
EBIT	26.3	25.0	29.7	29.7
Net profit	17.9	16.9	20.0	20.0
Notional earn	0.0	0.0	0.0	0.0
Pref/conv div	0.0	0.0	0.0	0.0
Profit for EPS	17.9	16.9	20.0	20.0
Diluted shrs (m)	215	215	215	215
Diluted EPS (c)	8.3	7.9	9.3	9.3

RETURNS				
	FY15A	FY16F	FY17F	FY18F
ROE (%)	38.7	36.9	35.6	33.9
ROIC (%)	35.6	33.9	34.1	34.5
Incremental ROE	149.2	29.4	29.4	25.5
Incremental ROIC	46.3	27.1	35.9	37.2

KEY ASSUMPTIONS							
Year-end June (AUD)	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F
Company stores (qty)	68	74	82	90	97	104	111
Franchise stores (qty)	15	14	13	11	10	9	8
Total (qty)	83	88	95	101	107	113	119
Company stores							
Like-for-like sales (%)	1.2	5.7	10.4	8.0	7.0	6.0	5.0
Total sales growth (%)	12.5	10.8	19.3	18.5	16.8	14.3	12.5
Sales (\$m)	135.7	150.3	179.4	212.5	248.3	283.8	319.2
Sale per average store (\$m)	2.1	2.1	2.4	2.5	2.7	2.9	3.0
Sales per total store (\$m)	2.0	2.0	2.2	2.4	2.6	2.7	2.9
Total Revenue (\$m)	140.3	155.7	183.2	215.9	251.3	286.7	322.0
Sales per average store (\$m)	1.7	1.8	2.0	2.2	2.5	2.6	2.8
Sales per total store (\$m)	1.7	1.8	1.9	2.1	2.3	2.5	2.7

PROFIT AND LOSS (\$m)							
Year-end June (AUD)	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F
Sales revenue	135.7	150.3	179.4	212.5	248.3	283.8	319.2
EBITDA	17.2	20.0	27.3	32.9	38.0	43.3	48.6
Deprn & amort	2.1	2.0	2.4	3.2	3.7	4.3	4.8
EBIT	15.1	17.9	25.0	29.7	34.3	39.0	43.8
Net interest expense	0.9	0.9	1.1	1.1	1.1	1.1	1.1
Tax	4.3	5.3	6.9	8.6	10.0	11.4	12.8
Minorities/pref divs	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit (pre-sig items)	9.9	11.8	16.9	20.0	23.2	26.5	29.9
Abns/exts/signif	0.1	-0.3	1.0	0.0	0.0	0.0	0.0
Reported net profit	10.0	11.5	17.9	20.0	23.2	26.5	29.9

CASH FLOW (\$m)							
Year-end June (AUD)	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F
EBITDA	17.2	20.0	27.3	32.9	38.0	43.3	48.6
Interest & tax	-5.9	-6.9	-7.7	-9.7	-11.1	-12.5	-13.9
Working cap/other	2.3	2.7	-10.5	-5.1	-6.7	-6.7	-6.7
Operating cash flow	13.6	15.7	9.1	18.1	20.2	24.1	27.9
Maintenance capex	0.0	0.0	0.0	-3.0	-3.3	-3.6	-4.0
Free cash flow	13.6	15.7	9.1	15.1	16.9	20.5	23.9
Dividends paid	-0.6	-14.5	-6.9	-10.0	-10.8	-11.8	-14.8
Growth capex	-2.4	-3.6	-4.0	-2.1	-2.2	-2.2	-2.3
Invest/disposals	-1.7	-0.8	-1.3	-2.0	-1.1	-1.1	-1.2
Other inv flows	-7.9	-55.9	0.0	0.0	0.0	0.0	0.0
Cash flow pre-financing	0.9	-59.1	-3.1	1.0	2.9	5.3	5.7
Funded by equity	0.0	63.9	0.0	0.0	0.0	0.0	0.0
Funded by debt	-0.8	-0.9	3.5	0.0	0.0	0.0	0.0
Funded by cash	-0.1	-3.8	-0.4	-1.0	-2.9	-5.3	-5.7

BALANCE SHEET SUMMARY (\$m)							
Year-end June (AUD)	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F
Cash	7.6	11.4	11.8	12.8	15.7	21.0	26.7
Current receivables	15.2	8.2	7.0	8.0	9.4	10.7	12.0
Current inventories	29.1	32.2	44.7	53.8	62.6	71.3	80.1
Net PPE	14.0	16.8	19.1	21.5	23.9	26.2	28.4
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Franchise purch.	3.4	4.1	5.1	6.6	7.0	7.4	7.8
Other	3.1	4.2	6.5	6.5	6.5	6.5	6.5
Total assets	72.4	77.0	94.1	109.2	125.0	143.1	161.6
Current payables	22.9	16.6	15.7	20.7	24.1	27.4	30.8
Total debt	0.9	14.4	19.4	19.4	19.4	19.4	19.4
Other liabilities	6.1	7.8	9.7	9.9	10.4	11.0	11.1
Total liabilities	29.9	38.8	44.7	49.9	53.9	57.8	61.3
Minorities/convertibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholder equity	42.5	38.2	49.4	59.2	71.1	85.3	100.3
Total funds employed	43.4	52.6	68.8	78.6	90.5	104.7	119.6



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Executive summary

Recommendation and share price target

We initiate coverage with a HOLD recommendation and a 12-month price target of \$1.85/sh, implying limited upside from the current share price.

Business overview

Beacon Lighting is Australia's largest specialist retailer of lighting, ceiling fans and light globes with 95 stores comprising 80 owned stores, 11 franchised stores and 4 commercial sales offices. Many of the products offered are exclusive to Beacon and encompass both fashion and design elements pursuing the latest technology for energy efficiency.

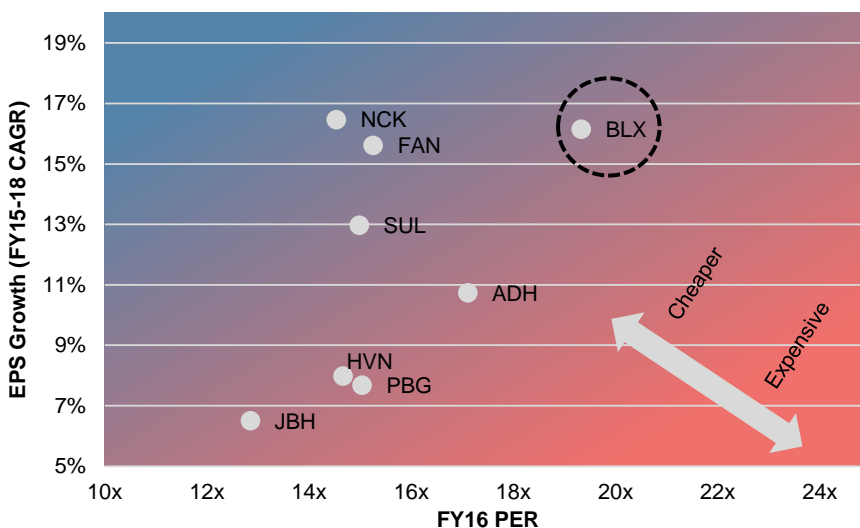
Key areas of risk

- Demand for lighting products within residential dwellings appears correlated with the state of the housing market. While it's difficult to predict changes in the housing cycle, it appears that Beacon at 19.3x FY16 earnings, is richly priced in a housing market which has already benefited from low interest rates, but is yet to experience the impact of any major supply response (ie settlement of dwellings under construction). That said, 70% of Beacon's business is from renovations, which may provide some earnings resilience.
- The demand for residential lighting products is also influenced by general economic conditions, including consumer confidence and growth in disposable income. Overall, we see the real economy weakening and in the absence of continuing growth in asset prices, retail sales are at risk.

Key areas of potential upside

- There is no doubt that Beacon is a quality business, especially given its strong existing store network. We like the fact that Beacon develops, designs, sources, imports, distributes, merchandises and sells – this level of vertical integration is a key positive.
- We see Beacon as capable of delivering EPS growth of approximately 15.3% pa through the next five years – this compares favourably to the competitive set. We forecast continued growth through strong like-for-like sales, plus the store roll-out program which could see an additional six stores per year added to the current store network of 95 – we forecast a peak store network of 137 by 2022.
- Given the positive attributes of Beacon, there is little surprise the stock trades on a relatively hefty multiple for a retailer – 19.3x FY16 earnings and 13.0x FY19 earnings. Based on the Growth to PE XY plot below (Chart 1), Beacon appears relatively expensive at its current price of \$1.80/sh.

Chart 1: Growth at a reasonable price



While BLX has a strong growth profile, it appears the growth is more than built into the multiple

Source: Wilson HTM



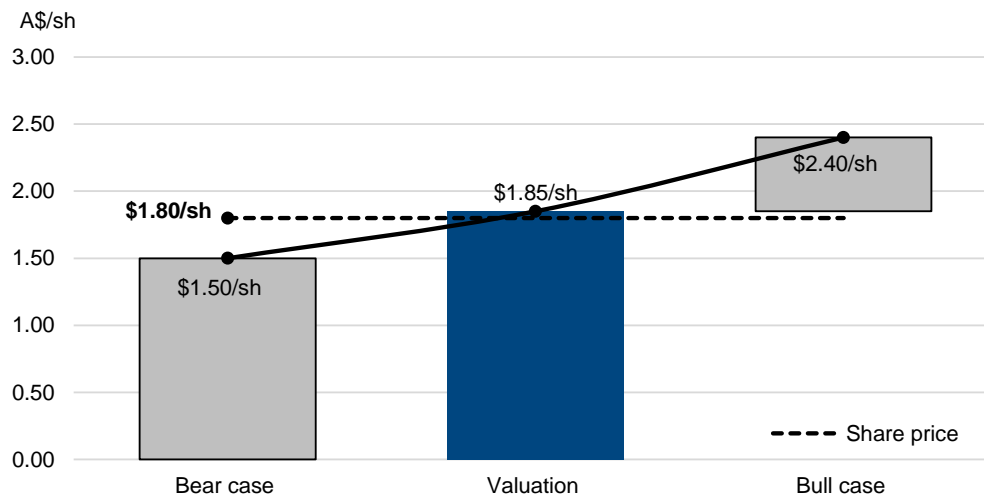
Sensitivity analysis

Sensitivity analysis

The primary drivers of value for Beacon are the assumptions for: a) like-for-like sales, and b) the speed/efficacy of the store roll-out program. On this basis, we have undertaken a sensitivity analysis looking at a range of potential outcomes based on a change in these two assumptions:

- **Bear case** – No store roll-out and like-for-like growth of 3.0% pa.
- **Base case** – Like-for-like sales growth of 8.0% in FY16, then declining at 1.0% pa down to a terminal growth rate of 3.0%. We have adopted EBIT margins of ~14%, which are broadly consistent with historic margins, whilst acknowledging some slight improvement to SG&A from economies of scale from the larger store network.
- **Bull case** – Like-for-like sales growth of 10.0% over the next five years (then a linear decline to 3.0%), with EBIT margins improving 150bps from 13.8% (FY16).

Chart 2: Scenario analysis



Source: Wilson HTM



Investing scorecard

Earnings growth	<ul style="list-style-type: none"> • Our view: This is a quality business with a strong growth profile to be delivered through like-for-like sales and a store roll-out program. • We forecast EPS growth of 15.3% (CAGR) from FY15 to FY19. The EPS growth profile declines from 18.2% in FY16 down to 12.6% by FY19. • We forecast 15.6% CAGR FCF growth over the next five years. The growth is driven by our forecast for a) like-for-like sales of ~8% pa decreasing to 3% (FY21) and a roll-out program of ~6 stores per year until FY22. Beyond the cashflow period we have adopted growth of ~3%. • We believe that like-for-like growth is inextricably linked to housing prices - should this recent growth trend reverse then like-for-like sales could slow and also hamper the roll-out program.
Upside/Downside	<ul style="list-style-type: none"> • Our view : The forecast EPS is top quartile across comparable companies. However, with the stock trading at 19.3x FY16 EPS, the growth does not come for free. • Upside: Should the upswing in the housing cycle continue, then the business could continue to post like-for-like growth of 5-10% pa. Under our bull case (see Chart 2), we have a valuation of ~\$2.40/sh. • Downside: The downside is that the operating environment for Beacon is as good as it gets. Given the stock is trading at 19.3x FY16 earnings, any slowdown would likely be met with reduced like-for-like sales, a slower roll-out and potentially a multiple de-rate. Under our bear case (see Chart 2), we have derived a valuation of \$1.50/sh.
Industry structure	<ul style="list-style-type: none"> • Our view: Retailing is generally described as having low barriers to entry. That said, Beacon is Australia's largest specialty lighting retailer and is able to develop, design, source, import, distribute, merchandise and sell. This integrated approach ticks the box in terms of the characteristics we look for in a retailer. • Outside of Beacon, the competition is either small specialist lighting retailers or large hardware stores. Beacon's store network places their offer between the boutique and the mass-market offerings.
Thematic	<ul style="list-style-type: none"> • Our view: This business is undoubtedly a beneficiary of a strong housing cycle. Were the cycle to fade, then we believe the business would be adversely impacted. That said, we see less volatility in the renovations segment of housing, which could provide some insulation from earnings volatility. • The Australian property cycle upswing appears to be continuing. We believe a proportion of current retail spending particularly in the home segment is a direct impact of the wealth effects flowing from recent asset price inflation.
Management	<ul style="list-style-type: none"> • Our view: The Robinson family remain a significant influence on the Beacon business. That said, their majority ownership in the business provides a strong alignment of interest. • The Executive Chairman is Ian Robinson, whose family holds a 55% shareholding. Under the listing, Ian committed the family's shareholding to escrow for two years post-IPO - escrow release date Apr-16. • Ian's son Glen, with more than 10 years full time experience in the business, is Chief Executive Officer.
ESG	<ul style="list-style-type: none"> • Environmental sustainability risks include impacts on the Group's supply chain from suppliers through to stores. • Social sustainability risks include workplace health and safety as well as personnel management and corporate conduct. • Corporate conduct risks could impact regulatory, reputational and financial performance. It includes stock loss and theft.

Source: Wilson HTM



Business model analysis

Key partnerships	Key activities	Value proposition	Customer relation	Customer segments
<ul style="list-style-type: none"> ▪ The vast majority of exclusive products are designed and sourced internationally through third party factories using external buying agents and co-ordinated with Beacon's buying team. ▪ A small proportion of stock is supplied through local wholesalers in Australia. ▪ A number of exclusive national and international distribution arrangements for key products also exist. 	<ul style="list-style-type: none"> ▪ A vertically integrated specialty lighting retailer which develops, designs, sources, imports, distributes, merchandises and sells lighting, ceiling fans and light globes. 	<ul style="list-style-type: none"> ▪ Beacon is a specialty lighting retailer. ▪ The company offers customers a wide range of products with knowledge, service and advice. ▪ The products encompass both fashion and design elements as well as pursuing the latest technology for energy efficiency. ▪ Multiple price points to create a "good, better, best" product offer. ▪ The product range is manufactured to comply with Australian Standards. 	<ul style="list-style-type: none"> ▪ Marketing activities are a key sales driver and instrumental in establishing strong brand recall and awareness. ▪ Beacon operates two customer loyalty programs, one focused on general retail customers, and the other on trade customers. 	<ul style="list-style-type: none"> ▪ Middle to upper socio-economic demographic. ▪ Beacon targets the residential lighting market, be it for new dwellings or renovations (ie retail or trade).
	<p>Key resources</p> <ul style="list-style-type: none"> ▪ Store network. ▪ In-house design team which assists in delivering relevant product to the Australian market. ▪ Integrated point of sale and warehouse management system which automates the stock replenishment process. 		<p>Channels</p> <ul style="list-style-type: none"> ▪ The 80 company stores, 11 franchised stores and 4 commercial sales centres are the key sales channel. ▪ More than 90% of products are self-sourced and distributed through Beacon's supply chain. ▪ The China warehouse is a central storage facility for key lines and the international wholesale business. ▪ Third party warehousing in Brisbane, Sydney and Perth. 	
<p>Cost structure</p> <ul style="list-style-type: none"> ▪ Currently, Beacon has 80 company-operated stores, 11 franchised stores and four commercial sales offices (Melbourne, Brisbane, Sydney and Perth). ▪ The company has a Hong Kong wholesale office, a third party China warehouse and third party warehousing in Brisbane, Sydney and Perth. ▪ 6.0% of annual own store and franchise store retail sales are spent on marketing initiatives. 		<p>Revenue streams</p> <ul style="list-style-type: none"> ▪ Principal revenue is from the Beacon retail stores, where the majority of the company's product ranges are marketed under the well-established product brand, Lucci, which is owned by the company. ▪ The revenue can be split between the retail (70%) and trade customers (30%). ▪ Beacon is also working to develop Beacon Solar and Beacon International, both of which are in their infancy. 		

Source: Wilson HTM



Earnings forecasts

Organic growth: We have adopted like-for-like growth of 8.0% in FY16, declining 1.0% pa down to a terminal growth rate of 3.0% in FY21. We anticipate growth will come through:

Changing technology, be it new products or changing technology.

- **New products and ranges:** With energy efficiency and technology driving change, Beacon has scope to further improve the breadth and depth of the range.
- **Technology in lighting:** The lighting industry is experiencing rapid change in technology. A need for greater energy efficiency is driving development of LED (light emitting diodes) technology. There is little data to indicate how progressed this trend is. However, approximately 30% of Beacon's range is LED and we expected this to increase to ~90% over the medium term. Furthermore, the proportion of homes currently with LED remains much lower than the proportion reflected by Beacon's range.

New store roll-out: Beacon plans to open approximately six stores per year for the foreseeable future depending on suitable site identification, negotiation and availability.

Online presence: These opportunities may include driving sales through third party websites and dedicated category websites. Online currently represents 1.9% of revenue. Given the low contribution from online and our belief that purchases will remain principally in store we factor limited growth in this channel.

Emerging businesses: Beacon intends to continue supporting the emerging Beacon Solar and Beacon International divisions. We have not modelled these business channels.

Acquisitions: Beacon may pursue business acquisitions, locally or internationally. This may include other lighting stores including franchised stores, other retail formats or wholesale operations. We have factored in the acquisition of two franchise stores in FY16, then one additional franchise store per year until FY23.

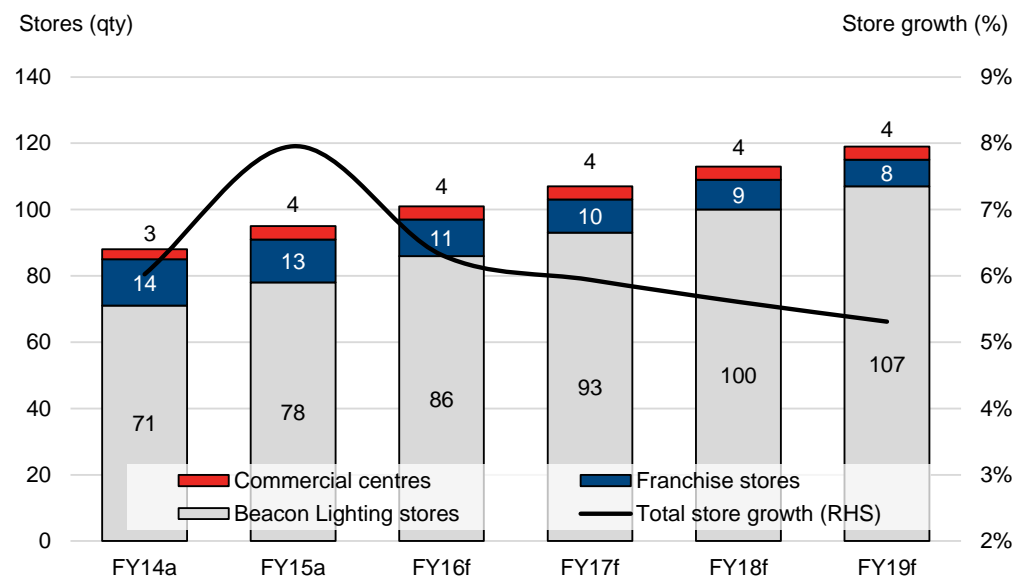
Table 1: Store network configuration

	FY14a	FY15a	FY16f	FY17f	FY18f	FY19f
Company stores						
Beacon Lighting stores	71	78	86	93	100	107
Commercial centres	3	4	4	4	4	4
Stores (incl commercial centres)	74	82	90	97	104	111
<i>Growth</i>	8.8%	10.8%	9.8%	7.8%	7.2%	6.7%
Full store contribution	70	76	85	92	99	106
Sales (\$m)	150.3	179.4	212.5	248.3	283.8	319.2
Sale per average store (\$m)	2.1	2.4	2.5	2.7	2.9	3.0
Sales per total store (\$m)	2.0	2.2	2.4	2.6	2.7	2.9
Like-for-like sales (%)	5.7%	10.4%	8.0%	7.0%	6.0%	5.0%
Total sales growth (%)	10.8%	19.3%	18.5%	16.8%	14.3%	12.5%
Franchise stores						
Store network	14	13	11	10	9	8
<i>Growth</i>	-6.7%	-7.1%	-15.4%	-9.1%	-10.0%	-11.1%
Ave.	15	14	12	11	10	9
Sales (\$m)	3.9	3.5	3.3	3.1	3.0	2.8
Sale per average store (\$m)	0.3	0.3	0.3	0.3	0.3	0.3
Sales per total store (\$m)	0.3	0.3	0.3	0.3	0.3	0.3
Total sales growth (%)	-8.5%	-8.2%	-6.6%	-6.7%	-4.0%	-6.0%
Total						
Stores (incl commercial centres)	88	95	101	107	113	119
<i>Growth</i>	6.0%	8.0%	6.3%	5.9%	5.6%	5.3%
Ave.	85	90	97	103	109	115
Total Revenue (\$m)	155.7	183.2	215.9	251.3	286.7	322.0
Revenue per average store (\$m)	1.8	2.0	2.2	2.5	2.6	2.8
Revenue per total store (\$m)	1.8	1.9	2.1	2.3	2.5	2.7
Total sales growth (%)	11.0%	17.7%	17.8%	16.4%	14.1%	12.3%

Source: Company data, Wilson HTM



Chart 3: Growth in network



The predominant source of sales revenue remains the existing asset base

Source: Company data, Wilson HTM

Operating expenses

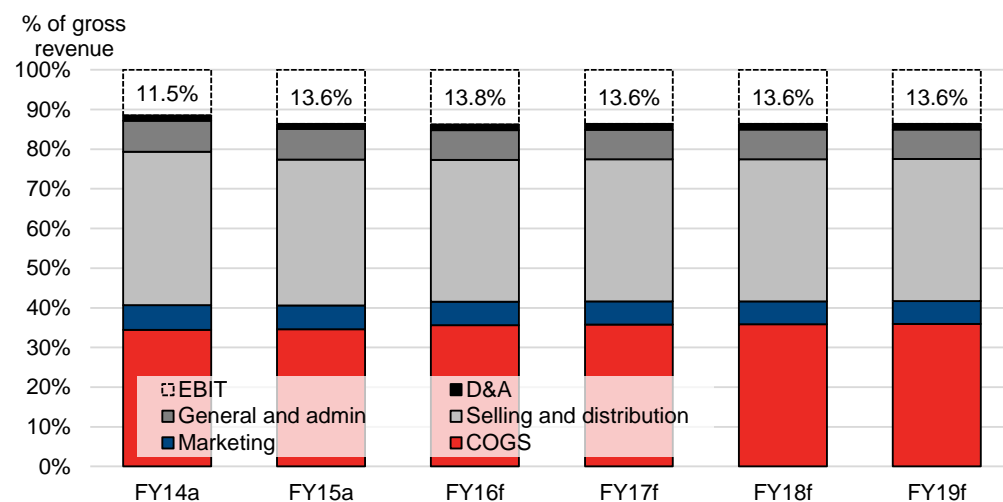
Operating margins in the Beacon business have been improving as the company achieves economies of scale from a larger store network. While we have factored in a small degree of additional gains, we believe the business is well run in its current state, with few operating gains yet to be achieved.

Table 2: Operating expenses

	FY14a	FY15a	FY16f	FY17f	FY18f	FY19f
COGS	34.5%	34.6%	35.7%	35.8%	35.8%	35.9%
Marketing	6.2%	6.0%	5.9%	5.8%	5.8%	5.8%
Selling and distribution	38.7%	36.8%	35.8%	35.8%	35.8%	35.9%
General and admin	7.8%	7.7%	7.5%	7.5%	7.4%	7.4%
EBITDA	12.8%	14.9%	15.2%	15.1%	15.1%	15.1%
	12.8%	14.9%	15.2%	15.1%	15.1%	15.1%
D&A	1.3%	1.3%	1.5%	1.5%	1.5%	1.5%
EBIT	11.5%	13.6%	13.8%	13.6%	13.6%	13.6%

Source: Company data, Wilson HTM

Chart 4: Operating expenses



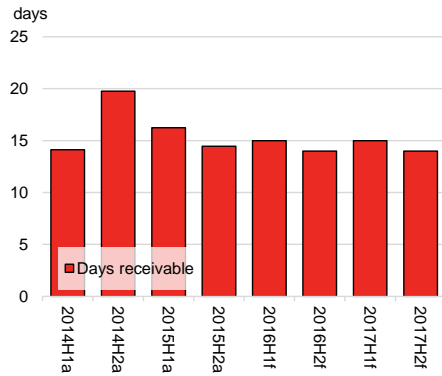
Source: Company data, Wilson HTM



Working capital movements

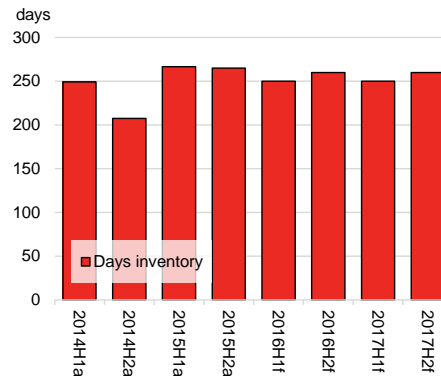
As the business expands we forecast a modest increase in working capital. However, as with most retail businesses, the major working capital movements will occur intra-period.

Chart 5: Days receivable



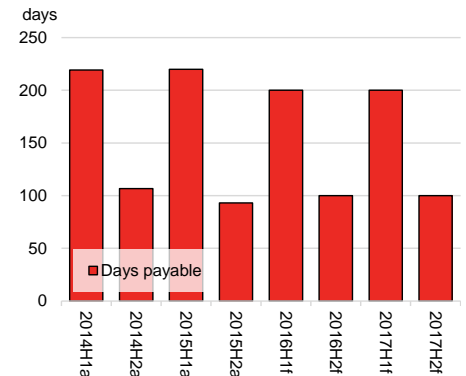
Source: Company data, Wilson HTM

Chart 6: Days inventory



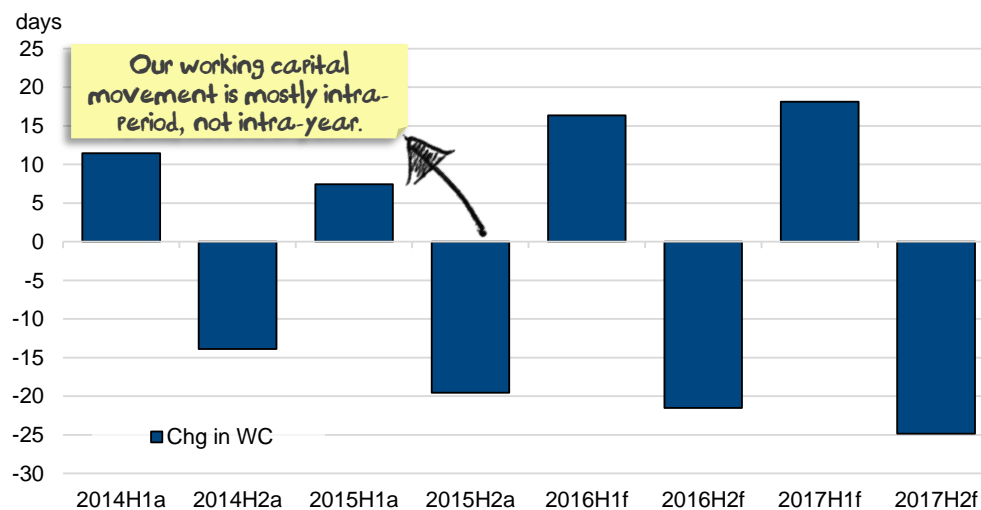
Source: Company data, Wilson HTM

Chart 7: Days payable



Source: Company data, Wilson HTM

Chart 8: Working capital movement



Source: Company data, Wilson HTM

Capex profile

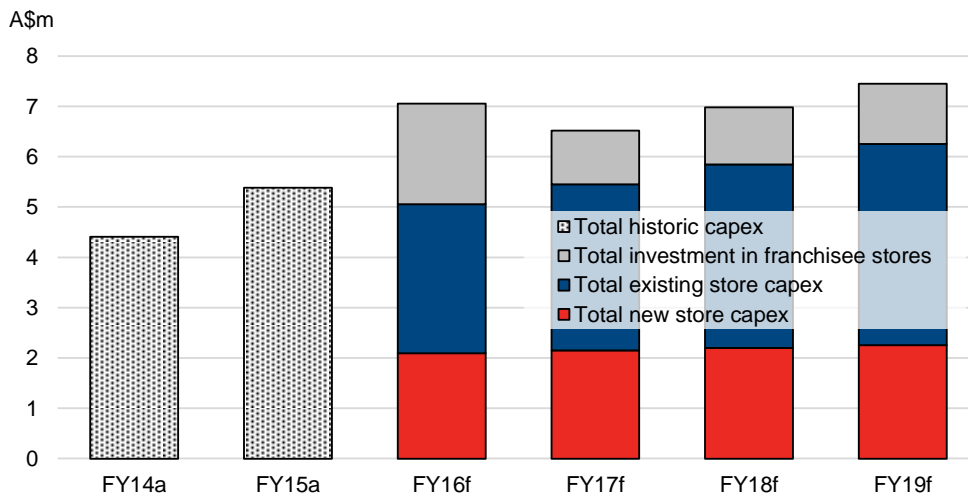
During FY15 Beacon opened seven new company stores, purchased one franchise store and closed one company store. For the year Beacon spent \$2.5m (\$357k/store) in new store capex, opening the seven stores. Meanwhile, the company spent an additional \$3.0m (\$35k/store) on maintenance of the existing store network.

We have estimated sustaining capex at \$35,000 per store per annum, with an estimated new store fit-out cost of \$350,000 and the purchase price of a franchise store at 3-4x PBT.

Beacon has been slowly purchasing its franchise stores. As such, we forecast two stores being purchased in the current half (as detailed in the FY15 presentation) and an additional one store per year thereafter until FY23. We estimate that the purchase price of the stores is around 3x PBT, or \$1.00-1.25m.



Chart 9: Capital expenditure



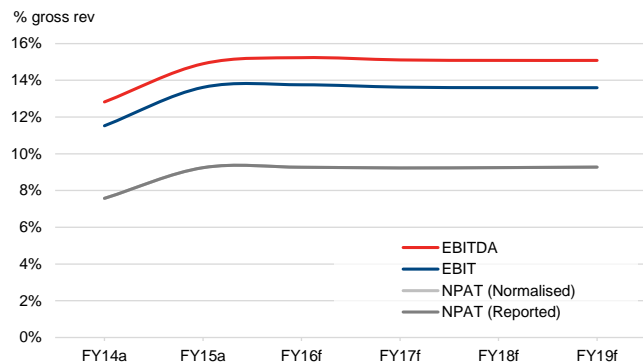
Source: Company data, Wilson HTM

Profitability and return on assets

We forecast fairly consistent margins over the forecast period, given that we see few economies of scale remaining within the business.

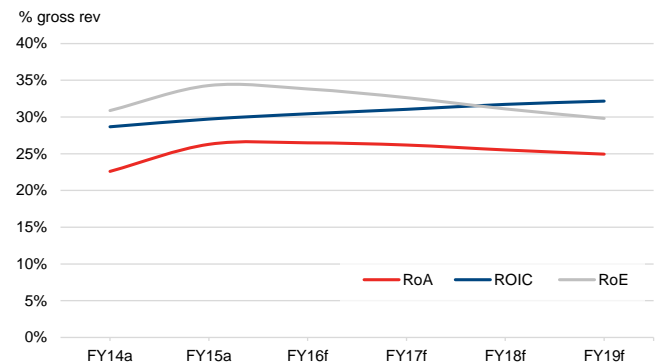
The balance sheet return metrics remain very healthy, particularly given the equity was raised at 66¢/share.

Chart 10: EBIT margins



Source: Company data, Wilson HTM

Chart 11: Return metrics



Source: Company data, Wilson HTM



Borrowings

At 30-Jun the company had total borrowings of \$19.4m, including \$17.2m of trade finance and \$2.2 of asset finance.

Table 3: Debt position

	FY14a	FY15a	FY16f	FY17f	FY18f	FY19f
Current borrowings	13.6	18.1	18.1	18.1	18.1	18.1
Non-current borrowings	0.8	1.3	1.3	1.3	1.3	1.3
Total Debt	14.4	19.4	19.4	19.4	19.4	19.4
Cash and cash equivs	11.4	11.8	12.8	15.7	21.0	26.7
Net Debt	2.9	7.6	6.6	3.6	-1.7	-7.3

Source: Company data, Wilson HTM

Table 4: Solvency ratios

	FY14a	FY15a	FY16f	FY17f	FY18f	FY19f
Net Debt : Equity	0.1x	0.2x	0.1x	0.1x	0.0x	-0.1x
Net Debt : Assets	0.0x	0.1x	0.1x	0.0x	0.0x	0.0x
Net Debt : EBITDA	0.1x	0.3x	0.2x	0.1x	0.0x	-0.2x
EBITDA :Net Interest	20.1x	22.3x	26.6x	30.6x	34.9x	39.2x

Source: Company data, Wilson HTM

Dividend profile

Beacon paid total dividends of 4.2 cps per share in FY15, comprising 1.8 cps for 1HFY15 and 2.4 cps in 2HFY15. All dividends are fully franked.

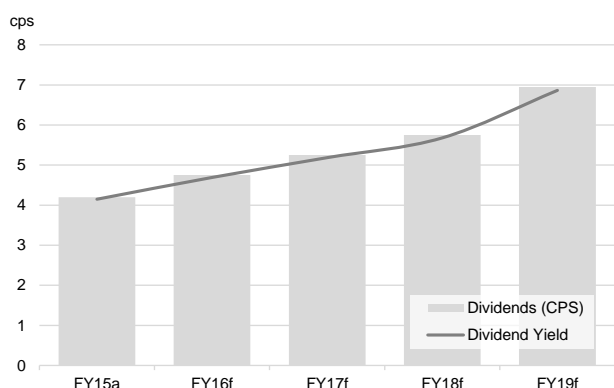
Future payout ratio expected to be 50% to 60% of annual NPAT.

Table 5: Dividend profile

	FY14a	FY15a	FY16f	FY17f	FY18f	FY19f
Share price	1.80	1.80	1.80	1.80	1.80	1.80
Dividends (CPS)	1.40	4.20	4.75	5.25	5.75	6.95
Payout (%)	0.26	0.53	0.51	0.49	0.47	0.50
Dividends (A\$m)	3.01	9.03	10.22	11.29	12.37	14.95
Dividend Yield	0.8%	2.3%	2.6%	2.9%	3.2%	3.9%
Dividend growth	n.a	200%	13%	11%	10%	21%

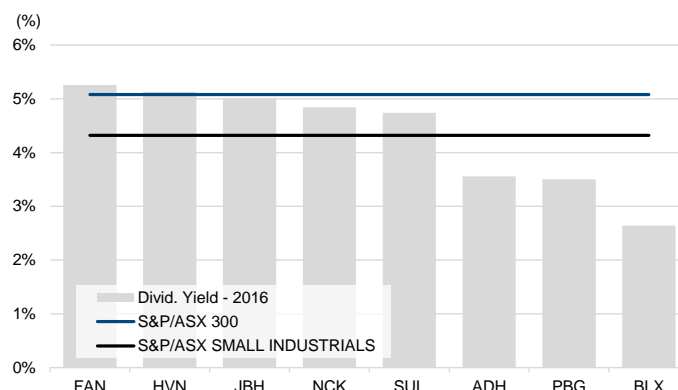
Source: Company data, Wilson HTM

Chart 12: A relatively low, albeit improving, dividend yield



Source: Company data, Wilson HTM

Chart 13: BLX has the lowest div yield amongst comps



Source: Capital IQ, IRESS, Wilson HTM



FY16 outlook

Beacon Lighting

- Company store comparative sales have made a positive start to FY16.
- Maribyrnong (VIC), Fairfield (QLD) and Preston (VIC) stores to open in FY16. Major refurbishment planned for Osborne Park (WA).
- Acquire the Essendon (VIC) and Watergardens (VIC) franchise stores in September 2015.
- Demand for latest fashion, trend and energy efficient products continues to drive product innovation.
- Operating efficiencies gains remain a focus throughout the group.
- GE Globes Licence and Sole Distribution Agreement to commence operation in September 2015.

Market conditions

- General market conditions remain supportive of Beacon and the lighting industry in Australia.

Summary

- Beacon expects the current growth strategies to continue to drive improved sales and profits in FY16.



Table 6: Earnings forecasts

	FY14a	FY15a	FY16f	FY17f	FY18f	FY19f
Sales	150.3	179.4	212.5	248.3	283.8	319.2
growth (%)	10.8%	19.3%	18.5%	16.8%	14.3%	12.5%
Gross Profit	96.7	116.0	135.5	158.3	180.9	203.5
margin (%)	64.3%	64.7%	63.7%	63.7%	63.7%	63.7%
growth (%)	10.8%	20.1%	16.8%	16.8%	14.3%	12.5%
Total other revenue	5.4	3.9	3.6	3.3	3.2	3.1
margin (%)	3.6%	2.2%	1.7%	1.3%	1.1%	1.0%
growth (%)	17.3%	-28.6%	-7.7%	-6.1%	-3.5%	-5.3%
EBITDA	20.0	27.3	32.9	38.0	43.3	48.6
margin (%)	12.8%	14.9%	15.2%	15.1%	15.1%	15.1%
growth (%)	16.2%	36.7%	20.6%	15.5%	13.9%	12.3%
EBIT	17.9	25.0	29.7	34.3	39.0	43.8
margin (%)	11.5%	13.6%	13.8%	13.6%	13.6%	13.6%
growth (%)	19.1%	39.0%	19.1%	15.3%	13.8%	12.3%
PBT	17.1	23.8	28.6	33.2	37.9	42.7
margin (%)	11%	13%	13%	13%	13%	13%
growth (%)	20.4%	39.7%	20.0%	15.9%	14.3%	12.6%
NPAT (Normalised)	11.8	16.9	20.0	23.2	26.5	29.9
margin (%)	8%	9%	9%	9%	9%	9%
growth (%)	19.6%	43.6%	18.2%	15.9%	14.3%	12.6%
NPAT (Reported)	11.8	16.9	20.0	23.2	26.5	29.9
margin (%)	8%	9%	9%	9%	9%	9%
growth (%)	19.6%	43.6%	18.2%	15.9%	14.3%	12.6%
EPS (Normalised)	0.0	7.9	9.3	10.8	12.3	13.9
EPS (Reported)	0.0	8.3	9.3	10.8	12.3	13.9
Dividends (CPS)	1.4	4.2	4.8	5.3	5.8	6.9
	FY14a	FY15a	FY16f	FY17f	FY18f	FY19f
CURRENT ASSETS						
Cash and cash equivs	11.4	11.8	12.8	15.7	21.0	26.7
Trade and receivables	8.2	7.0	8.0	9.4	10.7	12.0
Inventories	32.2	44.7	53.8	62.6	71.3	80.1
Total Current Assets	52.2	64.4	75.6	88.7	104.0	119.8
NON-CURRENT ASSETS						
Total Non-current Assets	24.8	29.7	33.6	36.4	39.1	41.7
Total Assets	77.0	94.1	109.2	125.0	143.1	161.6
CURRENT LIABILITIES						
Trade and other payables	16.6	15.7	20.7	24.1	27.4	30.8
Interest bearing liabilities	13.6	18.1	18.1	18.1	18.1	18.1
Total Current Liabilities	35.8	41.1	46.3	50.2	54.1	57.7
NON-CURRENT LIABILITIES						
Trade and other payables	0.0	0.0	0.0	0.0	0.0	0.0
Interest bearing liabilities	0.8	1.3	1.3	1.3	1.3	1.3
Total Non-current Liabilities	3.0	3.6	3.6	3.6	3.6	3.6
Total Liabilities	38.8	44.7	49.9	53.9	57.8	61.3
EQUITY						
Contributed equity	62.6	62.6	72.5	84.4	98.6	113.5
Reserves	-43.9	-42.8	-42.8	-42.8	-42.8	-42.8
Retained earnings (accumulated losses)	19.5	29.6	29.6	29.6	29.6	29.6
Total Equity	38.2	49.4	59.2	71.1	85.3	100.3
	FY14a	FY15a	FY16f	FY17f	FY18f	FY19f
EBITDA	20.0	27.3	32.9	38.0	43.3	48.6
Tax payment	-6.0	-6.6	-8.6	-10.0	-11.4	-12.8
Interest received	0.1	0.1	0.1	0.1	0.1	0.1
Interest paid	-1.0	-1.2	-1.2	-1.2	-1.2	-1.2
Other	0.0	0.0	0.0	0.0	0.0	0.0
Chg in working capital	2.7	-10.5	-5.1	-6.7	-6.7	-6.7
Cashflows from operations	15.7	9.1	18.1	20.2	24.1	27.9
Cashflows from investing	4.8	-5.3	-7.1	-6.5	-7.0	-7.5
Cashflows from financing	-16.7	-3.4	-10.0	-10.8	-11.8	-14.8
Cash close	11.4	11.8	12.8	15.7	21.0	26.7

Source: Company data, Wilson HTM



Valuation

We adopt a **target price of \$1.85/sh**, based on the average of our EV/EBITDA valuation of A\$1.66/sh, PE valuation of \$1.77/sh and discounted cashflow valuation of \$2.09/sh.

Our adopted valuation of A\$1.85/sh reflects an FY16 EV/EBITDA of 12.3x and a PER of 19.9x. This compares with the S&P/ASX 300 Small Industrials at an EV/EBITDA of 9.2x and PER of 14.7x and the S&P/ASX 300 consumer discretionary index at an EV/EBITDA of 9.2x and PER of 15.9x.

In undertaking our valuation we have adopted a 20% premium to the S&P/ASX 300 discretionary retail index. The purpose of the multiple premium is to compensate for Beacons level of superior underlying growth, which exceeds the majority of the competitive set.

Table 1: Summary of valuation methods

EV/EBITDA		PER		DCF		Adopt	\$1.85/sh
Enterprise Value	365.2	Enterprise Value	389.0	Enterprise Value	456		
Net Debt	7.6	Net Debt	7.6	Net Debt	8		
Equity Value	357.6	Equity Value	381.4	Equity Value	448		
Shares on issue	215.1	Shares on issue	215.1	Shares on issue	215		
Valuation	\$1.66	Valuation	\$1.77	Valuation	\$2.09		
Adopted Multiple	11.1x	Adopted Multiple	19.0x	WACC	9.7%		

Source: Wilson HTM

Table 7: Valuation metrics

Valuation	2015	2016	2017	2018	2019	12Mths Fwd	24Mths Fwd	36Mths Fwd
Enterprise Value	405							
Net Debt	8							
Equity Value	398							
Shares on issue	215							
Valuation	1.85							
Prem. Disc (%)	2.8%							
Dividend Yield (%)	2.7%							
TSR (%)	5.5%							
EV/EBITDA	14.9x	12.3x	10.7x	9.4x	8.3x	11.8x	10.2x	9.0x
EV/EBIT	16.3x	13.6x	11.8x	10.4x	9.3x	13.1x	11.4x	10.0x
PER	23.5x	19.9x	17.1x	15.0x	13.3x	19.0x	16.4x	14.4x
Divid Yield	2.3%	2.6%	2.8%	3.1%	3.8%	2.6%	2.9%	3.4%
Free cashflow yield		3.8%	4.2%	5.1%	6.0%			
Index PE Multiples								
S&P/ASX SMALL INDUSTRIALS	14.9x	14.7x	13.6x	12.5x				
Valuation premium to index multiple	58%	35%	26%	20%				
S&P/ASX 300 Consumer Discretionary	16.8x	15.9x	14.7x	13.5x				
Valuation premium to index multiple	40%	25%	17%	11%				

Source: Wilson HTM



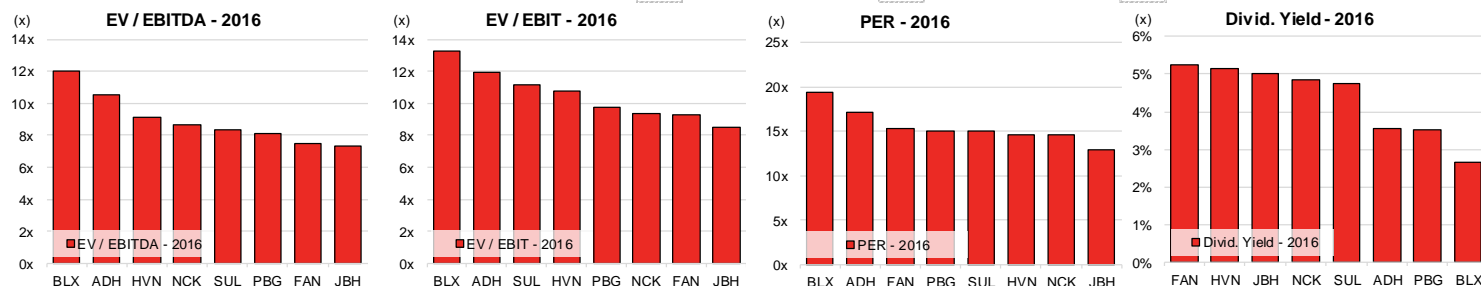
Relative value

Beacon is trading at the top of the range for comparable companies (based on our earnings forecasts). Based on the competitive set, the current FY16 PE of 19.3x appears elevated. While we appreciate the growth within the Beacon business, it does not appear sufficient to justify current multiples.

Table 8: Comparable multiples

ASX	Company Name	Prem / Disc	T/P (A\$/sh)	Price (A\$/sh)	Mkt Cap (m)	EPS Growth				DPS Growth				EV / EBITDA					EV / EBIT					PER					Divid. Yield				
						2015	2016	2017	2018	2015	2016	2017	2018	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
BLX	Beacon Lighting Group Limited		1.85	1.80	387	n.a	18%	16%	14%	200%	13%	11%	10%	19.8x	14.5x	12.0x	10.4x	9.1x	22.0x	15.8x	13.3x	11.5x	10.1x	n.a	22.9x	19.3x	16.7x	14.6x	0.8%	2.3%	2.6%	2.9%	3.2%
ADH	Adairs Limited			2.68	445	n.a	4%	17%	11%	n.a	n.a	20%	13%	0.0x	12.2x	10.5x	9.1x	8.3x	0.0x	13.9x	11.9x	10.3x	9.4x	0.0x	17.9x	17.1x	14.7x	13.2x	0.0%	0.0%	3.6%	4.3%	4.9%
FAN	Fantastic Holdings Limited	11%	2.50	2.26	233	45%	16%	16%	15%	150%	-21%	14%	14%	10.0x	8.3x	7.5x	6.6x	5.9x	15.2x	10.6x	9.3x	8.0x	6.9x	25.5x	17.7x	15.3x	13.1x	11.4x	2.7%	6.6%	5.3%	6.0%	6.8%
HVN	Harvey Norman Holdings Limited			3.90	4,334	17%	11%	8%	5%	121%	-35%	10%	0%	11.2x	10.0x	9.2x	8.6x	8.4x	15.3x	11.9x	10.7x	10.1x	9.8x	19.1x	16.3x	14.7x	13.6x	13.0x	3.6%	7.9%	5.1%	5.6%	5.6%
JBH	JB Hi-Fi Limited	8%	20.40	18.96	1,874	8%	8%	8%	4%	7%	6%	15%	4%	8.0x	7.5x	7.3x	7.0x	6.8x	9.4x	9.0x	8.5x	8.0x	7.7x	14.9x	13.8x	12.9x	11.9x	11.4x	4.4%	4.7%	5.0%	5.7%	6.0%
NCK	Nick Scali Limited	10%	4.00	3.62	293	20%	18%	14%	17%	15%	17%	14%	18%	12.6x	10.5x	8.7x	7.5x	6.5x	13.9x	11.4x	9.3x	8.1x	6.9x	20.6x	17.2x	14.5x	12.8x	10.9x	3.6%	4.1%	4.8%	5.5%	6.5%
PBG	Pacific Brands Limited			0.72	656	-29%	16%	-3%	11%	-50%	150%	16%	-5%	5.9x	8.2x	8.1x	8.1x	7.6x	7.0x	10.0x	9.8x	10.0x	9.2x	12.3x	17.4x	15.0x	15.4x	14.0x	2.8%	1.4%	3.5%	4.1%	3.8%
SUL	Super Retail Group Limited			9.29	1,832	0%	16%	14%	10%	0%	10%	10%	10%	9.3x	9.5x	8.3x	7.5x	7.0x	12.1x	12.9x	11.2x	10.0x	9.3x	17.4x	17.4x	15.0x	13.2x	12.0x	4.3%	4.3%	4.7%	5.2%	5.7%
Min					233	-29%	4%	-3%	4%	-50%	-35%	10%	-5%	0.0x	7.5x	7.3x	6.6x	5.9x	0.0x	9.0x	8.5x	8.0x	6.9x	0.0x	13.8x	12.9x	11.9x	10.9x	0.0%	0.0%	3.5%	4.1%	3.8%
Median					656	13%	16%	14%	11%	11%	8%	14%	10%	9.3x	9.5x	8.3x	7.5x	7.0x	12.1x	11.4x	9.8x	10.0x	9.2x	17.4x	17.4x	15.0x	13.2x	12.0x	3.6%	4.3%	4.8%	5.5%	5.7%
Ave.					1,381	10%	13%	10%	10%	41%	21%	14%	8%	8.1x	9.5x	8.5x	7.8x	7.2x	10.4x	11.4x	10.1x	9.2x	8.5x	15.7x	16.8x	14.9x	13.5x	12.3x	3.1%	4.2%	4.6%	5.2%	5.6%
Max					4,334	45%	18%	17%	17%	150%	150%	20%	18%	12.6x	12.2x	10.5x	9.1x	8.4x	15.3x	13.9x	11.9x	10.3x	9.8x	25.5x	17.9x	17.1x	15.4x	14.0x	4.4%	7.9%	5.3%	6.0%	6.8%

ASX	Index Name	EPS Growth				DPS Growth				EV / EBITDA					EV / EBIT					PER					Divid. Yield				
		2015	2016	2017	2018	2015	2016	2017	2018	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
XKO	S&P/ASX 300	-2.9%	2.3%	10.0%	9.7%	-1.7%	1.6%	5.5%	7.0%	10.1x	10.8x	11.7x	10.6x	11.8x	13.5x	14.2x	12.8x	14.4x	14.8x	14.7x	13.5x	12.5x	5.1%	5.0%	5.1%	5.4%			
XSI	S&P/ASX SMALL INDUSTRIALS	-0.8%	6.8%	10.0%	10.0%	-0.5%	6.1%	11.3%	8.8%	9.5x	7.5x	9.2x		11.4x	10.4x	11.7x		14.1x	14.9x	14.7x	13.6x	12.5x	3.9%	4.0%	4.3%				
XDK	S&P/ASX 300 Consumer Discretionary	5.8%	10.7%	8.8%	7.9%	18.6%	-6.9%	9.0%	9.9%	10.2x	7.0x	9.2x		12.8x	10.3x	11.7x		17.0x	16.8x	15.9x	14.7x	13.5x	3.7%	4.3%	4.0%				



Source: Capital IQ, IRESS, Wilson HTM



Relative value analysis

- As we look through the above comparable company and index multiples, we observe an FY16 S&P/ASX 300 Small Industrials index PE multiple of 14.7x and an S&P/ASX 300 Consumer Discretionary multiple of 15.9x.
- The comparable company analysis reflects a FY16 PE range of 12.9x to 17.1x, compared with Beacon's current FY16 PE multiple of 19.3x.
- Our valuation of \$1.85/sh reflects an FY16 PE of 19.9x, a 25% premium to the S&P/ASX 300 Consumer Discretionary (XSI) index.
- We have also considered Beacon on the basis of PE ratio per unit of growth (PEG ratio). Given the declining growth profile for most of the competitive set, we have used a three-year CAGR growth factor.
- Beacon screens as being relatively inexpensive on a PEG basis. The company's current FY16 PER is 1.2x its three-year CAGR growth rate.
- While we do not doubt the quality of the Beacon business, we believe the current multiple is fair relative to: a) organic store growth, b) store roll-out growth, and c) the current trading environment (risks posed by a slowing housing market).

Chart 14: Price to earning ratio (FY16)

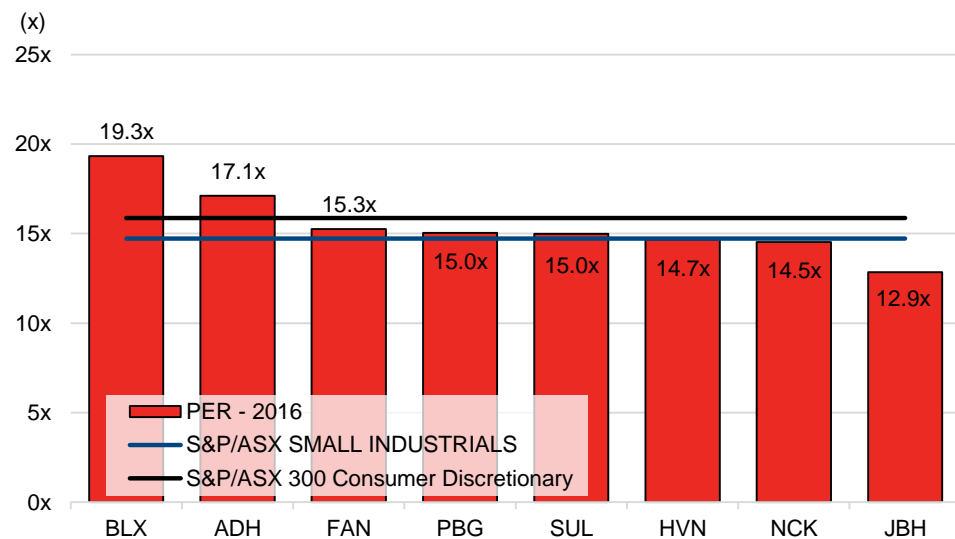
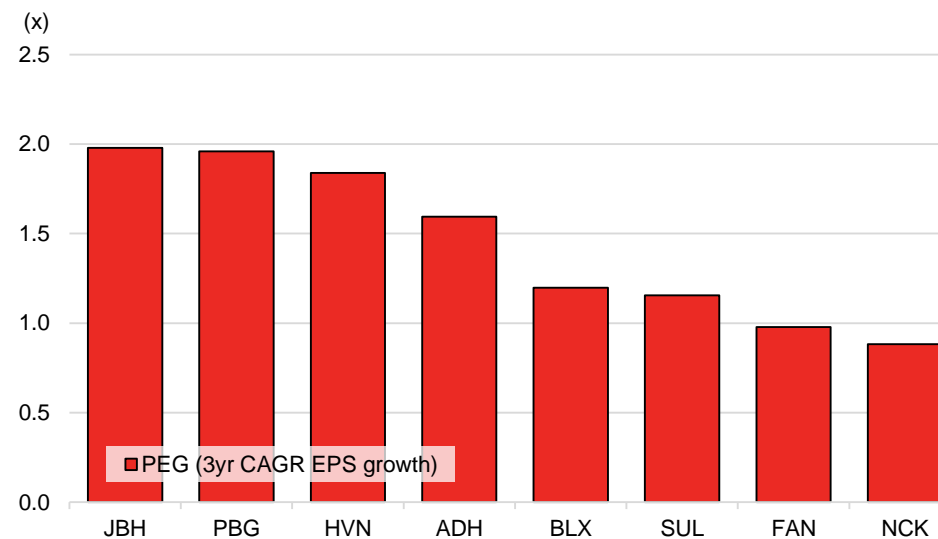


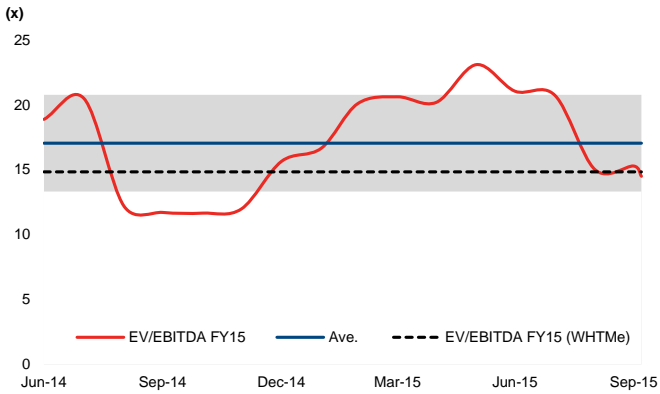
Chart 15: PEG ratio (FY16)





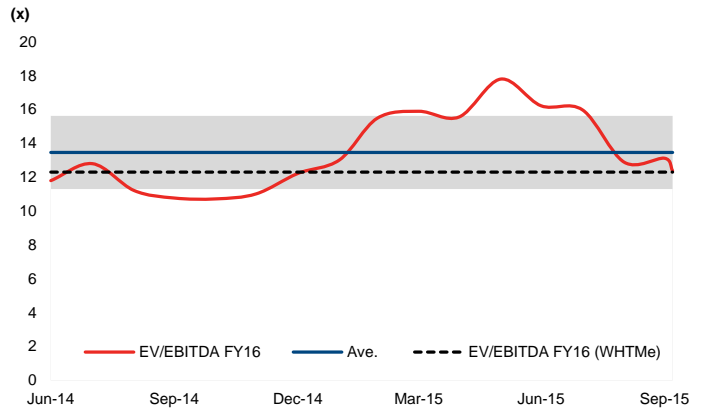
Historic trading multiples

Chart 16: FY15 EV:EBITDA



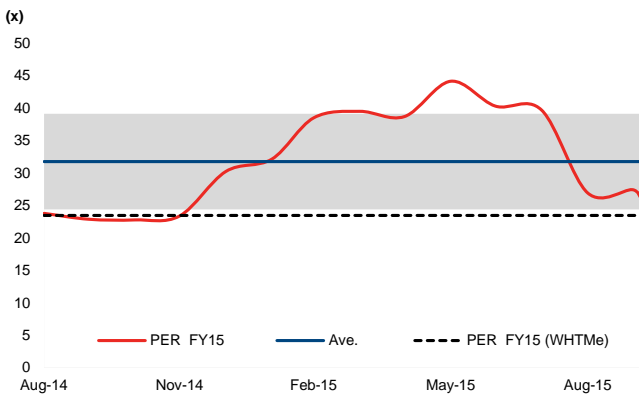
Source: Capital IQ, Wilson HTM

Chart 17: FY16 EV:EBITDA



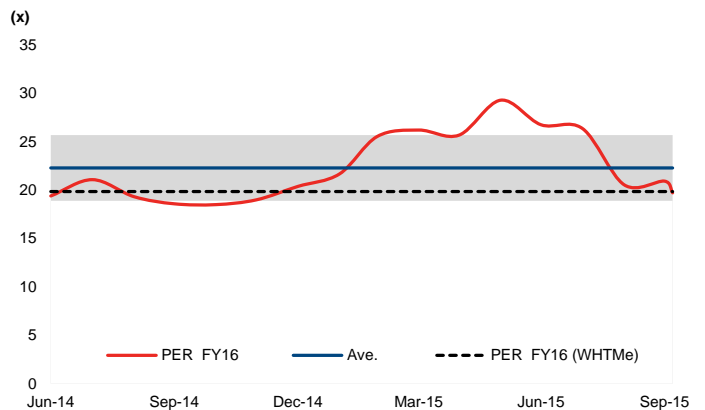
Source: Capital IQ, Wilson HTM

Chart 18: FY15 PER



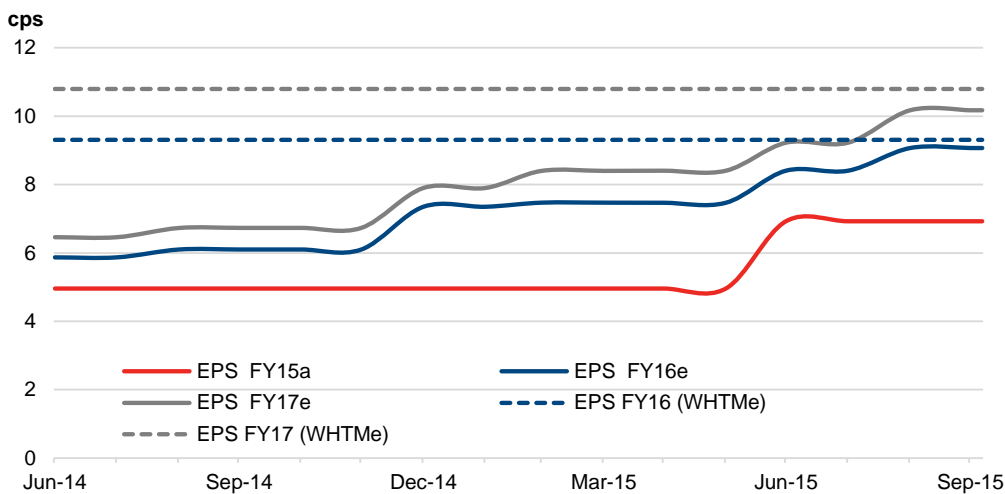
Source: Capital IQ, Wilson HTM

Chart 19: FY16 PER



Source: Capital IQ, Wilson HTM

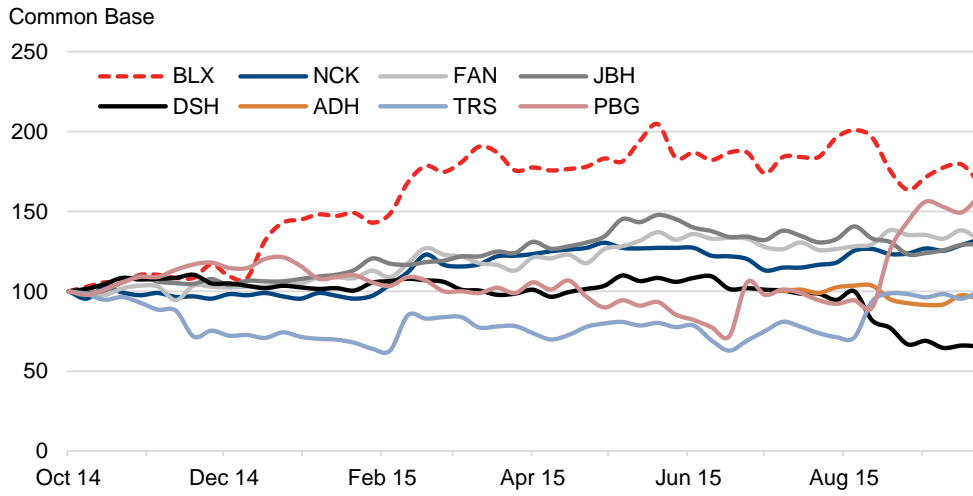
Chart 20: Forward consensus EPS forecasts



Source: Capital IQ, Wilson HTM



Chart 21: Relative share price performance



Source: IRESS, Wilson HTM

On a relative basis, Beacon has outperformed, rising 68% in the past 12 months and increasing 173% on the Apr-14 IPO price of 66¢ per share.



How we compare with consensus

			FY15	FY16	FY17	FY18
			2015	2016	2017	2018
PL_OPERATING_REVENUE	Wilson HTM	(A\$m)	179.4	212.5	248.3	283.8
	Growth (%)					
	CONSENSUS	(A\$m)	179.4	209.1	236.3	262.0
	Delta (%)			1.6%	5.1%	8.3%
PL_EBITDA	Wilson HTM	(A\$m)	27.3	32.9	38.0	43.3
	Growth (%)			20.6%	15.5%	13.9%
	Margin (%)		15.2%	15.5%	15.3%	15.3%
	CONSENSUS	(A\$m)	27.4	31.7	35.4	39.2
	Delta (%)			3.8%	7.3%	10.4%
PL_EBIT	Wilson HTM	(A\$m)	25.0	29.7	34.3	39.0
	Growth (%)			19.1%	15.3%	13.8%
	Margin (%)		13.9%	14.0%	13.8%	13.8%
	CONSENSUS	(A\$m)	25.0	29.1	32.6	36.1
	Delta (%)			2.2%	5.3%	8.2%
PL_PROFIT_BEFORE_TAX	Wilson HTM	(A\$m)	23.8	28.61	33.2	37.9
	Growth (%)			20.0%	15.9%	14.3%
	Margin (%)		13.3%	13.5%	13.4%	13.4%
	CONSENSUS	(A\$m)	23.8	27.9	31.2	34.8
	Delta (%)			2.7%	6.2%	9.0%
PL_NPAT_ADJ	Wilson HTM	(A\$m)	16.9	20.0	23.2	26.5
	Growth (%)			18.2%	15.9%	14.3%
	Margin (%)		9.4%	9.4%	9.4%	9.4%
	CONSENSUS	(A\$m)	16.9	19.5	21.9	24.4
	Delta (%)			2.7%	6.2%	9.0%
EPS_NORM	Wilson HTM	(A\$m)	7.9	9.3	10.8	12.3
	Growth (%)			18.2%	15.9%	14.3%
	Margin (%)		4.4%	4.4%	4.3%	4.3%
	CONSENSUS	(A\$m)	7.9	9.1	10.2	11.3
	Delta (%)			2.7%	6.1%	8.9%
EPS_REP	Wilson HTM	(cps)	8.3	9.3	10.8	12.3
	Growth (%)			11.8%	15.9%	14.3%
	CONSENSUS	(cps)	7.9	9.1	10.2	11.3
	Delta (%)			2.7%	6.2%	8.9%
DPS_TOTAL	Wilson HTM	(cps)	4.2	4.8	5.3	5.8
	Growth (%)			13.1%	10.5%	9.5%
	CONSENSUS	(cps)	4.2	5.0	5.6	6.2
	Delta (%)			-4.8%	-6.2%	-7.7%

Source: Capital IQ, Wilson HTM



Sector overview

The domestic lamp and lighting segment in Australia (excluding hardware) is estimated to have generated revenue of \$748m during CY14, and is forecast to grow at an annual rate of 0.7% for the five years ending FY20 (*IBISWorld, Domestic Appliance Retailing in Australia, May 2015*).

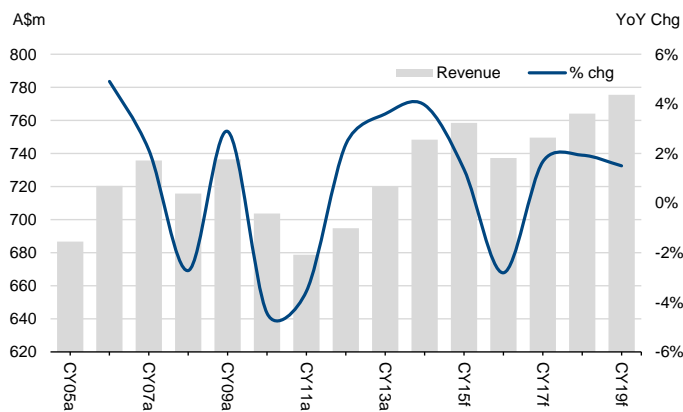
This sector is primarily within the home furnishing sub-sector and includes those retailers selling lighting fixtures (ie ceiling lights and chandeliers), in addition to light bulbs and globes. More importantly, the sector excludes department stores and large format hardware stores, both of which also sell a range of light fixtures.

Table 9: Barriers to entry

Barriers to entry	Level
Competition	High
Concentration	Low
Life cycle stage	Mature
Capital intensity	Medium
Technology change	Medium
Regulation and policy	Heavy
Industry association	Low

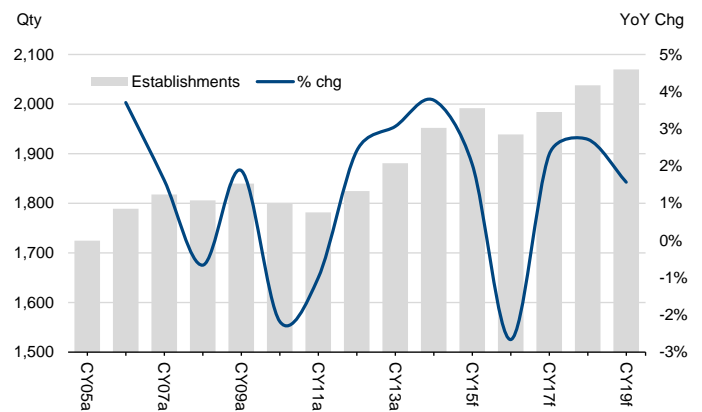
Source: IBIS World (May 2015)

Chart 22: Lamp and lighting store revenues (\$m)



Source: IBIS World

Chart 23: Lamp and lighting store stores (qty)



Source: IBIS World

Expenditure on lamps and lighting is primarily driven by capital expenditure on private dwellings, which is driven by, among other things, asset price inflation and consumer sentiment (discretionary consumption).

The household goods sectors of electrical goods, furniture and hardware appear to be experiencing halcyon days, having registered 8.5% growth for the year ended Jul-15.

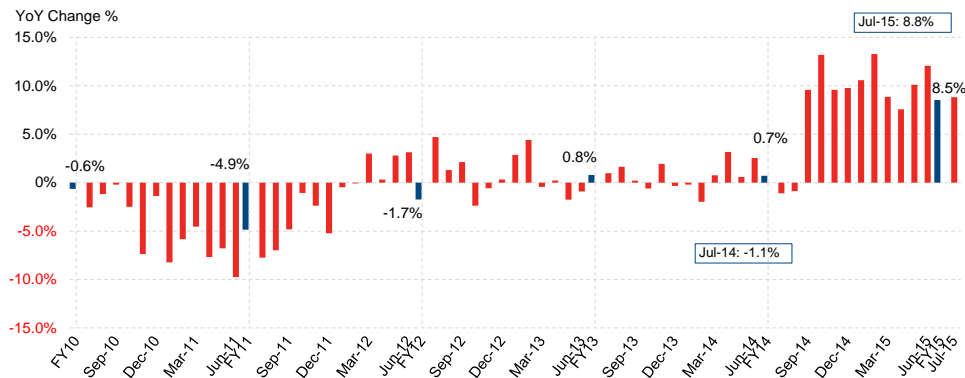
We link the strength of the household good sector primarily to wealth effects arising from asset price inflation (rising house prices). While the good times continue to roll on, a time will inevitable come where discretionary consumption declines, which will adversely impact retail, but particular these more discretionary areas.



Retail sales

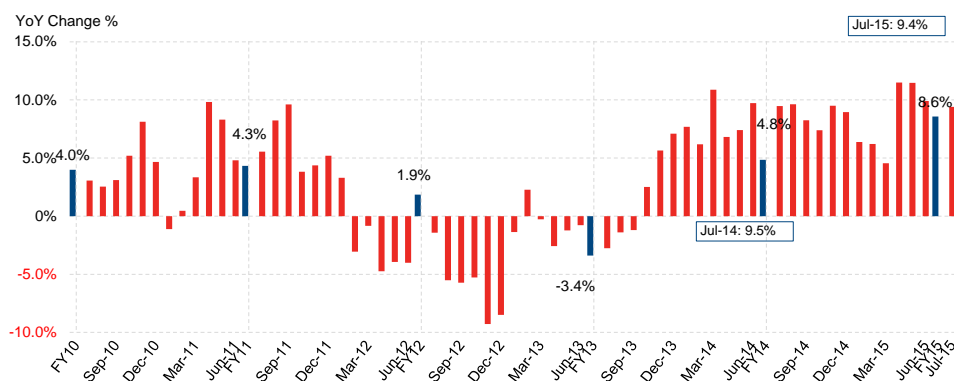
- The household goods sector achieved excellent growth through FY15. During the year the electrical good segment increased 8.5%, while furniture, floor coverings and housewares increased 8.6%. Both of the segments performed well above trend growth and substantially above overall retail sales, which grew 4.8%.
- The strength in retail sales growth remains in relative contrast to nominal GDP which has grown at the benign rate of 2.2% over the past 12 months. It appears that domestic consumption and investment continue to offset diminishing government expenditure, business investments and net exports.

Chart 24: Electrical and electronic goods retailing value



Source: ABS, 8501.0 Retail Trade, Australia

Chart 25: Furniture, floor coverings and housewares



Source: ABS, 8501.0 Retail Trade, Australia

- Over the past 12 months, house prices across Australian capital cities have increased 10.6%, with apartment values increasing 7.4%. With Sydney houses prices up 18.6% during the period (apartments up 12.7%), we believe a proportion of current retail spending, particularly in the home segment, is a direct impact of the wealth effects flowing from recent asset price inflation.



Macro drivers

Lamp and lighting sales in Australia are driven by the following macro themes:

- **Capital expenditure on private dwellings (renovations):** Housing renovation spend is forecast by the Housing Industry Association (HIA) to improve 4.6% in FY16. New South Wales is set to be a key beneficiary, with forecast growth of 8.0%.

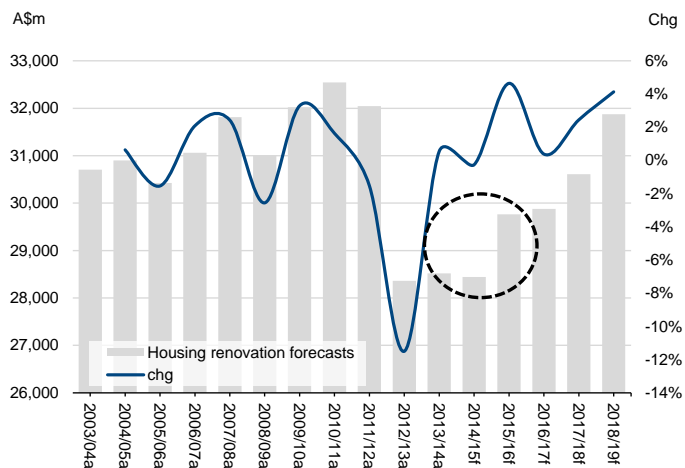
Renovations (ie retail) represents 70% of Beacons business and as such renovation spending remains a critical factor in maintaining the strong like-for-like sales growth

- **Domestic dwelling construction (new homes):** At a national level, residential housing construction is forecast by the HIA to be flat through FY16. That said, the HIA expect New South Wales to be the strongest state, where new dwelling construction growth for FY16 is forecast to be +14.9%.

New dwelling construction (ie trade sales) represents approximately 30% of Beacon's business. Management have suggested that it can take five to six years for a store to mature, with the slow maturity profile driven by the time it takes to build up a trade business.

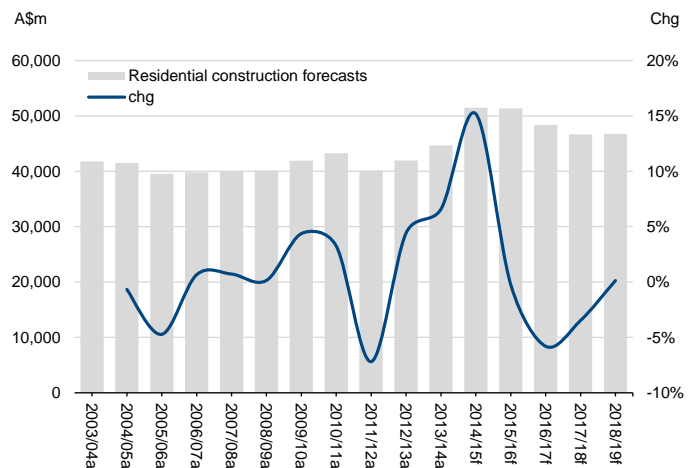
Bottom line: We see rising house prices as a primary driver of sales within the household goods sector. Should the residential real estate market falter, this could leave these businesses exposed.

Chart 26: Housing renovations forecast (A\$m)



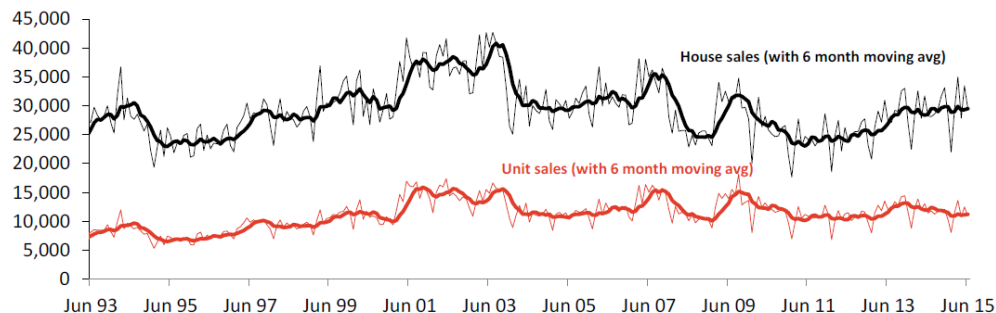
Source: HIA

Chart 27: Residential construction forecasts (A\$m)



Source: HIA

Chart 28: Monthly house and unit sales, national



House sales have levelled while unit transactions have trended lower

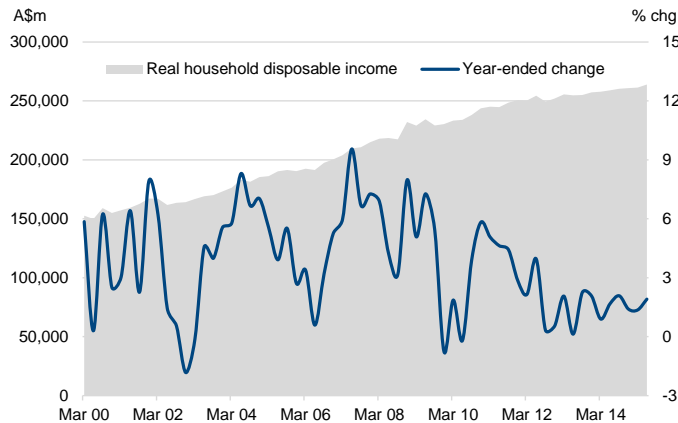
Source: CoreLogic, Inc. (Sept-15)

- **Real household disposable income:** Real income growth relates to the discretionary spending aspect of the Beacon business. In terms of the Beacon offering, a decline in direct consumption would most likely have more impact on soft furnishings (ie free-standing lamps). This is in contrast to more traditional light fixtures, which we see as capital items.



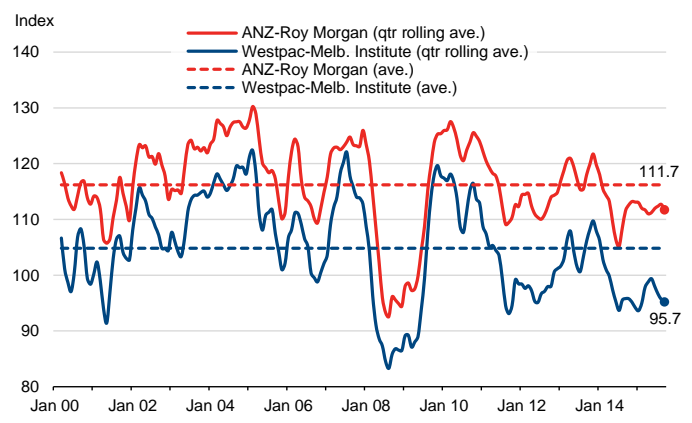
- Consumer sentiment:** Consumer sentiment reflects attitudes toward both discretionary consumption and capital investment. This could relate to the purchase of new soft furnishing, dwelling renovations or new dwelling construction. In Chart 30 we see that consumer sentiment has been trending down, despite growth in dwelling prices. This suggests to us that businesses such as Beacon have the capacity to benefit from both asset price inflation and/or improving retail sales.

Chart 29: Real household disposable income



Source: Reserve Bank of Australia (Gross Domestic Product and Income - H1)

Chart 30: Consumer sentiment



Source: ANZ Roy Morgan Survey (Sept-15)

Micro drivers

- Technological innovation:** The lighting industry is experiencing a change in technology. A need for greater energy efficiency is driving development of LED (light emitting diodes) technology. Still in the early stages of development, this represents a significant opportunity for Beacon as more people switch to LED to save on power.

LED already represents a significant portion of Beacon's sales, with the category growing in excess of 100% in the year prior to the IPO.

- Design trends:** We believe that the increased focus on "design elements" within dwelling renovations is a clear benefit for Beacon. In the Jun-15 prospectus of Adairs (ADH), a homewares retailer, it outlined the typical customer. In many respects this customer profile reflects the key trends which we believe will continue to assist Beacon.

"She increasingly regards her home decoration and design as a matter of social interest with her family and friends. She has often moved beyond shopping in the category for her functional needs (eg a towel for drying herself/her family) and has extended the criteria of her purchasing decisions to styling and design elements (eg a towel for drying and decoration purposes)."

Competitive landscape

Lighting and ceiling fan products can be purchased from a number of sales channels, including specialty lighting stores, hardware stores, electrical wholesalers, furniture stores and online. Each of these channels tends to focus on different market segments but with a degree of crossover.

Hardware stores such as Bunnings, Masters and Mitre 10 offer lighting within their stores. Beacon differentiates itself from these competitors by offering unique and exclusive lines, expert service and advice and the latest lighting technology.

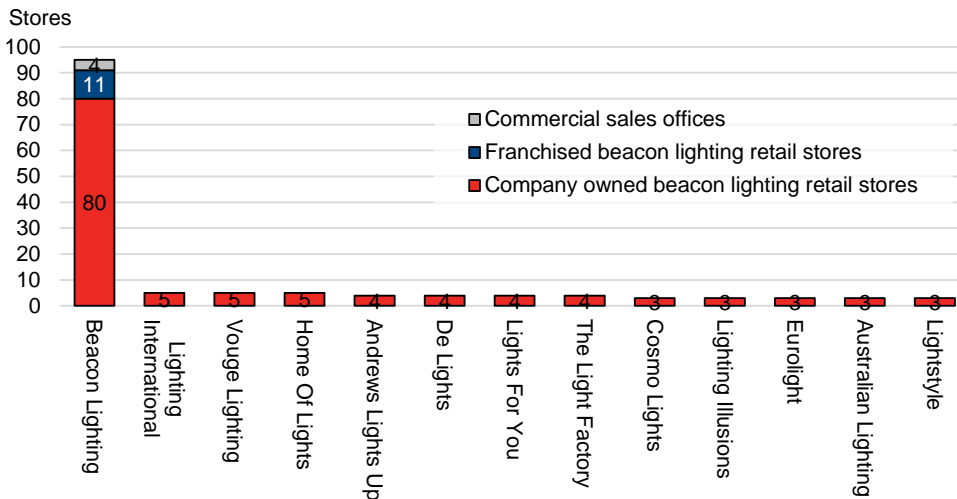


In Australia and New Zealand, lamps and lighting products are sold through various retailers including:

- **Boutique lighting stores (location-specific)** – see Chart 31
- **Department stores** – Myer and David Jones
- **Hardware stores** – Bunnings, Masters
- **Online pure-play retailers** – Appliances Online, Amazon, eBay and Kogan

The industry is highly fragmented, with IBIS World estimating Beacon's dominant market share at 20%.

Chart 31: Competitors



Source: Company data (Prospectus Apr-14, updated for new BLX stores)

Primary

- Lighting International (5)
- Vouge Lighting (5)
- Home of Lights (5)
- Andrews Lights Up (4)
- De Lights (4)
- Lights For You (4)
- Lightstyle (3)
- The Light Factory (4)
- Cosmo Lights (3)
- Lighting Illusions (3)
- Eurolight (3)
- Australian Lighting (3)

Secondary

- Bunnings
- Masters
- Mitre 10

Online

- eBay



Business overview

Summary of business

Beacon is Australia's largest specialist retailer of lighting, ceiling fans and light globes with 80 owned stores, 11 franchised stores and 4 commercial sales offices. Many of the products offered are exclusive to Beacon and encompass both fashion and design elements pursuing the latest technology for energy efficiency.

Business model

Beacon is a vertically integrated business which develops, designs, sources, imports, distributes, merchandises and sells lighting, ceiling fans and light globes.

More than 90% of the products supplied to company stores are through the company's wholesale supply chain consisting of a central warehouse operation in Melbourne and third party warehouse operations in Sydney, Brisbane, Perth and China. Approximately 80% are exclusively branded.

Key attributes of the Beacon Lighting business model

- Australia's largest retail lighting specialist.
- A strong financial position with minimal debt and solid cash flow.
- A proven retail model capable of being rolled out further.
- A vertically integrated business of importing, distribution and retail.
- A well-recognised brand name which also appeals to landlords.
- Exclusively designed and manufactured products.
- A stable and experienced senior management team.
- Multiple sales channels including retail stores, trade, wholesale and online.

Lines of business



Source: Company prospectus



Figure 1: Light small pendant



Source: Company photos

Figure 2: Fan and light



Source: Company photos

Figure 3: Dome pendant



Source: Company photos

Store locations

Currently, Beacon has 84 company-operated stores and 11 franchised stores.

Beacon's stores operate profitably under a variety of sizes currently ranging from approximately 300 sq m to 1,200sq m. The average store size is 738 sq m.

All stores are leased and located in high traffic homemaker centres or prominent free-standing sites with complementary retailers nearby. Population base and geographic catchment area for each store varies.

The commercial sales offices are located in Melbourne, Brisbane, Sydney and Perth. The store network is supported with a store support centre based in Mulgrave (Victoria) and a warehouse and office complex at Derrimut (Victoria).

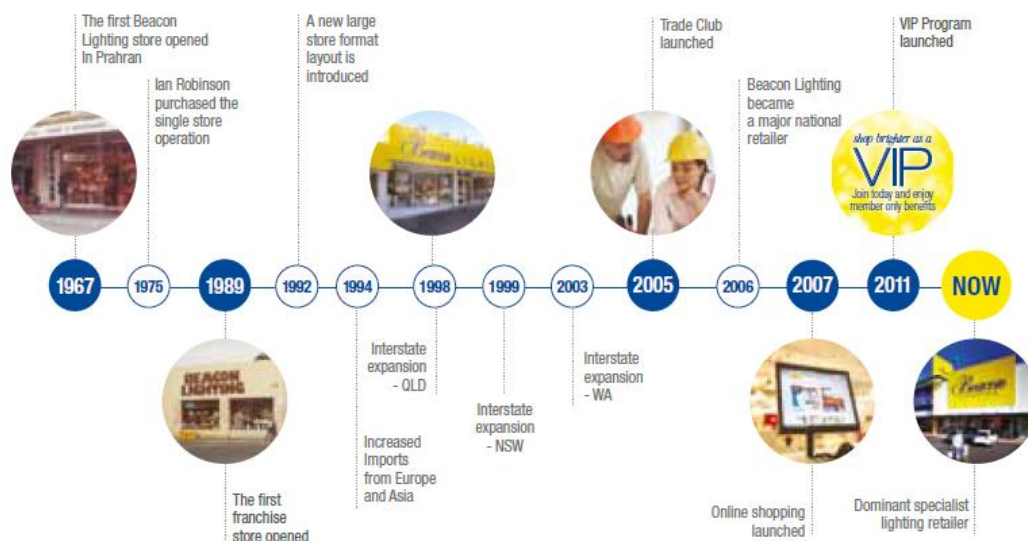
Figure 4: Store network



Source: Company prospectus (Apr-14)



Figure 5: Business chronology



Source: Company prospectus

Summary of the Apr-14 IPO process

- Beacon was listed on the ASX in Apr-14. Under the IPO 45% of the total number of shares (post-listing) were offered at \$0.66/sh.
- Based on the offer price (\$0.66/sh), the stock was offered at a FY14 pro forma PE of 12.4x and an annualised dividend yield of 4.24%.
- The proceeds of the IPO were used to buy out an existing investor who was selling their 45% share.

Share escrow

- Under the terms of the prospectus, The Robinson family company Heystead with a 55% holding agreed to a two year voluntary escrow.
- The escrow arrangements do not preclude Heystead from participating in a takeover where:
 - the takeover bid is for all of the Shares;
 - holders of at least half of the Shares that are not subject to restriction to which the takeover bid relates have accepted; and
 - if the takeover bid is conditional, Heystead agrees in writing that a holding lock will be re-applied to each Share that is subject to the voluntary escrow arrangements that is not unconditionally bought by the bidder under the takeover bid.
- Additionally, these Shares may be transferred or cancelled in accordance with a merger by way of scheme of arrangement under the Corporations Act.
- The escrow release date is approximately April 2016.



Appendix A: Board, management and substantials

Board

- Ian Robinson (Executive Chairman)
- (James) Eric Barr (Deputy Chairman, Non-Executive Director, Independent Director)
- Glen Robinson (Chief Executive Officer)
- Neil Osborne (Non-Executive Director, Independent Director)

Management

- Ian Bunnnett (Managing Director – Retail)
- David Speirs (Chief Financial Officer)
- Barry Martens (Chief Operating Officer)
- Elizabeth Mikkelsen (Group Human Resources Manager)
- Prue Robinson (Group Marketing Manager)
- Michael (Mick) Tan (Chief Information Officer)
- Rodney Brown (National Distribution Manager)
- Tracey Hutchinson (Finance Manager and Company Secretary)

Table 10: Substantial holders

Shareholder	% held
Heystead Nominees Pty Ltd (including Robinson Family members)	55.17%
Commonwealth Bank of Australia	5.08%

Source: Company accounts



Beacon Lighting Group Limited (BLX)

BUSINESS DESCRIPTION

Beacon Lighting Group Limited (BLX) is Australia's largest specialist retailer of lighting, ceiling fans and light globes with 80 owned stores, 11 franchised stores and 4 commercial sales offices. Many of the products offered are exclusive to Beacon and encompass both fashion and design elements pursuing the latest technology for energy efficiency.

INVESTMENT THESIS

There is no doubt that Beacon is a quality business. We like the fact Beacon develops, designs, sources, imports, distributes, merchandises and sells – this level of vertical integration is a key positive.

We see Beacon as capable of delivering EPS of more than 10% pa through the medium term and this compares favourably to the competitive set. We see the growth coming through strong like-for-like sales, plus the store roll-out program which could see an additional six stores per year added to the existing network of 95.

Despite the virtuous characteristics of Beacon, the stock appears fair value – hence our HOLD recommendation.

REVENUE DRIVERS

- **New store roll-out:** Beacon plans to open approximately six stores per year for the foreseeable future.
- **New products and ranges:** Beacon Lighting currently offers an extensive range of products with fashion and energy efficiency features. Energy efficiency and technology continue to drive change, with Beacon having further scope to improve the breadth and depth of the range.
- **Technology change:** The lighting industry is experiencing rapid change in technology. A need for greater energy efficiency is driving development of LED (light emitting diodes) technology.
- **Acquisitions:** Beacon intends to pursue business acquisitions, locally or internationally that complements the core business activities or leverage off existing business activities.

MARGIN DRIVERS

- **Product mix:** The business sells a number of products, including lighting, ceiling fans and light globes.
- **Private label mix:** The majority of the company's product ranges are marketed under the well-established product brand, Lucci, which is owned by the company and is a registered trademark.

KEY ISSUES/CATALYSTS

- The forecast EPS is top quartile across comparable companies. However, with the stock trading at 19.3x FY16 EPS, the growth doesn't come cheaply.
- The current FY16 PE of 19.3x reflects a PEG ratio of 1.2x – this is mid-range when compared with comparable companies.
- While the growth profile for the business is strong, based on the current share price and our earnings forecast, the stock would still be trading at 13.0x FY19 EPS.

RISK TO VIEW

- Beacon has been recording exceptionally strong like-for-like sales growth, along with the broader homewares categories.
- We believe a proportion of current retail spending, particularly in the home segment, is a direct impact of the wealth effects flowing from recent house price inflation. Were this trend to unwind, then the business could be adversely impacted.

BALANCE SHEET

- Cash: \$15.2m
- Assets: \$103.6m
- Borrowings: \$19.4m
- Net assets: \$58.8m
- Net debt: \$4.2m

Metrics

- Net debt/equity: 0.2x
- Net debt/assets: 0.1x
- Net debt/EBITDA: 0.3x
- EBITDA/net interest: 22.3x

As at Jun-15

BOARD

- Ian Robinson (Executive Chairman)
- (James) Eric Barr (Deputy Chairman, Non-Executive Director, Independent Director)
- Glen Robinson (Chief Executive Officer)
- Neil Osborne (Non-Executive Director, Independent Director)

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- Tracey Hutchinson (Finance Manager and Company Secretary)

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Recommendation structure and other definitions

Definitions at <http://www.wilsonhtm.com.au/Disclosures>

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Disclosure of interest. Beacon Lighting Group Limited

The Directors of Wilson HTM Ltd advise that at the date of this report they and their associates have relevant interests in Beacon Lighting Group Limited. They also advise that Wilson HTM Ltd and Wilson HTM Corporate Finance Ltd A.B.N. 65 057 547 323 and their associates have received and may receive commissions or fees from Beacon Lighting Group Limited in relation to advice or dealings in securities. Some or all of Wilson HTM Ltd authorised representatives may be remunerated wholly or partly by way of commission.

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