MAKING MONEY WORK FOR YOU.

Initial Public Offer

JFP Limited

Barita investments Limited

15 St. Lucia Way, Kingston

Tel #: 1-888-429-5333

Company Overview

JFP Limited ("JFP" or "the Company") is a furniture manufacturing company that has been operational for 36 years. Originally, the primary operation of the Company was fiberglass manufacturing. In more recent years, however, the company has evolved and transitioned to woodwork and other forms of manufacturing and has forged relationships that have aided and catalyzed its growth. These relationships have enabled JFP to position itself as the provider of customized furniture and decor for various entities in Jamaica. At present, the Company's operations are enabled through its 75,000 sq ft manufacturing facility, where JFP manufactures customized furniture and fittings for clients. Below we have outlined the key revenue segments of the Company:

Manufacturing: The company has transitioned from a fiberglass manufacturing company to a manufacturing process that incorporates woodwork, metalwork, upholstery, solid surface, and acrylic. The combination of these various forms of manufacturing results in the production of various interior décor solutions for clients

Design and Decors: JFP utilizes 3D renderings, elevation drawings, and production drawings to provide customized layout designs and interior décor for various spaces. Within this segment, JFP also retrofits motor vehicles, such as the retrofitting of ambulances, vending carts, medical testing booths, and screens.

Given its service offerings, JFP's are derived from three main industries: Hotel and Hospitality, Government Agencies, and Restaurants. These three industries combined have accounted for an average of 72% of the Company's revenue over the last five years.

Analysis Insight

The revenue model of JFP can be characterized as very fragile which can present a clear pitfall for the Company, and consequently, for potential investors. Specifically, the Company's revenue is dependent on being able to successfully procure contracts for the provision of furnishing services. Despite JFP's pipeline of projects that they have outlined, there still exists the risk factor of cancellation of these contracts and consequently, the inability to generate revenue in such circumstances. Moreover, based on the contracted revenue outlined by the Company, the size of contracts procured for the 2022 period, thus far, is below what was completed during the same period in 2021.

As we consider the procurement of future contracts, we must note that JFP operates within a market space such that the Company relies heavily on the expansionary plans of other companies. As such, if companies aren't expanding or perhaps renovating, then revenue generation is impeded. Against that backdrop, some concerns surrounding the current offer and threaten JFP's growth prospects are as follows:

JFP COMMERCIAL CONTRACT FURNITURE MANUFACTURERS

Action:	Do Not Participate
Industry Outlook	Positive
General Public Offer Price	J$ 1.00
Fair Value/(with acquisition)	J$ 0.74
Potential downside	-26.0%

Financial Summary (J$)	FY2017	FY2018	FY2019	FY2020
Revenue	277.8M	244.4M	503.7M	442.7M
Net Income	534.0K	-1.1M	57.5M	71.4M
Total Assets	254.4M	396.3M	308.6M	410.8M
Total Equity	73.9M	72.8M	131.8M	203.3M
Financial Ratios				
ROE (%)	0.7	-1.5	56.1	42.6
Gross Profit Margin (%)	47.9	62.2	46.5	52.5
Net Profit Margin (%)	0.2	-0.4	11.4	16.1
Equity Multiplier	3.4x	5.4x	2.3x	2.0x
Current Ratio	1.1x	0.9x	1.5x	1.5x
Working Capital	11.5M	15.6M	42.6M	76.3M

Revenue Generation: The company's revenue generation model presents uncertainties about the company's ability to achieve growth in the medium to long term. The company has to continuously win contracts to earn and garner revenue.

Economies of Scale: Despite being a company domiciled in Jamaica, the company must compete with global players within the furniture and décor space. Despite the prospects of increased hotel rooms, this is no guarantee that the company will be able to secure these contracts. The company for the most part has mostly been able to do work with local hoteliers. It has also not been able to garner much success with the BPO sector, as entities within this sector are able to import items at a lower cost. JFP may not be able to compete effectively with global players, as most of these global players benefit from economies of scale which may not be afforded to JFP.

Cash Flow Management Concerns: Interestingly, the Company has allowed its bank balance to transition into an overdraft, during a period where it aims to get listed on the stock exchange. We view this as concerning since it begs the question of why management would allow its cash position to fall into overdraft at this time, especially considering that monies invested during the period could have been used to maintain a positive cash position.

Unfavorable Valuation: Our base case valuation estimate of $0.74 is 26.0% below the Company's offer price of $1.00.

While we believe the above concerns outweigh the positives of the offer, we've highlighted some key points below that are in favor of the Company's future growth.

Strong Customer relations: The company has developed and maintained good relationships with various commercial entities and as such, we believe that these relationships can enable the company's growth prospects. The caveat, however, is that these relations still do not signify recurring revenue for the Company as once work is completed for these entities, there is no clear need for continued business until JFP's services are needed again.

Entrance Into New Markets: The Company has engaged two international sales agents to support penetration into the Bahamas and the USA. This could position the company to attain a wider customer base and reduce its revenue concentration to local clients.

Offer Summary:

Issuer	**JFP Limited**
Offer	**Initial Public Offer of up to 280,000,000 Ordinary Shares, of which 140,000,000 units are newly created shares and the remaining 140,000,000 are being sold by an existing shareholder: JFP Property Investments Limited. The reservations are as follows:** I. **10,000,000** shares for the Employee Reserve Share Pool at $1.00 per share. II. **40,000,000** shares for key strategic partners Reserve Share Pool at $1.00 per share. III. **61,600,000** shares for the GK Investments Reserve Pool at $1.00 per share. IV. **168,400,000** shares are available for the non-reserved share pool at $1.00 per share.
Arranger	I. Lead Arranger and Financial Advisor: **GK Capital**
Subscription Price	I. General Public: **J$1.00 per share** II. Key Investors and Lead Broker's Clients: **J$1.00 per share** III. Employees: **J$1.00 per share**
Minimum Subscription	I. Investors applying for shares must request a **minimum** of **1,000 shares** per applicant. Amounts above this shall be in **multiples of 1000 shares**.

Use of Proceeds	The company is seeking to raise up to **J$140,000,000,** of which it expects to use **J$25 million** to cover the costs associated with arranging this IPO, as such the net proceeds of this offer are expected to be **J$115 million.** With this sum: **I.** The company intends to use the net proceeds from this offer to bolster its working capital, capture a larger market share, and be able to take on more projects, and by extension, increase its revenues and ultimately increase its profitability. **II.** The company also intends to use the net proceeds from this invitation for debt reduction. The CEO has stated he intends to use part of the net proceeds to clear the company of debt. **III.** The company also intends to use the proceeds to acquire businesses in new markets outside of Jamaica. The company has stated its intention to aggressively pursue new markets in North America and South America.
Dividend Policy	The directors of the company are of the view that if successful with this invitation to list on the Junior Market, they anticipate that the dividend payout for shareholders will be between 40% and 80% of net profits. The prospectus further notes that the statement of the proposed Dividend Policy should not be construed as a dividend forecast or a guarantee.

As at the date of the prospectus (February 14, 2022), the composition of the company's authorized and issued share capital are illustrated in the picture to the right; the company had authorized capital of 10,000,000,000 and had issued shares of 980,000,000.

Name of Shareholder	Number of shares before IPO and Offer for Sale	Percentage of shareholding before IPO and Offer for Sale
Richard Siggany	279,720,000	28.5%
JKZ Limited	280,560,000	28.6%
Eurobian Limited	279,720,000	28.5%
JFP Property Investments Limited	140,000,000	14.4%
Total	**980,000,000**	**100.0%**

If the IPO is fully subscribed, the issued ordinary share capital will be as follows:

Name of Shareholder	Number of shares before IPO and Offer for Sale	Percentage of shareholding before IPO and Offer for Sale
Richard Siggany	279,720,000	25.0%
JKZ Limited	280,560,000	25.0%
Eurobian Limited	279,720,000	25.0%

Employees Reserve Share Pool	10,000,000	0.9%
Key Strategic Partners Reserve Pool	40,000,000	3.6%
GK Investments Limited Reserve Pool	61,600,000	5.5%
Non-Reserve Share Pool	168,400,000	15.0%
Total	**1,120,000,000**	**100.0%**

JFP'S Business Economics

JFP operates within the manufacturing space, where it's a manufacturer of furniture and customized furnished fittings for industrial purposes. The Company has been operational for 36 years and has developed long-lasting relationships locally and regionally which has aided in its growth. The Company essentially operates as a provider of customized furniture fittings for industrial and commercial clients. The primary industries that the company provides services to include the hotel industry, restaurants, and government agencies. Some of the clients that the company has done work for in the past include the following:

- Restaurants of Jamaica (Pizza Hut, KFC)
- Marriot Hotels- AC & Courtyard Marriott
- Gara Restaurants Limited (Wendy's)
- Digicel
- FLOW
- RJR
- Passport Immigration & Citizenship Agency (PICA)
- Caribbean Coffee Baristas Limited (Starbucks)
- Bank of Nova Scotia
- Spanish Court Hotel
- S Hotel
- Prestige Holdings Ltd (Trinidad)- KFC, Pizza Hut, TGIF
- National Commercial Bank

The Company's operation entails the manufacturing of beds, desks, tables, chairs, and a host of other furniture products from a 75,000 sq. ft. facility. In addition to the manufacturing of furniture for industrial and commercial purposes, JFP also engages in interior décor and interior design for commercial clients. Unlike most manufacturing/distribution businesses, the revenue structure of JFP is designed such that its revenue model is inherently is dependent on its ability to secure contracts

In most instances, the Company must bid for projects and contracts to be able to obtain clientele and secure projects. This implies that the Company can win or lose bids, and the loss of a bid signifies the loss of potential revenue. The manufacturing of furniture that JFP engages in is not one of mass supply or retail-oriented but is instead, bespoke, i.e., the furniture made by the Company are built to meet the needs of specific clients. Consequently, the Company's revenue growth is inherently linked to the growth prospects of the industries that it serves. Further, it is tied to the Company's ability to win contracts that cannot be guaranteed. In our view, JFP's revenue model requires the Company to have access to several markets coupled with a wide clientele base, both locally and internationally. This is necessary to reduce the potential volatility of revenue; volatility which we believe is currently inherent given the unpredictable nature of winning contracts and the haphazard nature with which the Company's very specific and bespoke services may be needed.

Strategic Objectives

To drive growth within the business, the Company has outlined some strategic initiatives it hopes to undertake. The primary initiative, in our view, is the entrance into new markets:

To diversify its revenue sources, JFP has stated that one of its strategic objectives for the 2022 financial year is to actively pursue new markets and develop a presence in these markets. One of the markets that the Company is aggressively pursuing is the USA. The Company is looking to take advantage of the supply chain issues that are currently affecting several retailers, and contractors on the east coast of the US. A large segment of the home retailers and commercial spaces on the US east coast are grappling with supply chain constraints, as their usual suppliers in China are unable to fill their orders within the specified time periods and have provided extended lead times for the delivery of goods. JFP, located in Jamaica, has begun to take advantage of the supply chain crisis and has begun tapping into that market.

Industry & Operating Environment Overview

As indicated previously, JFP's business generally targets three main industries: the hotel industry, government agencies, and restaurants. Inherently, JFP's growth has a symbiotic relationship with growth within these industries and by extension. With the onset of the pandemic in 2020, the tourism industry had taken a huge hit, as global travel was reduced and restricted in some instances, to reduce the spread of the virus. The slowdown in global activity ultimately impacted the industry globally and locally. Two years later into the pandemic, with the availability of vaccines and with persons adapting to living in the new norm and co-existing with Covid, the tourism industry has been growing again. This is evidenced by the deployment of capital within the industry by investors, for the year 2022, officials from the Ministry of Tourism have stated that they expect around 8,000 new hotel rooms to be constructed within the year 2022. For the October to December 2021 quarter, real value added by hotels and restaurants grew by 76.2% in comparison to the relative period in 2020, which suggests that the industry is recovering at a very fast pace. Even though key output levels such as cruise ship arrivals, total stopovers, and total visitor expenditure have not surpassed the pre-pandemic period, the positive growth trajectory of the industry is clear. As such, we believe the current path of the industry, out of the pandemic, will ultimately provide opportunities for JFP.

Another market that JFP targets is the restaurant industry; specifically, that of quick-service restaurants such as Island Grill, KFC, Burger King. Over the last 5 years, there has been significant growth in the quick-service restaurant industry, an example of such is the expansion plan by Restaurant of Jamaica; operators of the franchises KFC and Pizza Hut, targetting the addition of 14 new locations between 2019 and 2021; which represented an investment of J$2.8 billion. Restaurant of Jamaica has indicated its intention to enter ST. Thomas via the new urban center which is being built by Factories Corporation of Jamaica in Morant Bay. Also, Restaurant Associates; operators of the Burger King, Popeyes, and Little Caesar franchises locally, has also indicated its intentions to expand its current network.

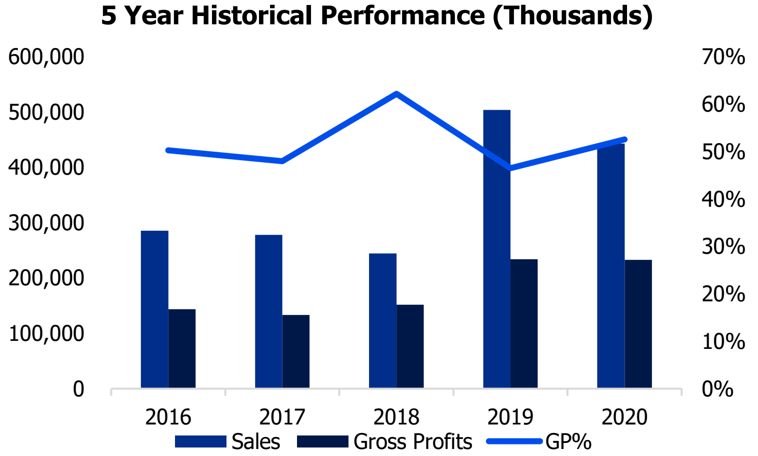
In the latest Public Bodies Estimates of Revenue and Expenditures tabled in the House of Representatives on February 10, 2021, it was stated that the Factories Corporation of Jamaica plans to spend J$1.1 billion on capital projects. Despite these local projects, there is no guarantee that JFP will be the Company that will be selected for these projects, as they will have to tender a bid for these works. In our financial analysis section relating to the Company's revenue-generating and contract procurement capabilities, we highlight a current drawback, using figures from the Company's prospectus.

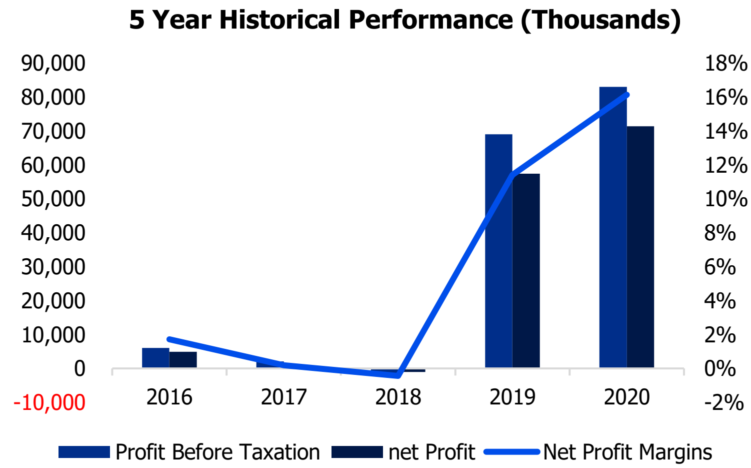
Financial Performance

5 Year Financial Review

For the period ending December 2020, the Company generated revenues of J$442.8 million, a $60.99 million (12.1%) reduction in comparison to the same period last year. The Company has been able to grow revenues over the last 4 years by a Compounded Annual Growth Rate (CAGR) of 11.6% while simultaneously growing gross profit margin from 50.2% in FY2016 to 52.5% in FY2020. Consequently, over the last five years, the Company has reported an average gross profit margin of 51.9%.

Despite the decline in revenue YoY, the Company has been able to increase its operating profit YoY. Specifically, operating profit increased by J$13.6 million YoY, which translated to a 17.2% increase. This was achievable because the Company implemented cost-cutting measures as well as the implementation of technology. One such initiative was the shift of the Company's energy reliance to renewable energy. Specifically, the company has begun using solar energy as a part of its energy mix which has resulted in its energy costs being reduced. For the period ending December 2020, net profit increased J$13.9 million or 24.3% relative to the prior period.





			Historical Profitability			
Ratios	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**Average**
Revenue Growth		-2.7%	-12.0%	106.1%	-12.1%	19.8%
Operating Profit Growth		-3.7%	-12.9%	515.4%	17.2%	129.0%
ROE		0.7%	-1.5%	56.1%	42.6%	24.5%
Gross Profit Margin	50.2%	47.9%	62.2%	46.5%	52.5%	51.9%
Operating Profit Margin	5.4%	5.4%	5.3%	15.8%	21.1%	10.6%
Pretax Profit Margin	2.1%	0.7%	-0.8%	13.7%	18.8%	6.9%
Net Profit Margin	1.7%	0.2%	-0.4%	11.4%	16.1%	5.8%
Effective Tax Rate	18.8%	74.0%	46.4%	16.7%	14.0%	34.0%

9 Months Performance - Financial Year 2021

For the 9 months ended September 31, 2021, JFP recorded revenue of J$312.3 million, which represented a decrease of $102.57 million (32.8%) relative to the same period in the prior year. Gross profit declined by J$105.4 million or 53.2% YoY for the nine months ending September 2021. Operating expenses for the period were J$101.2 million, a reduction of $5.1 million (4.8%). Operating profit was J$11.8 million, which was a reduction YoY of $83.3 million (87.6%). Finance costs for the period were J$7.0 million, which was a decrease of $1.3 million (15.7%) YoY. There was a sharp decline in net profit which saw a decrease of 95% YoY or J$74.5 million. The explanation that was given regarding the significant decrease in profitability YoY, was that several contracts had been delayed due to the onset of the pandemic and the existence of reduced working hours. The company stated that expected revenues from the delayed contracts were J$81 million. The significant decrease in revenues and ultimately, profitability, highlights the fragile nature of JFP's revenue model and represents a key consideration that investors should use to guide their investment rationale in this company.

9 Months Performance		
Ratios	**SEP-20**	**SEP-21**
Revenue Growth		-32.8%
Operating Profit Growth		-87.6%
ROE		1.7%
Gross Profit Margin	63.5%	44.3%
Operating Profit Margin	30.4%	5.6%
Net Profit Margin	25.0%	1.7%
Pretax Profit Margin	27.8%	2.3%
Effective Tax Rate	10.0%	26.9%

Revenue Generating / Contract Procurement Capabilities

As we consider the Company's revenue-generating capabilities going forward, an interesting point to note is that the Company's current contracted revenue for the first 3 quarters of 2022 is $255.1 million. Of this $255.1 million, approximately $81.7 million reflects delayed contracted work which should have been completed some time during Q3 2021. Therefore, if we adjust for this $81.7 million which should have been completed but was delayed, the Company has only been able to add contracts valuing $173.4 million for the first three quarters of 2022. This is $118.03 million (40.5%) below what should have been its 9Months 2021 outturn of $291.43 million (adding the delayed amount of $81.7 million). Therefore, the Company's contract procurement for the 2022 financial year could potentially be below the prior year, based on its current standing. This somewhat highlights the pitfall of the Company's contract-based revenue model.

Balance Sheet (As at September 30, 2021)

As at the end of September 2021, the Company's total assets amounted to $362.8 million, an increase of 4.2% YoY. The Company's total assets are funded by liabilities of $155.9 million and shareholders' equity of $206.8 million.

Current assets at the end of the period were $185.2 million, which represents a YoY decrease of 6.2%. The source of the decrease in current assets was a reduction in cash. At present, the Company has a bank overdraft of $15.2 million which has reduced its effective cash balance to -14.8 million. Strangely, simultaneously the Company has $38.6 million in "investments" which could be used to clear the overdraft. Inventory also experienced a decrease, declining by $42.1 million (59.2%), from $71.1 million to $29.0 million. Notably, the majority of the reduction in inventories ($28.4 million) was due to a reduction in work in progress, implying most of the Company's ongoing work has been completed and also implying that similar levels of work are unlikely to be done in the short term, considering the significant decline in inventories.

Total liabilities increased by $17.8 million (12.9%) YoY. The main driver of the increase in liabilities was the $39.9 increase in current liabilities, reflecting increases in the current portion of long-term loans of $21.6 million (195.2%) and the addition of a bank overdraft of $15.2 million. The company's non-current liabilities decreased by 22.1 million (37.0%) YoY due to a reduction in the long-term loans as $32.7 million in debt became current debt. The Company has a total equity base of $206.8 million, reflecting $1,000 of share capital and $206.8 million in retained earnings.

The below table provides a summary of the Company's liquidity and leverage ratios:

Metric	Sep-20	Sep-21
Cash Ratio	0.6x	-0.1x
Current Ratio	2.5x	1.6x
Debt/Equity	0.4x	0.4x
Total Liabilities/Total Shareholders' Equity	0.7x	0.8x
Working Capital ($'000)	119,169	66,966

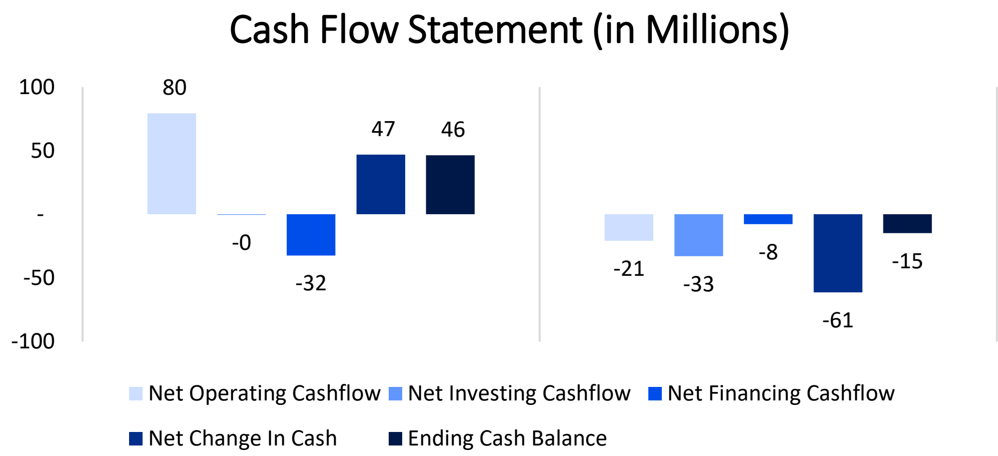
Cashflow Statements Analysis

For the nine months ended September 30, 2021, JFP reported a negative net operating cash flow of $ -20.7 million compared to $79.5 million in the prior year. In large part, this cash outflow was driven by increased receivables as well as reduced profitability on the back of delayed contracted revenue during the period. The Company notes that these delays were the result of various COVID-19 containment measures that reduced the number of working hours which slowed the production and completion of work in progress jobs.

Cash flow from investing activities was an outflow of $32.8 million compared to an outflow of J$0.3million in the prior year. The significant increase in investing cash outflow reflects the Company's use of cash to place an investment of $38.6 million with GK Capital. Notably, this outflow was buttressed by an inflow of $6.70 million, reflecting proceeds from the sale of fixed assets.

Cash flow from financing was an outflow of $7.7 million compared to $32.4 million in the same period for the prior year. This outflow reflected interest payment of $6.2 million and net loan repayment of $1.4 million. At the end of the nine months, JFP reported a negative cash balance of $14.8 million compared to a positive cash balance of J$46.5 million for the same period in the prior year.

It's important to note that the negative cash balance reflects a bank overdraft which we believe could have been managed better considering the investment of $38.6 million made during the nine months period.



Valuation

We employed the discounted free cash flow to equity and Price to Earnings valuation methods to determine a fair value for JFP. In our discounted cash flow model, we utilized a 5-year horizon, a perpetual growth rate of 6.1%, and a cost of equity of 15.2%, determined using a bond yield plus risk premium method.

Our DCF model resulted in a fair value estimate of **0.59** value per share. To complement our income-based valuation, we employed a relative multiple approach – a P/E valuation, utilizing a wide set of companies within the manufacturing space. This resulted in a P/E multiple of 12.5x which when multiplied against our 1-year target EPS of $0.07 resulted in a share price estimate of $0.88.

Consequently, at the low end (bear case), we've determined a value of $0.59 while at the high end (best case), we've determined a value of $0.88. Placing equal weights to both methods, a simple average of the above values results in a share price estimate of **$0.74**, a 26.0% downside relative to the offer price of $1.00. This represents our base case estimate. Notwithstanding, we must note that even at the high end, the Company's value is 12.0% below the offer price.

Recommendation

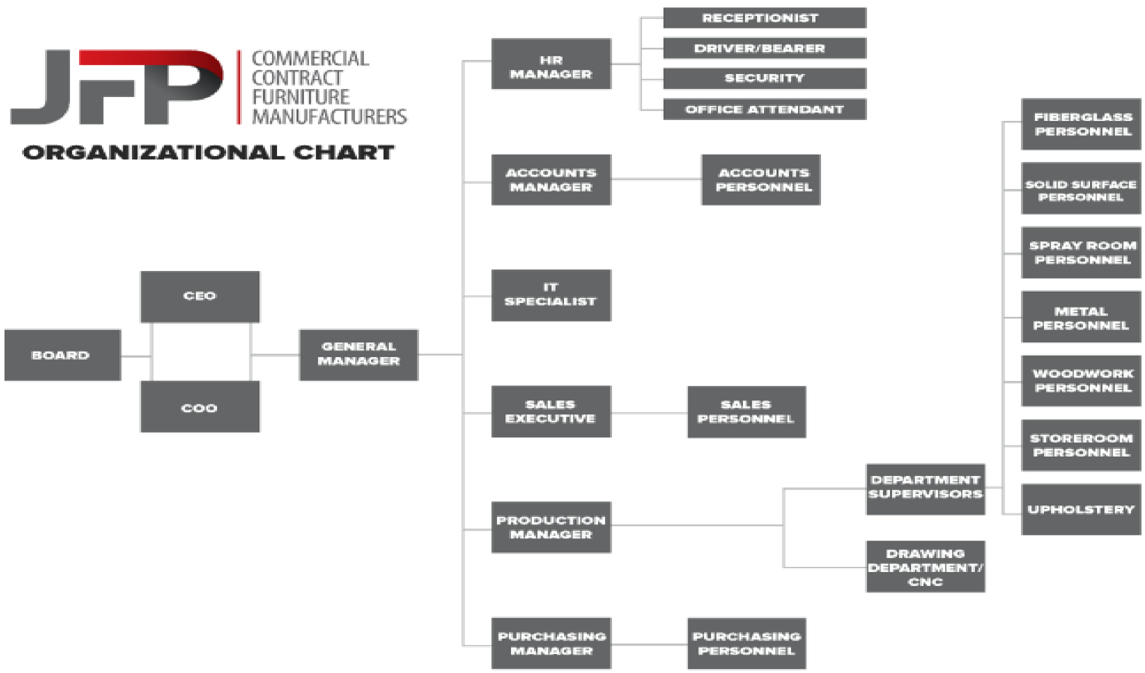
What JFP presents to potential investors is an opportunity to invest in a Company with a product offering that is quite different from currently listed Companies. However, by design, the Company's business model which targets bespoke services on a needs basis, creates clear difficulties vis-à-vis generating continuous, recurring revenue. This presents a clear risk to potential investors as revenue is based on potential contracts which eventually end and subsequently, require fresh contracts to maintain revenue generation. Alternatively, there can be periods where the Company wins no contracts and could therefore record a sudden decline in its revenue and potentially, its profitability.

What remains quite unclear to us is how the Company intends to maintain a steady, predictable flow of revenue. This is especially concerning given our earlier note that the Company's ability to procure new contracts, particularly for the 2022 financial year, has not been especially robust. Finally, our estimate of the Company's fair value suggests that the offer is priced unfavorably, given the associated risk we have attached to the Company. With that said, at this time, considering the information presented in the prospectus and our accompanying analysis, we do not recommend that clients participate in this offer.

Appendix

Organizational Structure

JFP's organizational structure is illustrated below:



Corporate Governance & Management

- **Audit Committee:** The primary objective of this committee is to ensure that the necessary internal controls are in place and that the company is compliant with the requisite financial reporting standards and practices

- **Corporate Governance Remuneration & Nomination Committee:** The primary purpose of this committee is to provide support to the board as it relates to the oversight of policies and procedures, as well as ensuring that the company is compliant with all regulatory requirements within the country its domiciled in.