ROYAL TOMBSTONES

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Franchising Opportunity

Proposed Royal Tombstones Franchisee Opportunity

Overview

- Royal Tombstones Holdings (Pty) Ltd comprises a low-cost tombstone manufacturing business, Micro-Insurance products in the form of tombstone cover and a granite manufacturing business for the higher end tombstones.

- It's model for distribution of its products is through a network of over 70 franchises, of which more than 20 are head office owned, across South Africa' lower LSM markets.

- Royal Tombstones was launched approximately 15 years ago out of the garage of the founder.
  The premise of the business was to develop high quality tombstones out of low-cost materials that had the look and feel of granite or marble and was affordable to the African population.

- Through research the founder of Royal Tombstones started developing tombstones out of concrete, which was common in foreign markets, but had not been tested in the South African market due to perceptions around granite and marble being the sole material for tombstones due to its look and feel. Significant demand was experienced for the product, as the retail cost of the tombstones produced were 25% of market norms, whilst still generating gross profit margins more than 50%.

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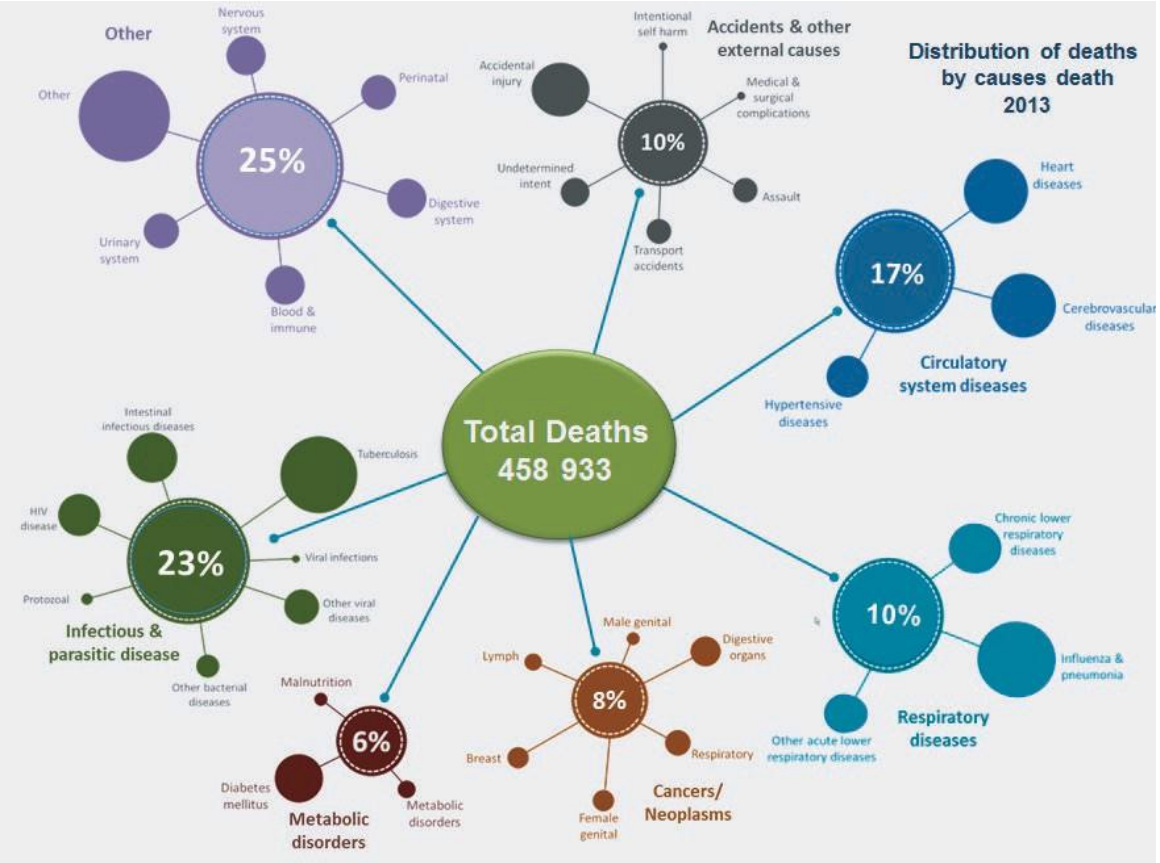
Death Rate in South Africa (StatsSA)

Key Considerations

- The South African death rate has declined from 12.5 down to 9.5 deaths per 1,000 inhabitants however, its steady state death rate in absolute numbers equates to c.500k per year. There is significant backlog in the tombstone industry owing to numerous factors, the most prominent being the cost of tombstones historically and family members inability to fund them after the notable expense of a funeral.

- Using information per Stats SA, we have determined that the available market (potential tombstone buyers) amounts to c.350k tombstones per annum.

- The current business model includes a manufacturing arm, head office and externally owned franchises and more recently an insurance product to allow the business to secure tombstones revenue via a funeral tombstone insurance as well as receive annuity income in the form of premiums.



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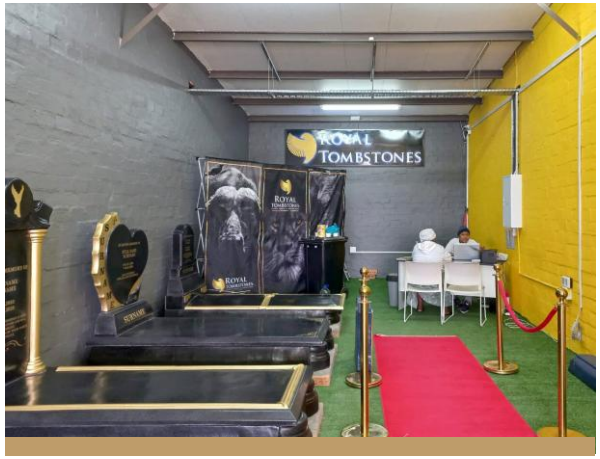
Shop Layouts

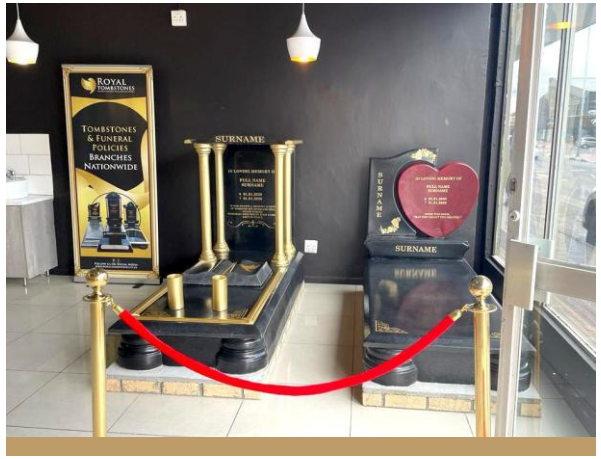
Key Considerations

- Out of the five largest funeral parlours in South Africa, only AVBOB Group, Martin's Funerals and Icebolethu Group manufacture tombstones in –house. However, this is not on a large scale but more as ancillary line of business. The remaining parlours have previously reached out to RT for a partnership arrangement.

- The stores are typically located in low LSM locations and are manned by one or two salespeople. Rentals are kept low with a product catalogue and samples on site.

- The average size and layout of each store differs as it is customized to suit the needs of the particular space occupied.





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Geographical Spread

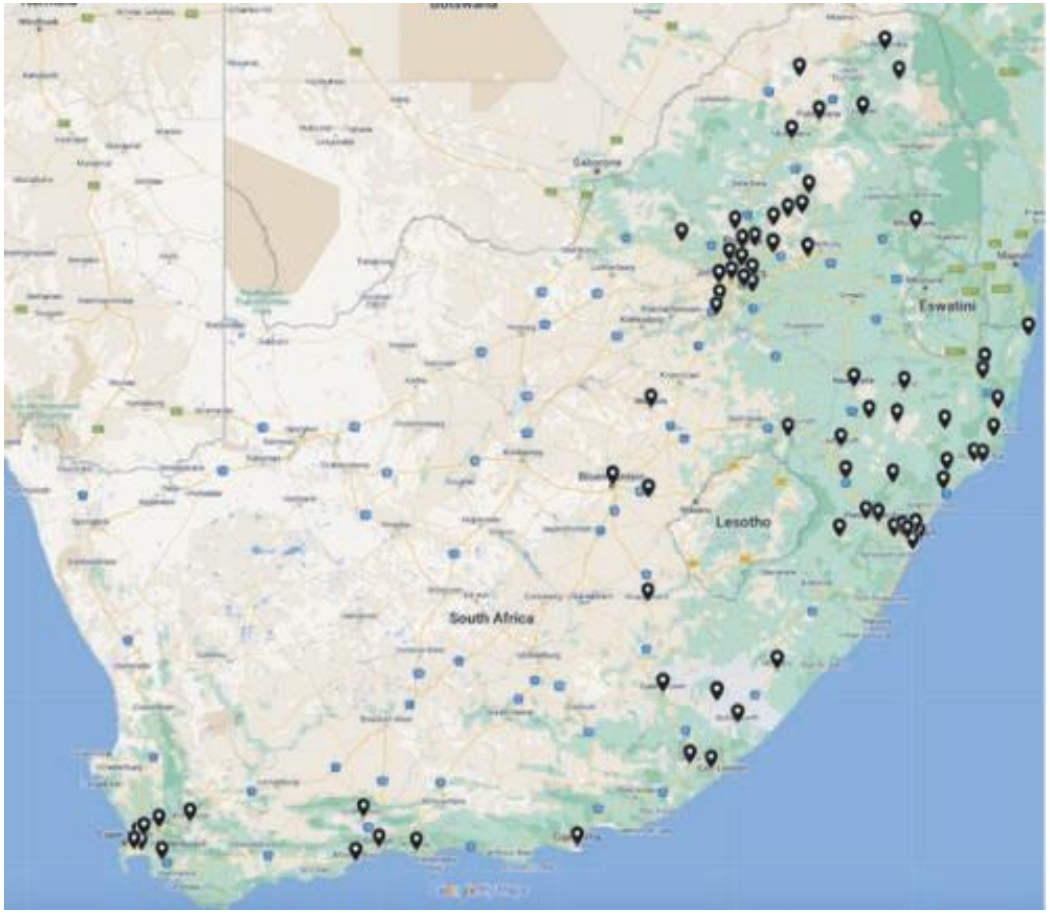
Locations

- The company currently has over 70 locations countrywide. This includes;
  - Gauteng
  - KwaZulu Natal
  - Limpopo
  - Mpumalanga
  - Eastern Cape
  - Western Cape

- As can be seen a large area of the country has not yet been targeted and the potential for new franchisees is endless.

- Franchisees with the help of Royal Tombstones, will identify potential locations and will be advised on the viability of the location/s suggested.

- A potential Investor/Franchisee has the option of running a store on their own or partner with Head Office who will manage the store on their behalf.



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Projected Financial Cash Flows Model

Key Assumptions

- The average tombstone selling price is on average between R18k-R19k over all stores. We used the assumption that the average selling price would be R12k per tombstone.
- We used a basis of 10 tombstones per store, this figure differs depending on location and demographics of a store, we found this to be a low-key average.
  - We have also applied monthly sensitivities, as per historical company data, to the model to demonstrate the effect on month-on-month sales.
- Expenses also vary according to location but found the number used in the detailed cashflow model to be a good average;
  - Expense line items can be customized to match the investors' individual needs and to reflect a fair representation of what can be expected.
- The Investment is projected to be self funding from month 3, with no additional capital requirements, we would recommend a minimum Investment of c. R100 000- for Working Capital during this period. *
- Investor to acquire a franchise (Investment) from Royal Tombstone Head Office. In the location they suggest/that is available.
- The store will be managed by the Franchisee with head office giving guidance.
- The initial setup costs and licensing fees for Option 1 amount to R385k per franchise, while for Option 2, they total R550k. In terms of monthly franchise fees, Option 1 incurs a fee of R10,000, while Option 2 carries a monthly fee of R3,750.
- We would recommend the prospective investor tests the Area/Franchise he is looking to acquire by using the "Location Viability Test", that is build into the model.
  - This uses statistical and historical data as a basis to test the viability of a certain area based on the perceived population.
  - Use the following link for more accurate population data: Statistics South Africa

Financial Metrics and Returns

- The Return On Investment (ROI) is positive from year 0, with an average return of 10.7% to 72.8% (Option 1) and 20.3% to 74.1% (Option 2) over years 0 - 5.*
- The Internal Rate of Return (IRR) will be positive after the period that suggests capital has been paid back and a return has been realized.
- Revenue is seeing a constant growth that is linked to the CPI for raw materials needed.
- Gross profit margins are seen as being consistent as was seen in historical financial data and performance of the company as well as the Profit Before Taxation (PBIT)
- At a Marginal Dividend Declaration of 45% of available Cash for distribution the Investors' Returns are well above double digits, that just shows the opportunity and potential profit margins to be untapped *.

**Depending on franchisee involvement and management of the store as a whole.*

View investment models

Option 1 Click Here

Option 2 Click Here

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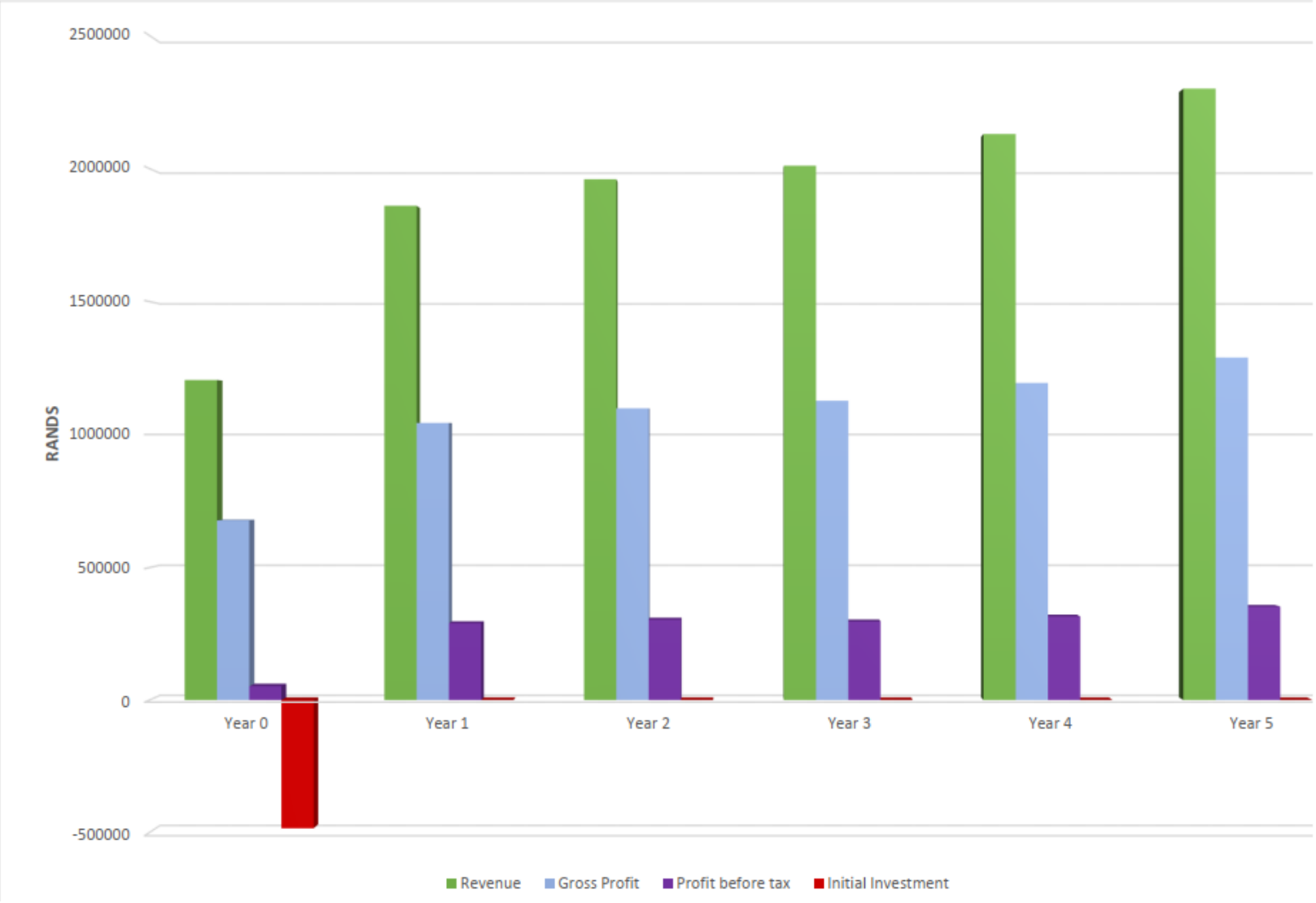
Projected Financial Cash Flows Model

Option 1



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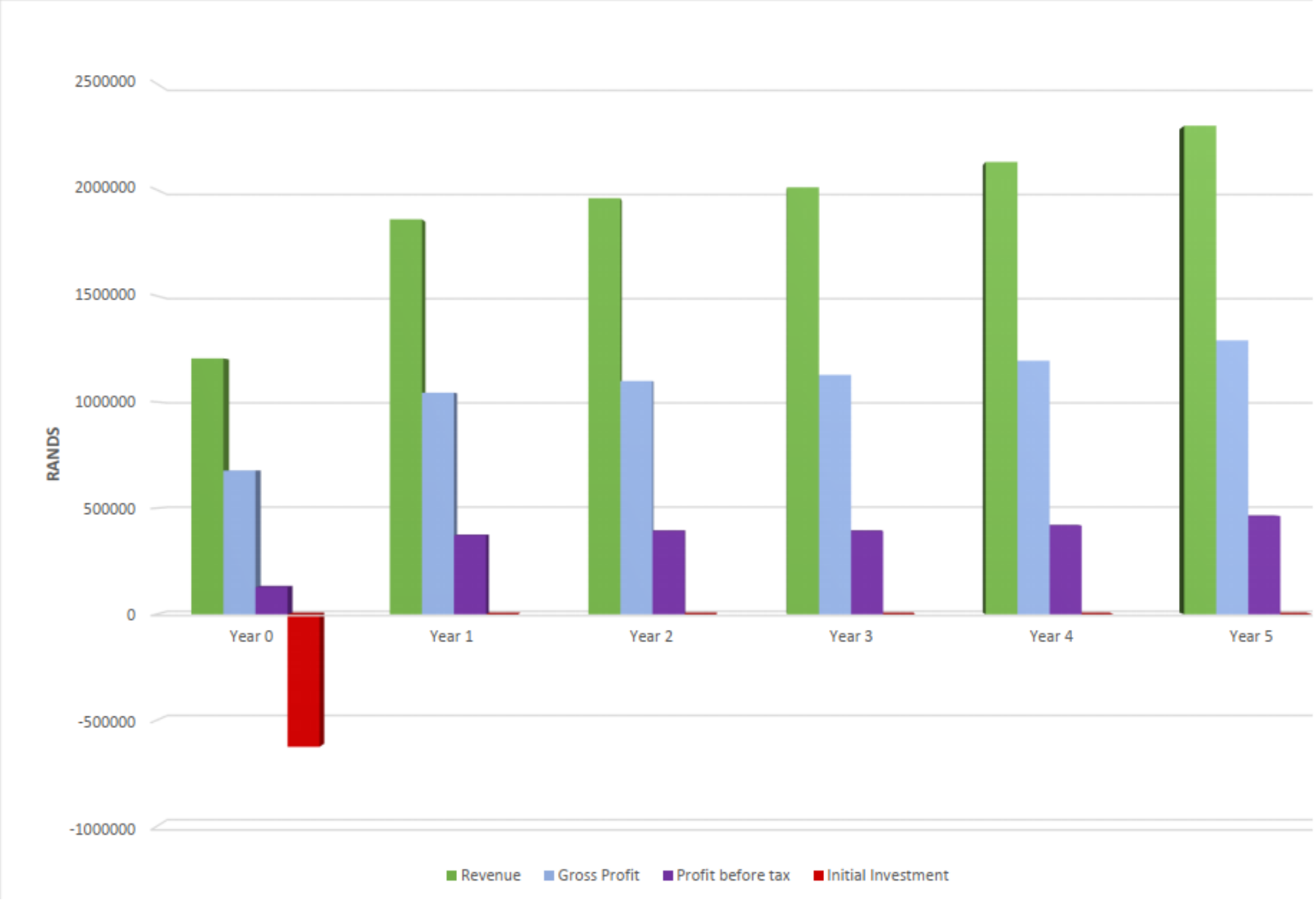
Option 2



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