

“The Peak of Perfection in Handmade Chocolates ®”

Ticker: RMCF

Recommendation: BUY

Current Price: \$8.70

Intrinsic Value Range: \$13-15

Potential Upside: 50% - 72%

3/9/2010



Short Background

- Manufactures extensive line of premium chocolate candies and other confectionery products.
- Operates through two segments: Franchising and Manufacturing.
- Stores Owned: 9
- Stores Franchised: 336 (51 International)
- Market Cap: \$52 MM
- Dividend Yield: 4.60%
- Debt: 0



Thesis

- **Attractive Valuation:** Expansion into co-branded stores with Cold Stone Creamery worth ~ \$2 per share (buying now = buying current business, getting co-branded stores for free)
- Current price not reflecting:
 - 1) Expected ramp up in franchise, owned stores
 - 2) Future buybacks: additional \$1 million shares authorized

Value Drivers

- #1: Unique Franchise Model: High ROC, Low CAPEX
- #2: Value-driven management and policies
- #3: Expansion of co-branded stores

Why Mispriced?

- No analyst coverage
- Uncertainty over expansion plans
- Slow growth historically

Simple, Unique Business Model

Sources of Revenue

Owned Stores
(Sales)

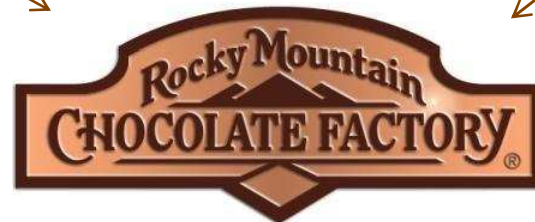
Franchises
(Sales)

Franchises
(Royalties)

Sources of Costs

Owned Stores
(Operations)

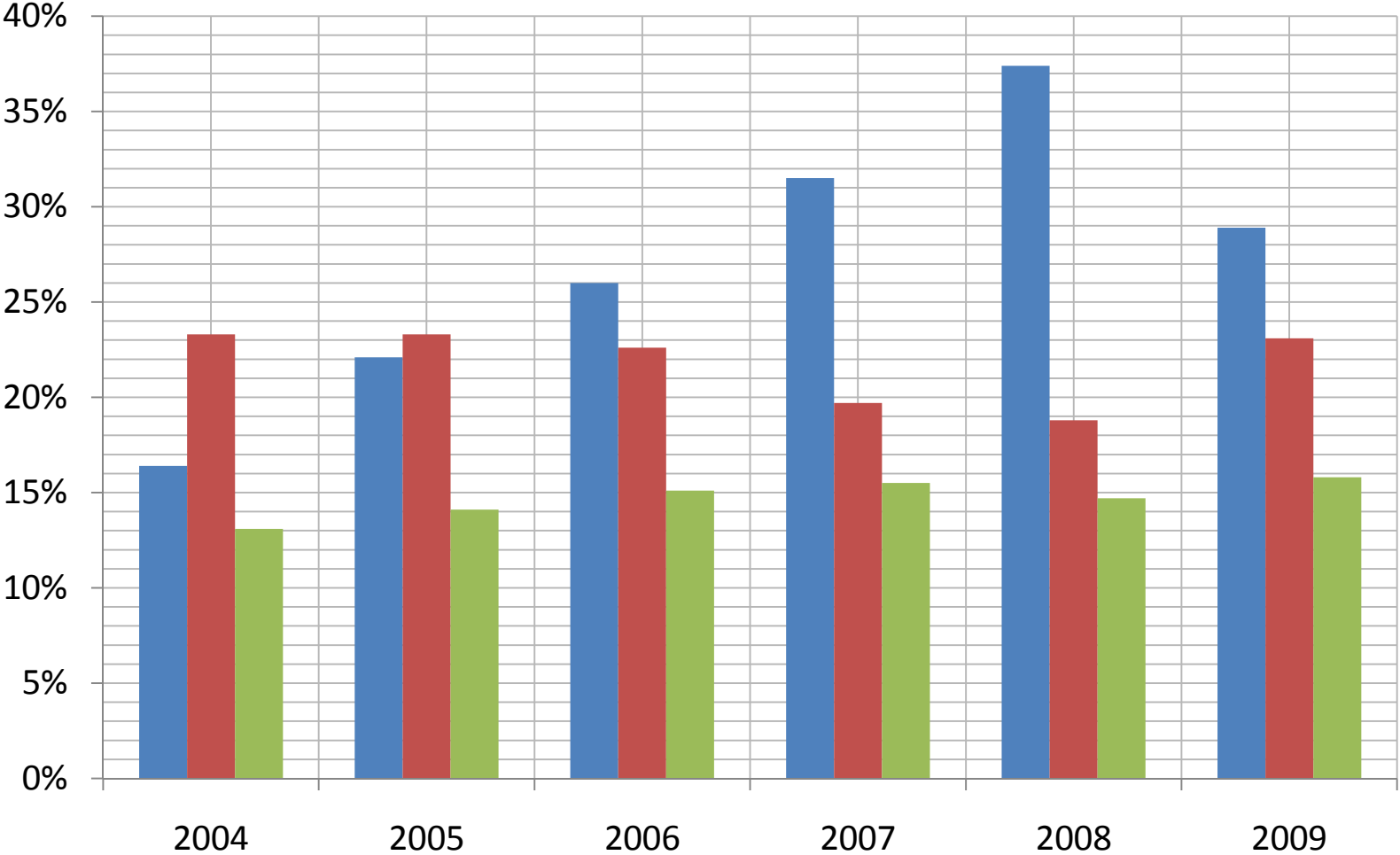
Employees
(Training)



Diversified Cash Stream + Low CAPEX = High ROC

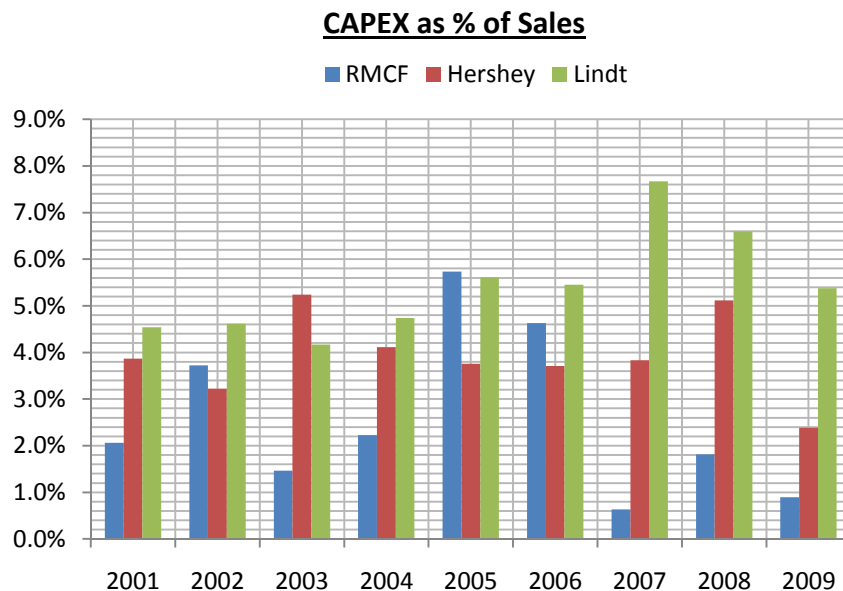
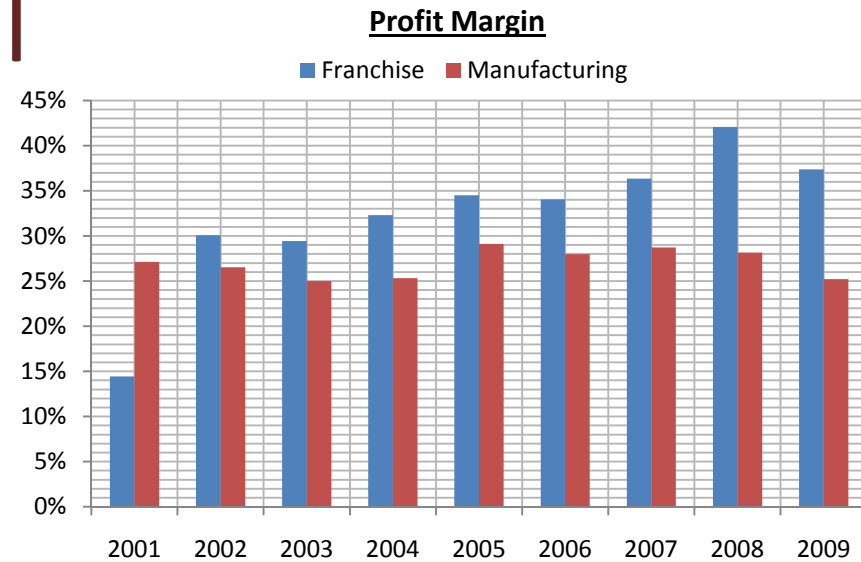
ROIC

■ RMCF ■ Hershey ■ Lindt



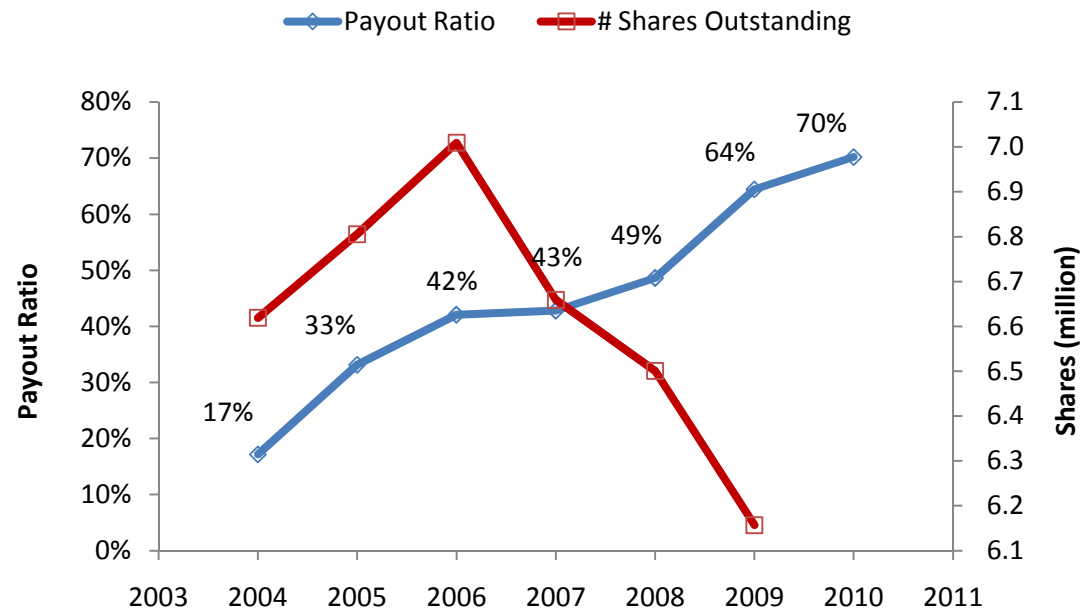
#1: Franchise Model

- Asymmetric payoff in favor of shareholders:
 - Franchise Failure = No Cost
 - Franchise Success = Fees + Royalty
- Enables company to open stores with little capital for while generating strong cash flows from operations.
- Has allowed company to retire all outstanding debt and increase dividend payout.



#2: Payout Policy

- Stock repurchases: 3.9 million shares during last 8 years
- Dividend payments have been increased 10 times since 2003
- Additional \$1 million shares to be bought back within next 2 years



Re-Invest Profits in High Quality Opportunities,
Otherwise Return to Shareholders

#3: Co-Branded Stores

- Increase in sales at no additional Capex
- Simple Concept: Partner with Cold Stone Creamery to offer wide variety of chocolate ice cream
- Successful 10% sales gain in all 8 Cold Stone Creamery co-branded test stores (2009)
- Currently only 19 co-branded stores, but expansion underway
- Management goal: 20 co-branded store openings per year



Valuation

Current Price: \$8.70

\$9 - \$13

Base Case
(No Expansion)

- Franchise Stores: 5% growth
- Owned Stores: 1 opening/2-yr
- 0 co-branded openings/year
- 3% annual price/lb increase

\$14 - \$16

Co-Branding
(Slow Expansion)

- Franchise Stores: 7% growth
- Owned Stores: 1 opening/yr
- 10 co-branded stores/year
- 3% annual price/lb increase

\$18 - \$23

Co-Branding
(Fast Expansion)

- Franchise Stores: 10% growth
- Owned Stores: 2 opening/yr
- 20 co-branded stores/year
- 5% annual price/lb increase

* Assumes no change in cocoa bean prices*

Risks

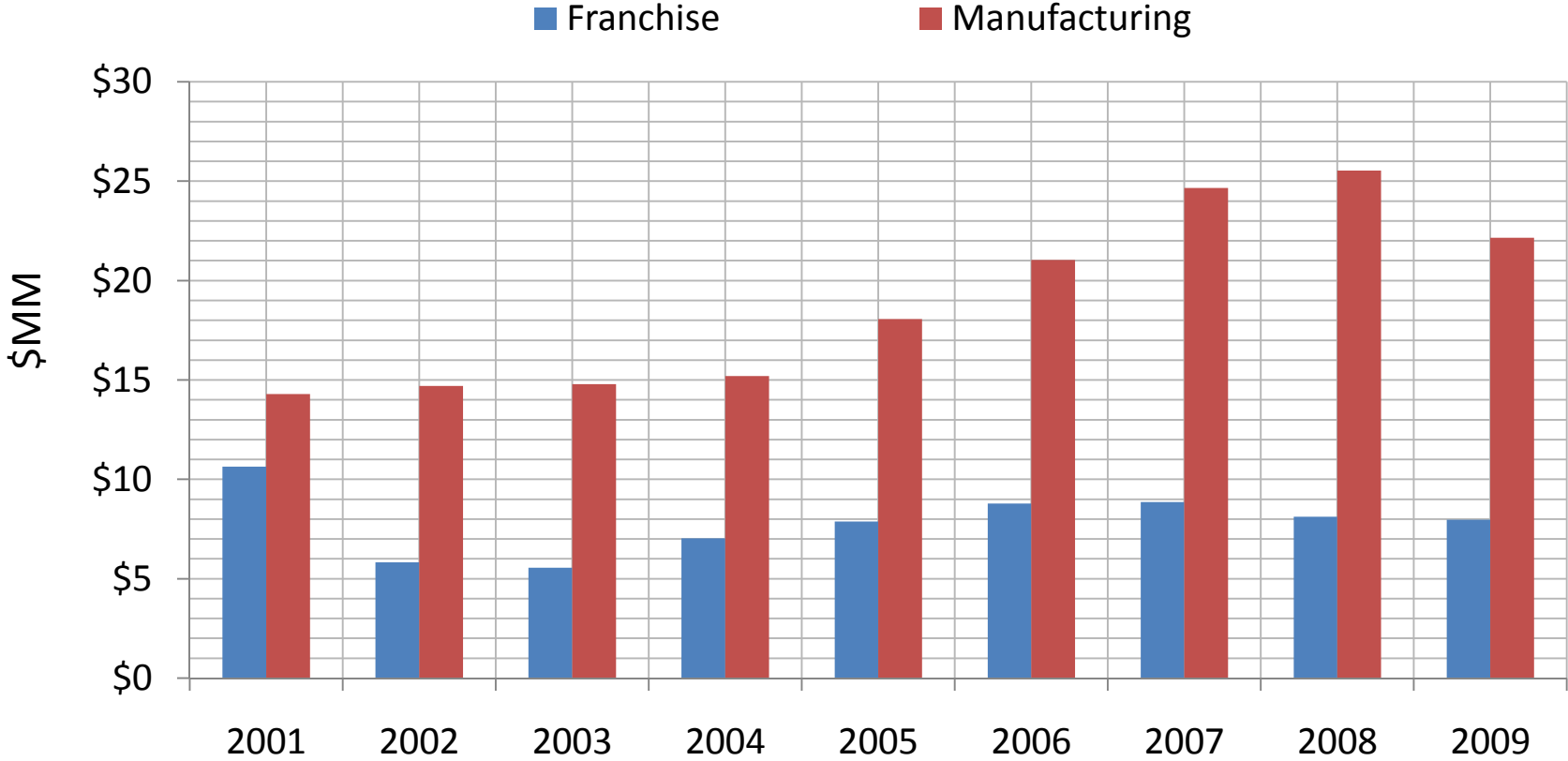
- Cocoa bean prices, a traded commodity (near historical high)
- Execution: future co-branding results may differ from test
- Industry consolidation (Lindt-Guirardelli, Mars-Wrigley, Kraft-Cadbury)
- FDA regulation

Questions?

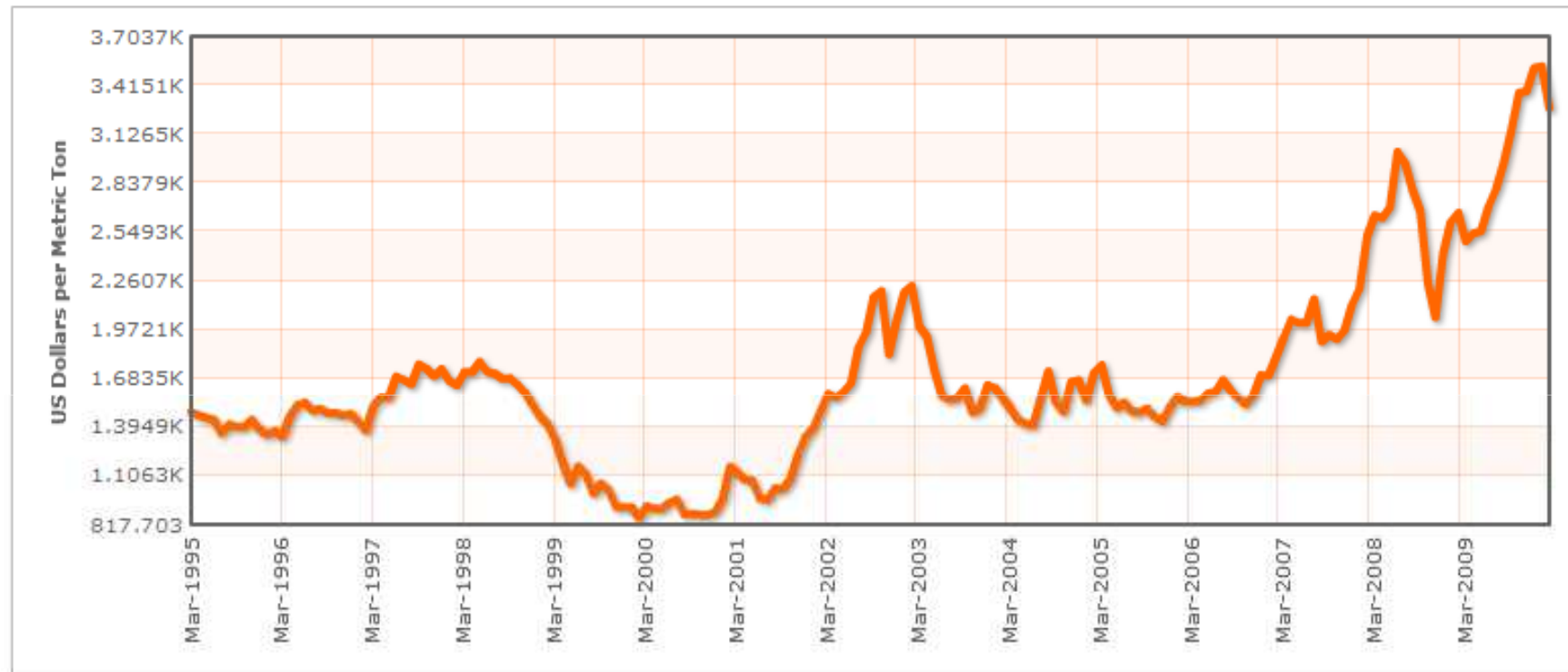


Appendix

Segment Revenues



Cocoa Bean Prices



Source: IndexMundi.com

USD/Lb: \$1.55

Sensitivity: 1% drop in COGS for every 10 cent drop in cocoa prices

Franchise Contract

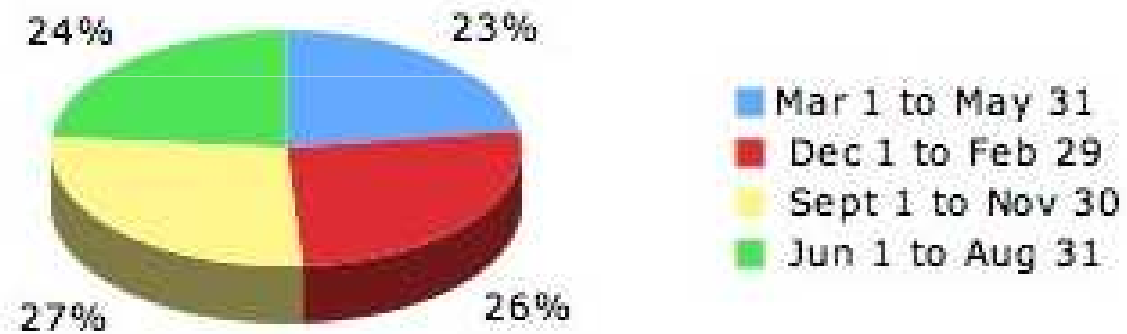
- Franchise fee is \$24,500 for the initial 10-year term. Total investment required to open a store is between \$114,700 and \$514,590, depending on store size and location
- Franchisees royalties: 5% of monthly gross sales + marketing fee equal to 1% of monthly gross sales
- Mandatory annual 7-day managerial/operations training

Locations

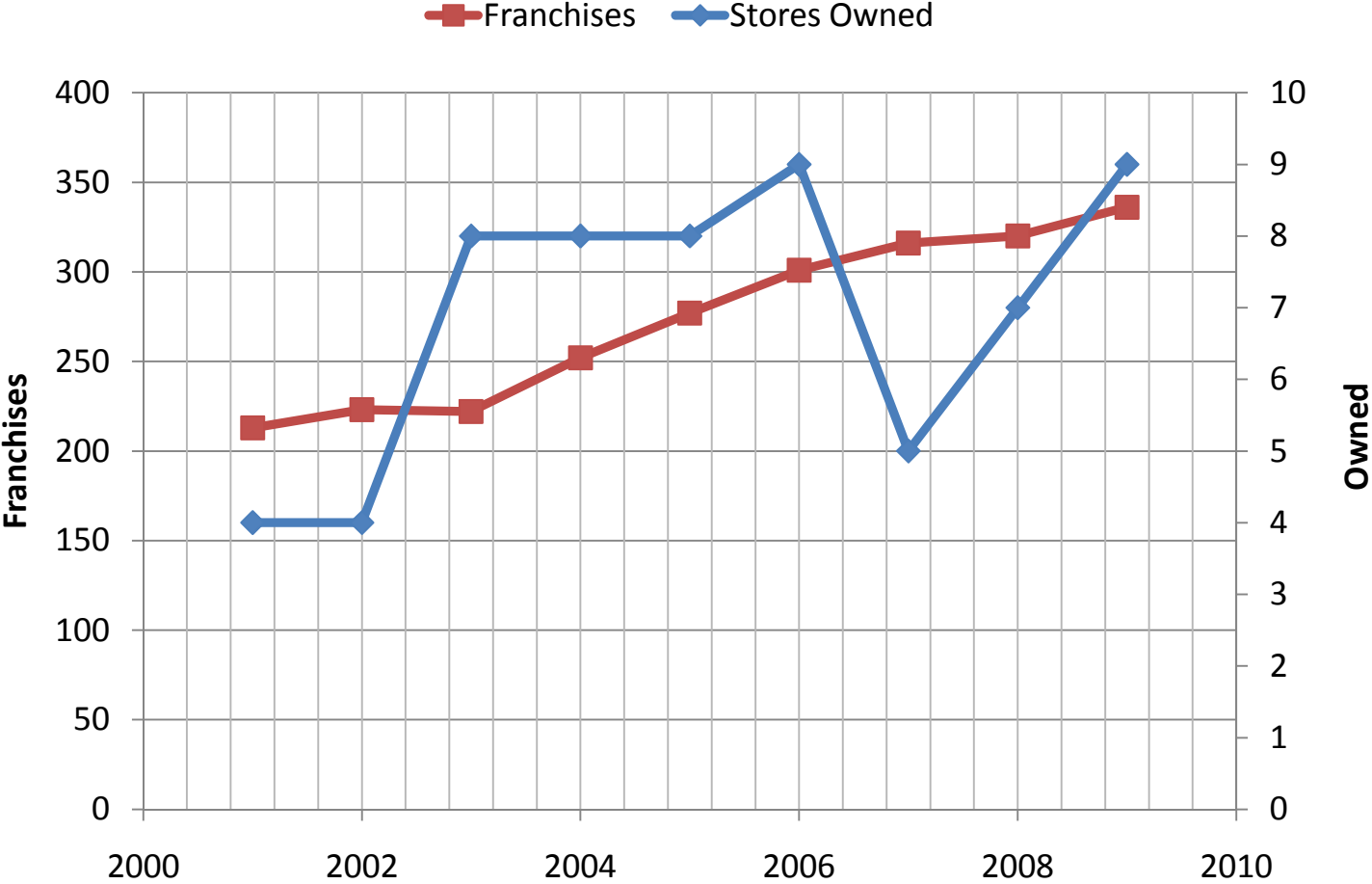
- Regional Centers: 29.3 %
- Outlet Centers: 21.7 %
- Festival/Community Centers: 19.2 %
- Tourist Areas: 14.5 %
- Street Fronts: 8.3 %
- Airports: 4 %
- Other: 3 %

Seasonality

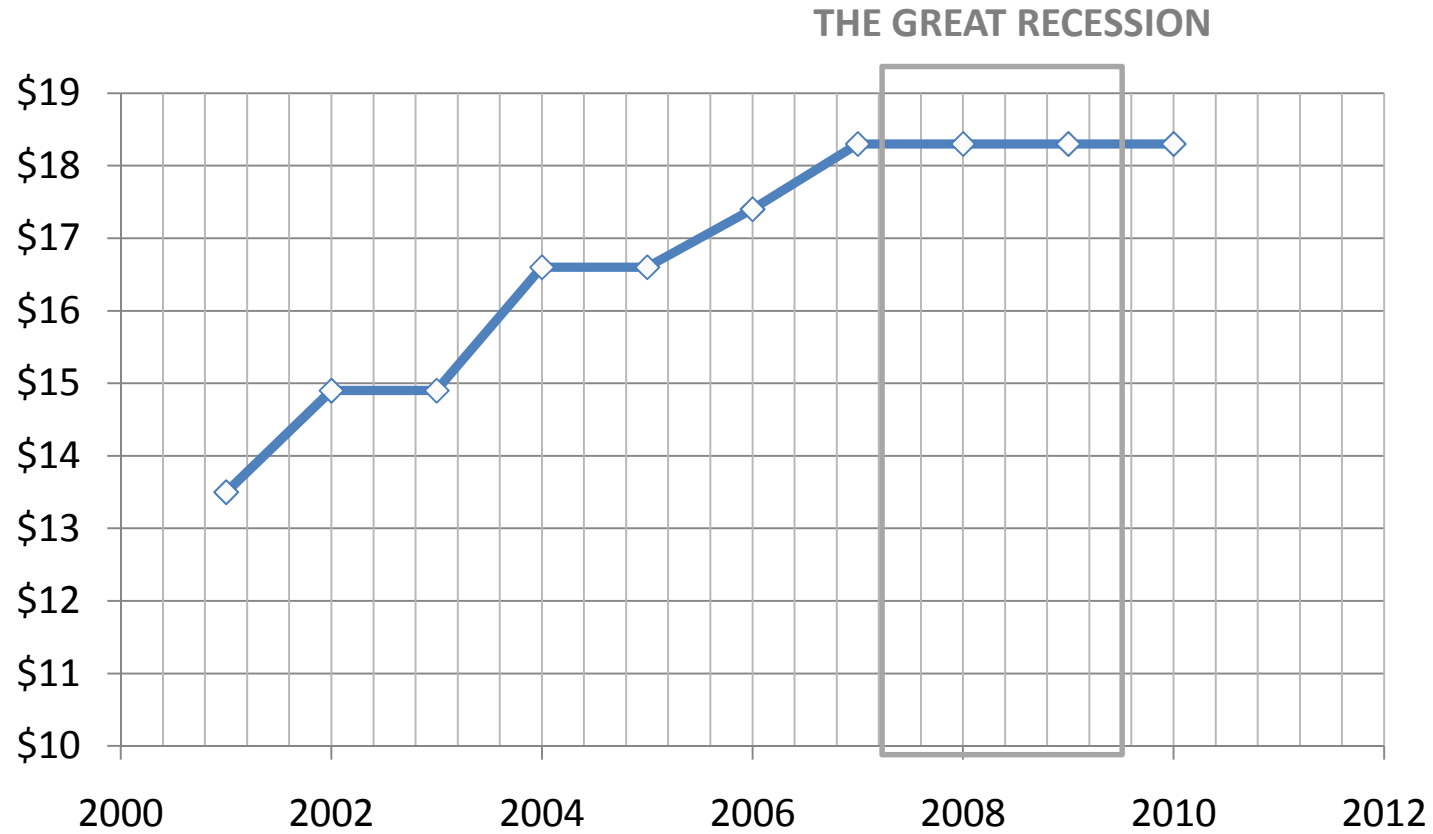
RMCF Quarterly Sales



Openings per Year



Average RMCF Chocolate Selling Price (Price/Lbs)



Quick Valuation Estimates

BASE

Earnings Power Value

Normalized EPS	0.74
Estimated Equity Value	\$12.67

SLOW GROWTH

Earnings Power Value

Normalized EPS	0.84
Estimated Equity Value	\$14.0

FAST GROWTH

METHOD 2: Earnings Power Value

Normalized EPS	1.04
Estimated Equity Value	\$17.59

* Assumes 10% WACC, 4% term. growth