

Trading update – growth propelled by Vaping

12th April 2022

In a Trading Update for the year to 31 March 2022, Supreme PLC reports that it expects revenue of above £130.0m and EBITDA (adjusted) of no less than £21.0m based on strong organic growth in its core segments, augmented by strategic acquisitions. The Group expects continued profitable growth in FY23 driven by demand for its Vaping division products, partially offset by commodity price inflation impacting Sports Nutrition & Wellness division.

- The update indicates FY22 performance in line with our forecasts; our revenue estimate of £130.0m is revised to £130.4m. We have revised EBITDA outlook from £21.5m to £21.2m to reflect the impact of commodity price inflation in the Sports Nutrition & Wellness segment (12.1% of FY22 estimated revenue). Vaping remains the mainstay of performance, where Supreme expects to report 10%YoY growth in FY22 (33.4% of ED estimated revenue: 52.8% of ED estimated gross contribution) backed by the addition of Sainsbury's and Morrisons to its customer base. The Group highlights 2%YoY growth in the Batteries division (26.4% of FY22E revenue) and +5%YoY in Lighting (20.9% of FY22E revenue) with gross margin improvement.
- For FY23 Supreme highlights “double digit” growth prospects in its Vaping division. Despite FY22 growth in Sports Nutrition & Wellness revenue of over 130%YoY(E), profitability in this division was impacted by a combination of the increased price of whey and additional wage and transportation costs.

Changes to estimates and medium-term outlook

- We remain fundamentally positive for growth prospects in Supreme's leading Vape division where we expect the contribution to gross earnings to have risen from 45.1% in FY20 to just under 60% by FY24, propelling an increase in total (pre-forex) gross margin from 28.0% to 30.5% over the period.
- Our positive outlook for Vaping offsets near-term pressure on the Sports Nutrition & Wellness segment so that our revenue outlook to FY24 is unchanged. Our FY23 EBITDA (adj.) outlook is £22.0m from £24.0m, an 8.2% reduction, and in FY24 6.6% lower, taking a conservative view on the medium-term trends in energy and commodity prices which have already impacted a broad range of sectors. Taking these factors into account we adjust our fair value to **230p/share**.

Company Data

EPIC	SUP
Price (last close)	190p
52 weeks Hi/Lo	244p/170p
Market cap	£220m
ED Fair Value / share	230p

Share Price, p



Source: ADVFN

Description

Formed in 1975, Supreme Imports is a leading European and UK manufacturer, supplier and brand owner of fast-moving consumer products. It supplies five key categories of consumer spending: Vaping, Sports Nutrition & Wellness, Batteries, Lighting and Branded Consumer items. Its customer base includes leading brands such as Costcutter, B&M, ASDA, TK Maxx, Poundland, Sainsbury's, Home Bargains, Heron Foods, Booker, Bestway, Aldi, Tool Station, Range, Travis Perkins and Nisa.

Next event

Results for the year ended 31 March 2022 in July 2022.

Mike Jeremy (Analyst)

0207 065 2690
mike.jeremy@equitydevelopment.co.uk

Hannah Crowe

0207 065 2692
hannah@equitydevelopment.co.uk

Financial outlook

Yr to March 31 (£m)	2020	2021	2022E	2023E	2024E
Revenue	92.3	122.3	130.4	136.5	142.2
EBITDA (adj)	16.0	19.3	21.2	22.0	24.0
EPS (adj, p)	10.1	11.8	12.2	13.3	14.6
FCFS (p)	15.5	11.1	7.2	15.4	14.4
DPS (p)	10.0	2.7	2.1	7.3	8.0
Net cash / (debt)	(21.3)	(7.6)	(7.5)	(0.2)	4.8
EV/EBITDA	14.2x	11.8x	10.8x	10.3x	9.5x
P/E	18.7x	16.0x	15.5x	14.3x	13.0x
FCF yield	8.2%	5.8%	3.8%	8.1%	7.6%
Div yield	5.3%	1.4%	1.1%	3.9%	4.2%

Source: Company data, Equity Development estimates

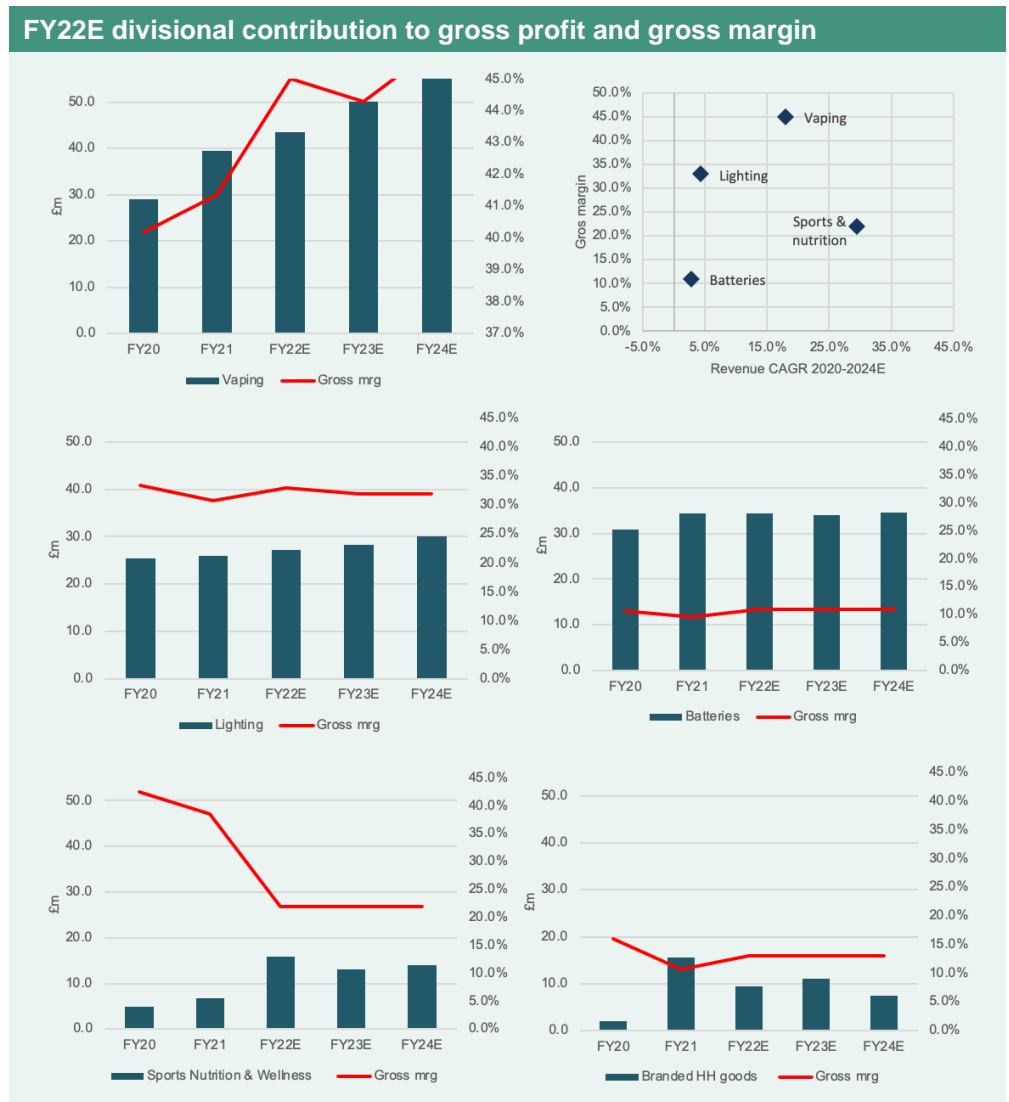
Vaping drives earnings

Prospects led by Vaping products

As illustrated below, our divisional outlook is led by Vaping products, estimated to contribute 52.8% of FY22 gross profits, followed by Lighting (24.3%) and Batteries (10.2%). From an initial base of £2.4m revenue in FY19, the Sports Nutrition & Wellness division has demonstrated strong growth; 69.0% CAGR FY19-21. Despite medium-term promise the division has had to absorb the impact of price increases in core commodities such as whey protein concentrate (WPC) where, for example, the EU WPC benchmark price rose 46% in the year to January 2022, to €4,649/ton (source: CLAL.it WPC indices).

In 2021 the UK market for e-cigarettes (ENDS: electronic nicotine delivery systems) was worth an estimated £2.601bn, with growth to 2025 expected at a 5.3% CAGR to reach £3.198bn (Source: Statista). The latest government survey (<https://www.gov.uk/government/publications/vaping-in-england-evidence-update-february-2021/>) concludes: "Vaping prevalence ... continues to be around 6% (between 5.5% and 6.3%), equating to about 2.7 million adult vapers in England".

The divisional data, below, places each segment on the same scale of actual contribution and gross margin, amongst which the contribution from Vaping stands out.



Source: Company data, Equity Development estimates

The Supreme business model

From inception in 1975, Supreme has built a distribution and manufacturing business reaching turnover of £122m by 2021, and diversified through selective acquisitions: in 2018 Shannon Protein and Protein Dynamix; in 2019 LED HUT; and latterly Battle Snacks, Provider Distribution Ltd., Vendek and the brands of SCI-MX This has resulted in 14% revenue CAGR (2018-21) and 26% EBITDA CAGR (FY21 EBITDA margin 15.8%), with a customer base ranging from discount retail to the public sector and international partners:

- Discount Retailers – including B&M, Home Bargains, Poundland, The Range, Matalan, Sports Direct and Heron Foods.
- Wholesalers, e-tailers and Symbol Group Retailers – including Booker, Londis, SPAR, Bestway, and Costcutter.
- Supermarkets and high street – including Asda, Halfords, and Iceland.
- International customers – including Babou – the French discount chain with more than 95 stores.
- Public Sector – HM Prison & Probation Service and the Scottish Prison Service.
- Direct to consumer online.



Source: Company data, October 2021 IR presentation

Supreme's strategy emphasises four key drivers:

- Grow market leadership in Vaping, via further penetration into grocery and convenience retail, and continue to improve gross profitability via UK manufacturing capabilities.
- Maintain market position in Batteries and Lighting categories – with a solid customer base - to maintain the contribution of these divisions to Group cash-generation.
- Develop opportunities in the increasingly popular Sports Nutrition & Wellness segment, whilst introducing measures to mitigate short-term materials and other costs challenges.
- Augment organic growth with complementary strategic acquisitions, and maintain a tight control on overheads.

Summary P&L FY20 – FY24E

Yr to March 31 (£m)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	92.3	122.3	130.4	136.5	142.2
Gross Sum	25.9	31.9	37.1	39.3	43.3
<i>Margin</i>	<i>28.0%</i>	<i>26.1%</i>	<i>28.4%</i>	<i>28.8%</i>	<i>30.5%</i>
COGS	(66.5)	(90.3)	(93.3)	(97.2)	(98.9)
Forex	0.7	1.1	1.6	1.3	1.0
Gross inc forex	26.6	33.0	38.7	40.6	44.3
<i>Margin</i>	<i>28.8%</i>	<i>27.0%</i>	<i>29.7%</i>	<i>29.8%</i>	<i>31.2%</i>
Sum Op-ex	(12.6)	(19.4)	(21.9)	(22.7)	(23.0)
One-off costs	(0.4)	(3.4)	(1.4)	(1.4)	(0.3)
EBIT Reported	14.0	13.6	16.8	17.9	21.3
EBIT Adjusted	14.4	17.0	18.2	19.3	21.6
<i>Margin</i>	<i>15.6%</i>	<i>13.9%</i>	<i>13.9%</i>	<i>14.2%</i>	<i>15.2%</i>
Depreciation	(1.5)	(2.0)	(2.8)	(2.5)	(2.2)
Amortisation	(0.0)	(0.2)	(0.2)	(0.2)	(0.2)
EBITDA Reported	15.6	15.8	19.8	20.6	23.7
EBITDA Adjusted	16.0	19.3	21.2	22.0	24.0
<i>Margin</i>	<i>17%</i>	<i>16%</i>	<i>16%</i>	<i>16%</i>	<i>17%</i>
Financial income	0.0	0.0	0.0	0.0	0.0
Financial expense	(0.8)	(0.7)	(0.4)	0.0	0.0
PBT Reported	13.2	13.0	16.4	17.9	21.3
PBT Adjusted	13.6	16.4	17.8	19.3	21.6
Tax	(2.3)	(3.1)	(3.3)	(3.6)	(4.3)
Reported tax rate	17.5%	24.1%	20.0%	20.0%	20.0%
<i>Tax rate adjusted</i>	<i>17.0%</i>	<i>19.0%</i>	<i>18.4%</i>	<i>18.6%</i>	<i>19.7%</i>
PAT Reported	10.9	9.8	13.1	14.3	17.1
PAT Adjusted	11.3	13.3	14.5	15.7	17.4
Amortisation & tax items	(0.1)	0.1	0.0	0.0	0.0
PAT Adjusted, for EPS	11.2	13.4	14.5	15.7	17.4
Basic wtd. Av. shares (m)	110.0	111.1	116.6	116.6	116.6
Diluted wtd. av. shares (m)	111.3	113.2	118.7	118.7	118.7
EPS Reported Basic (p)	9.9	8.9	11.2	12.3	14.6
EPS Reported Diluted (p)	9.8	8.7	11.0	12.1	14.4
EPS Adjusted Basic (p)	10.2	12.0	12.4	13.5	14.9
EPS Adjusted Diluted (p)	10.1	11.8	12.2	13.3	14.6
DPS (p)	10.0	2.7	2.1	7.3	8.0
Dividend yield	5.3%	1.4%	1.1%	3.9%	4.2%

Source: Company data, Equity Development estimates

Summary cashflow FY20 – FY24E

Yr to March 31 (£m)	FY20	FY21	FY22E	FY23E	FY24E
PAT Reported	10.9	9.8	13.1	14.3	17.1
One-off items	0.4	3.4	1.4	1.4	0.3
Depreciation	1.5	2.0	2.8	2.5	2.2
Amortisation	0.0	0.2	0.2	0.2	0.2
Tax	2.3	3.1	2.0	2.0	2.0
Finance/other	0.6	(1.7)	0.0	0.0	0.0
Operating Cash Flow	15.8	16.9	19.5	20.4	21.8
(Increase)/Decrease inventories	2.5	(5.3)	(8.6)	2.3	(1.1)
(Increase)/Decrease in receivables	(0.9)	1.0	(8.6)	2.3	(1.1)
Increase/(Decrease) in payables	1.4	2.7	9.2	(3.8)	0.8
Movement in working capital	3.0	(1.6)	(8.0)	0.8	(1.4)
Cash generated by operations	18.7	15.3	11.5	21.2	20.3
Tax (paid)/received	(1.7)	(3.0)	(3.1)	(3.3)	(3.6)
Net cash from operations	17.0	12.3	8.4	17.9	16.8
Investing activities	0.0	0.0	0.0	0.0	0.0
Interest received	0.0	0.0	0.0	0.0	0.0
Intangibles	(0.0)	(0.1)	(2.3)	0.0	0.0
PPE	(1.7)	(1.7)	(2.0)	(2.2)	(2.4)
Acquisition	(3.5)	(1.0)	(1.0)	0.0	0.0
Sale of PPE	0.0	0.9	0.4	0.0	0.0
Net cash used in investing	(5.2)	(1.9)	(5.0)	(2.2)	(2.4)
Net OpFCF	11.8	10.4	3.4	15.7	14.4
Borrowings	5.7	(13.0)	(3.9)	0.0	0.0
Share issue	0.0	7.5	0.0	0.0	0.0
Interest paid	(0.7)	(0.6)	(0.2)	0.0	0.0
Leases	(0.6)	(0.6)	(0.6)	0.0	0.0
Dividend	(11.0)	(3.0)	(2.5)	(8.5)	(9.3)
Net cash from financing	(6.6)	(9.6)	(7.2)	(8.5)	(9.3)
Net increase in cash / equivalents	5.2	0.8	(3.7)	7.2	5.1
Cash at beginning of year	1.5	6.7	7.5	3.8	11.0
Forex	(0.0)	0.0	0.0	0.0	0.0
Cash at year end	6.7	7.5	3.8	11.0	16.1
Net cash/(debt)	(21.3)	(7.6)	(7.5)	(0.2)	4.8

Source: Company data, Equity Development estimates

Summary balance sheet FY20 – FY24E

Yr to March 31 (£m)	FY20	FY21	FY22E	FY23E	FY24E
Intangible assets	1.8	2.6	4.7	4.5	4.3
PPE net	3.5	2.8	2.0	1.7	1.9
RoU	1.5	1.5	1.5	1.5	1.5
Investments	0.0	0.0	0.0	0.0	0.0
Sum Fixed Assets	6.7	6.9	8.2	7.7	7.7
Inventories	14.5	19.9	28.5	26.2	27.3
Trade receivables	16.7	16.1	21.4	22.4	23.4
Tax assets	0.0	0.0	0.0	0.0	0.0
Financial insts	0.2	0.0	0.3	0.3	0.3
Cash, Equivalents	6.7	7.5	3.8	11.0	16.1
Sum Current Assets	38.1	43.4	54.0	59.9	67.0
Total Assets	44.9	50.3	62.2	67.6	74.7
Trade payables	(10.3)	(13.3)	(22.5)	(18.7)	(19.5)
Borrowings	(10.6)	(10.5)	(6.6)	(6.6)	(6.6)
Tax, Other	(2.3)	(2.9)	(3.1)	(3.1)	(3.1)
Sum Current Liabilities	(23.2)	(26.7)	(32.2)	(28.4)	(29.2)
Total Assets less Current Liabilities	21.7	23.6	30.0	39.2	45.6
Borrowings	(17.4)	(4.7)	(4.7)	(4.7)	(4.7)
Tax	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Sum Long-term liabilities	(17.6)	(4.8)	(4.8)	(4.8)	(4.8)
Total liabilities	(40.8)	(31.5)	(37.0)	(33.2)	(34.0)
Net Assets	4.1	18.8	25.2	34.4	40.8
Share Capital	11.0	11.7	11.7	11.7	11.7
Share Premium	0.0	7.2	(0.9)	(7.3)	(18.4)
Capital Reserve	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)
Retained earnings	15.1	21.9	36.4	52.1	69.5
Equity	4.1	18.8	25.2	34.4	40.8
Net cash/(debt)	(21.3)	(7.6)	(7.5)	(0.2)	4.8

Source: Company data, Equity Development estimates



Contacts

Andy Edmond

Direct: 020 7065 2691

Tel: 020 7065 2690

andy@equitydevelopment.co.uk

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

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More information is available on our website www.equitydevelopment.co.uk

Equity Development, 2nd Floor, Park House, 16-18 Finsbury Circus, London, EC2M 7EB

Contact: info@equitydevelopment.co.uk | 020 7065 2690