

Trading update highlights scale of growth

24th April 2024

In a Trading Update for the twelve months to 31 March 2024, Supreme expects to report revenue of c.£225m, and (adj.) EBITDA of at least £38.0m, in line with market expectations¹, which had been revised upwards during the course of the year and represents almost double the FY23 level. The Group closed the year debt free.

The update highlights the **scale of Supreme's growth in recent years** with FY24 backed by organic revenue and profit growth across all divisions. Comparison of our FY25E outlook with a group of (18) companies representative of each of Supreme's core Business Categories highlights the Group's relative discount on a FY25E EV/(adj.) EBITDA 4.2x multiple compared to an overall average of 11.0x². **Our Fair Value remains 225p/share**, indicative of 7.5x FY25 EV/EBITDA.

Our FY25 outlook reiterated

We have adjusted our FY25 revenue outlook slightly, by -1%, to reflect the shift away from disposable vapes, but retain our (adj.) EBITDA estimate of £35.0m due the positive impact of more profitable rechargeable vaping products.

As noted at the January Trading Update ([Trading update: an excellent quarter](#)), we assume a 70% customer transfer rate to pod-type vapes, with the addition of the one-off impact of retail disposable vape restocking ahead the April 2025 ban on disposable vapes. Supreme notes that it remains well positioned to adapt to changes in the UK vaping market in part due to its investment in and progress in developing a diverse vaping product mix.

Revenue doubled in four years

Our outlook highlights the extent to which Supreme has expanded, through both acquisition and organic growth during the period. From 2020 to 2024E the Group will have **grown sales by 144%**; Vaping +3.9x and all other Business Categories outside Vaping (Batteries, Lighting, Sports Nutrition & Wellness and Branded Distribution) +31%. Notwithstanding the impressive growth track record to date, the Group remains committed to complementary acquisition opportunities.

On the same basis, FY20-FY24E revenue will have grown at a 25% CAGR (FY20-FY25E, 20% CAGR) and (adj.) EBITDA at a 24% CAGR (FY20-FY25E, 15.1% CAGR).

Financial outlook to 31 March 2025

Yr to March 31 (£m)	2021	2022	2023	2024E	2025E
Revenue	122.3	130.8	155.6	225.2	225.0
EBITDA (adj)	19.3	21.1	19.4	38.1	35.0
EPS (adj, p)	11.8	12.4	11.2	20.2	18.5
DPS (p)	2.7	2.2	4.6	5.2	4.6
Net debt / (cash)	5.4	1.8	(3.2)	(5.0)	(18.4)
EV/EBITDA	7.6x	7.0x	7.5x	3.8x	4.2x
P/E	10.3x	9.9x	10.9x	6.0x	6.6x
Div yield	2.2%	1.8%	3.8%	4.3%	3.8%

Source: Company data, Equity Development estimates. Net debt / (cash) is pre IFRS 16.

¹ The Group reports FY24 analyst consensus immediately prior to the Trading Update of revenue of £225m and (adj.) EBITDA of £38m

² Data from Koyfin, +1 year earnings.

Company Data

EPIC	SUP
Price (last close)	122p
52 week Hi/Lo	132/91p
Market cap	£143m
ED Fair Value / share	225p
Net debt / (cash)	£4.8m

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 Distribution.

The customer base includes leading brands such as, Amazon, Asda, B&M, Costcutter, Home Bargains, Halfords, Iceland, Londis, Morrisons, One Below, Poundland, The Range, Sainsbury's, SPAR, Tesco and, in addition, HM Prison & Probation Service. The Group has over 3,300 active business accounts with over 10,000 branded retail outlets.

Next event:

FY24 results, 2 July 2024.

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Outlook to FY25

Below summarises our outlook for FY24 and FY25.

- **For FY25** we assume that 70% of Group revenue from disposable vapes transitions to reusable pod systems and refillable 10ml devices. This results in a small increase in Vaping Business Category revenue of £1.2m, and a corresponding £3.9m reduction in Branded Distribution vape revenue as disposables are replaced by rechargeable vapes. Post-FY25 we expect that revenue in the Branded Distribution business category will not include any disposable vaping products and switch to rechargeable pod-type vapes.
- We estimate that revenue in the Vaping Business Category grows by 1.4%YoY to £84.2m, reflecting the switch to higher-value rechargeable (88vape pod) vapes, i.e. with no major impact on overall revenue. Revenue from vaping products within the Branded Distribution Business Category declines 6.6%, from £59.5m in FY24 to £55.6m in FY25, as disposable vapes are phased out and partially replaced by rechargeable (Elf pod) products.
- We estimate FY25 (adj.) EBITDA of £35.0m (unchanged, raised in January from £33.8m), a 15.5% margin, reflecting in part the shift towards higher-margin reusable vaping (pod) devices.

As illustrated, we continue to expect sound growth in all other Business Categories. We expect the dividend pay-out to be maintained at 25% of net profit.

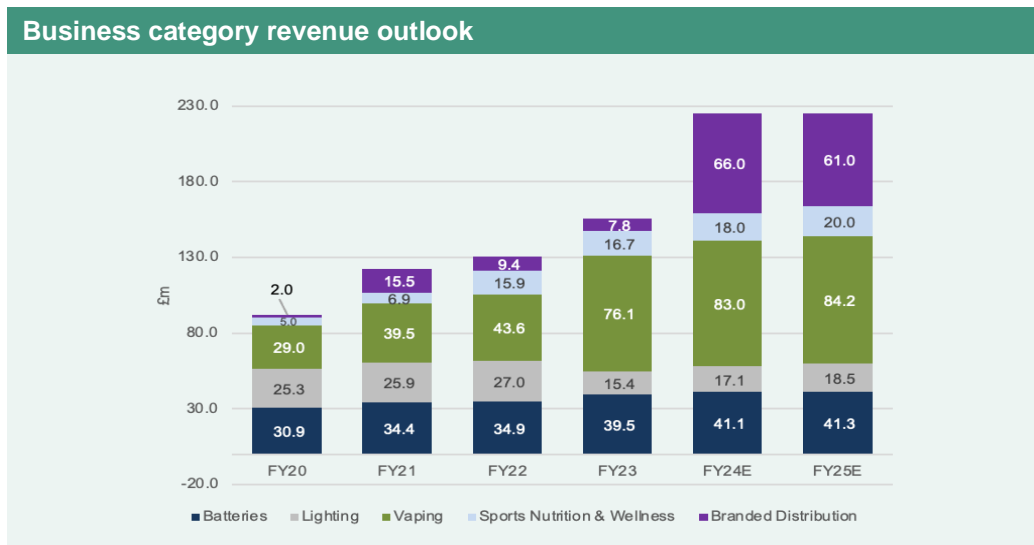
Outlook to FY25E					
Year to 31 March (£m)	FY23	FY24E	FY25E	FY24 YoY	FY25YoY
Batteries	39.5	41.1	41.3	4.0%	0.5%
Lighting	15.4	17.1	18.5	10.9%	8.2%
Vaping	76.1	83.0	84.2	9.1%	1.4%
Sports Nutrition & Wellness	16.7	18.0	20.0	7.5%	11.1%
Branded Distribution	7.8	66.0	61.0	7.5x	-7.6%
Revenue	155.6	225.2	225.0	44.7%	-0.1%
Sum Vaping	76.1	142.5	139.8	87.3%	-1.9%
YoY	19.0%	44.7%	-0.1%		
Gross	40.9	63.0	60.3	54.1%	-4.3%
Mrg.	26.3%	28.0%	26.8%		
EBITDA Adjusted	19.4	38.1	35.0	96.3%	-8.2%
Mrg	12.5%	16.9%	15.5%	35.6%	-8.1%
YoY	-7.9%	96.3%	-8.2%		
PBT Reported	14.4	30.0	27.5	108%	-8.4%
PBT Adjusted	15.3	30.8	28.5	102%	-7.5%
PAT Reported	12.1	22.5	20.6	86.2%	-8.4%
PAT Adjusted	12.9	23.3	21.6	80.4%	-7.2%
Amortisation & tax items	1.8	2.6	2.4		
PAT Adjusted	13.8	25.1	23.0	81.8%	-8.3%
EPS adj. basic (p)	11.8	21.4	19.6	80.9%	-8.3%
EPS adj. dil. (p)	11.2	20.2	18.5	80.9%	-8.3%
DPS (p)	2.4	5.2	4.6		

Source: Company data, Equity Development estimates.

Scale of growth highlighted

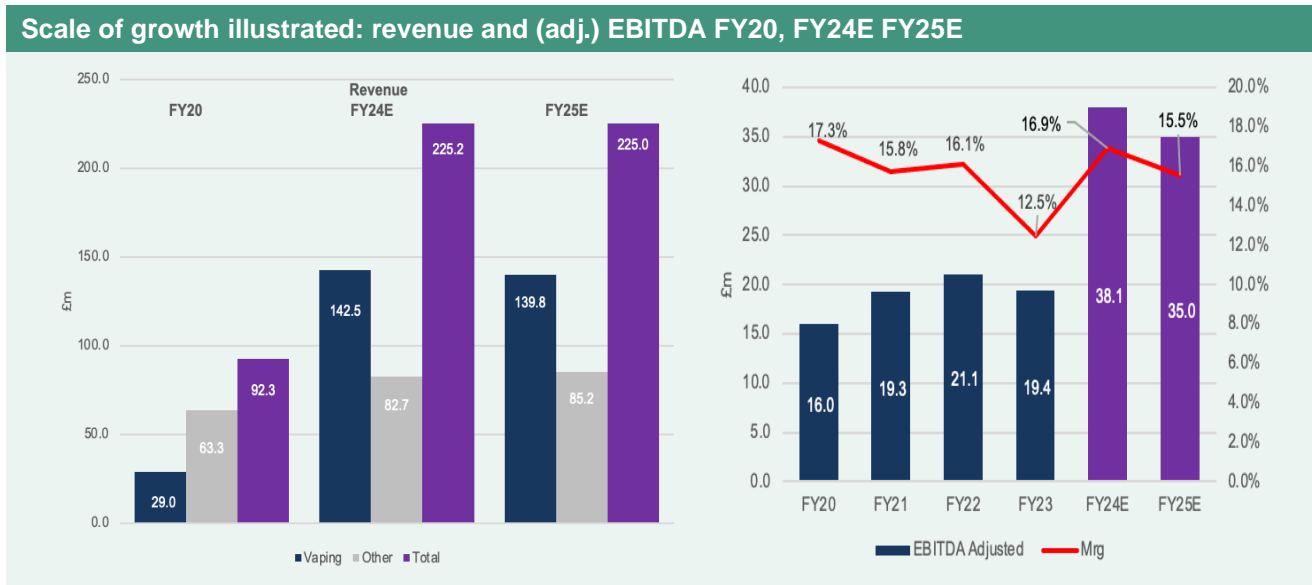
The charts below illustrate the scale of Supreme’s recent and projected performance, inclusive of the impact of changes imposed by the proposed ban on the sale of disposable vapes in the UK from April 2025. As shown, in our outlook from 2020 to 2025 Supreme will have expanded total sales by 1.4x, with Vaping +3.8x and growth in the Business Categories outside Vaping (Batteries, Lighting, Sports Nutrition & Wellness and Branded Distribution, excluding vaping sales) of 35%.

In the four years to 2024 the Group will have grown from sub-£100m in revenue to over £200m, remaining profitable and cash-generative throughout.



Source: Company data, Equity Development estimates. Note: Branded Distribution includes vaping products.

The charts below illustrate the step change in scale, and consequent growth, evident between FY20 and prospects for FY25E, with an increase in (adj.) EBITDA between FY20 and FY25E of 118%.



Source: Company data, Equity Development estimates.

Valuation - peer group analysis

Here we update on Supreme's comparative valuation. This is matched against four groups of (18) peers corresponding to Supreme's core Business Categories: **Distribution**, (DPLM, BNZL, FERG, TPK); **Consumer staples** (UL, PG, NSRGY, WMT, PEP, RKT); **Tobacco** (BATS, PM, MO, IMBBY); and **AIM peers** (ACRL, IGR, KITW, UPR), from which we derive market cap-weighted average valuations for each segment (source: Koyfin).

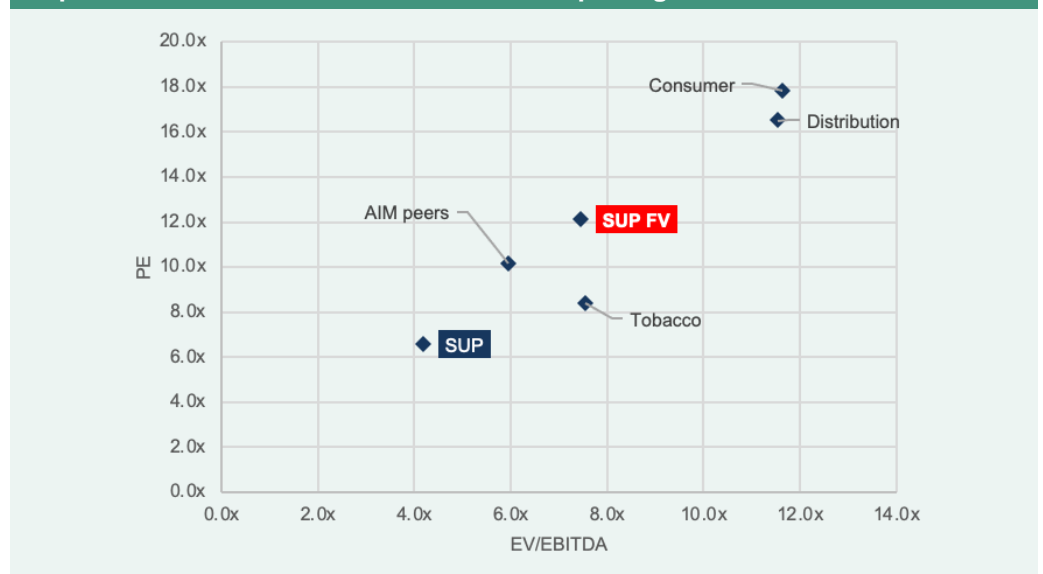
Sector-based peer group valuations (+1 year)

Ticker	Name	Mkt cap (£m)	Price (£/\$)	EV/Rev	EV/EBITDA	PE
DPLM	Diploma PLC	4,713	28.3	3.0x	13.3x	20.1x
BNZL	Bunzl plc	9,940	23.8	0.8x	8.2x	12.8x
FERG	Ferguson plc	34,987	137.7	1.3x	12.8x	17.8x
TPK	Travis Perkins plc	1,514	5.8	0.4x	5.6x	13.4x
UL	Unilever PLC	94,166	37.6	1.8x	9.1x	13.0x
PG	The Procter & Gamble Company	295,466	125.6	3.8x	13.8x	19.6x
NSRGY	Nestlé S.A.	214,997	82.1	2.5x	11.8x	14.8x
WMT	Walmart Inc.	389,783	48.4	0.6x	10.6x	20.5x
PEP	PepsiCo Inc.	185,629	135.1	2.2x	12.0x	16.5x
RKT	Reckitt Benckiser Group plc	29,189	33.2	2.0x	7.5x	10.3x
BATS	British American Tobacco p.l.c.	50,308	18.2	2.6x	5.3x	4.9x
PM	Philip Morris International Inc.	112,137	72.1	4.0x	9.7x	11.4x
MO	Altria Group Inc.	56,669	33.0	3.6x	6.0x	6.5x
IMBBY	Imperial Brands PLC	14,849	17.6	2.1x	4.7x	4.7x
ACRL	Accrol Group Holdings plc	125	0.32	0.7x	7.1x	10.8x
IGR	IG Design Group plc	114	1.0	0.2x	3.3x	11.6x
KITW	Kitwave Group plc	251	2.9	0.4x	5.5x	9.8x
UPR	Uniphar plc	596	1.8	0.3x	6.4x	9.9x

Source: Company data, Equity Development estimates, Koyfin. Updated 23.04.2024.

Below illustrates Supreme PLC's EV/EBITDA and PE relative valuation (FY25 E) compared to the +1 year outlook for the four selected sectors (SUP), and relative position based on ED Fair Value of 225p/share (SUP FV).

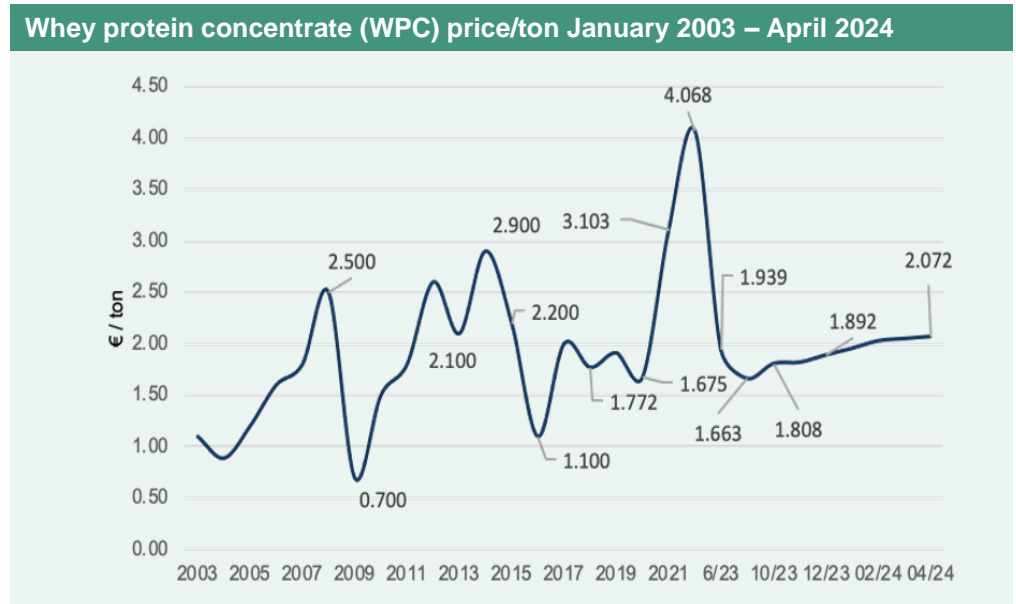
Supreme relative to sector-based mkt cap. weighted valuations



Source: Company data, Equity Development estimates, Koyfin.

Appendix I: Whey price update

We continue to monitor the price of Whey Protein Concentrate (WPC) via the US (€/ton) monthly index as an indicator for the key raw materials inputs in the Sports Nutrition & Wellness business category. As illustrated, prices have firmed since December 2023, +9.5% in April, but nevertheless remain 49% below the 2022 peak, and 15% above the 2003 – 2021 median of €1.800/ton.



Source: USDA AMS Dairy Market News, https://www.clal.it/en/?section=whey_usa.

Appendix II: Tobacco & Vapes Bill 2023-24

As highlighted in recent reports in the press, the Government's proposed *Tobacco & Vapes Bill 2023-24* will make it illegal to sell cigarettes to anyone born after 1st January 2009, i.e. aged 15 or under. On 16th April MPs in the House of Commons voted 383 to 67 in favour of a second reading.

The Association of Directors of Public Health (ADPH) calls the Bill "the single most important piece of health legislation in a generation", and at the same time has highlighted the role of vaping as "an effective tool for people trying to quit so it is critical that vapes remain available."³ As has been widely-discussed, vaping is a key part of the strategy to wean smokers off cigarettes but has introduced the risk that some children (estimated at 7.6% of 11- to 17-year olds⁴) are at risk of acquiring a vaping habit.

We note that Supreme addressed the issue of underage vaping in October 2023, outlined in the Government policy paper *Stopping the start: our new plan to create a smokefree generation*⁵, with a comprehensive series of actions in areas such as branding and packaging, the location of vaping products in retail outlets and age verification measures amongst retail partners.

Following the second reading, the Government has initiated a Call for Evidence⁶, to conclude by 23rd May, inviting written submissions from any interested or qualified party, which is preceded by scrutiny of the Bill by the Public Bill Committee on 30th April.

³ Alice Wiseman, ADPH Vice President, <https://www.adph.org.uk/2024/04>.

⁴ BBC 17.04.2024, <https://www.bbc.co.uk/news/health-68825322>, and ASH Smokefree GB Youth Surveys 2013-2023

⁵ <https://www.gov.uk/government/publications/stopping-the-start-our-new-plan-to-create-a-smokefree-generation/stopping-the-start-our-new-plan-to-create-a-smokefree-generation#supporting-people-to-quit-smoking>

⁶ <https://www.parliament.uk/business/news/2024/april/tobacco-and-vapes-bill-call-for-evidence/>

P&L outlook to FY25E

£m	FY20	FY21	FY22	FY23	FY24E	FY25E
Batteries	30.9	34.4	34.9	39.5	41.1	41.3
Lighting	25.3	25.9	27.0	15.4	17.1	18.5
Vaping	29.0	39.5	43.6	76.1	83.0	84.2
Sports Nutrition & Wellness	5.0	6.9	15.9	16.7	18.0	20.0
Branded Distribution	2.0	15.5	9.4	7.8	66.0	61.0
Revenue	92.3	122.3	130.8	155.6	225.2	225.0
Gross Sum	25.9	31.9	36.9	39.6	62.0	60.6
<i>Mrg</i>	28.0%	26.1%	28.2%	25.4%	27.5%	26.9%
COGS	(66.5)	(90.3)	(93.9)	(116.0)	(163.2)	(164.4)
Forex	0.7	1.1	1.6	1.3	1.0	(0.3)
Gross inc forex	26.6	33.0	38.5	40.9	63.0	60.3
<i>Mrg</i>	28.8%	27.0%	29.4%	26.3%	28.0%	26.8%
Sum Op-ex	(12.6)	(19.4)	(21.5)	(28.2)	(31.1)	(31.7)
One-off costs	(0.4)	(3.4)	(1.1)	(0.8)	(0.8)	(1.0)
One off gain			0.0	2.8	0.0	0.0
EBIT Reported	14.0	13.6	17.0	15.4	31.9	28.6
EBIT Adjusted	14.4	17.0	18.1	16.3	32.7	29.6
<i>Mrg</i>	15.6%	13.9%	13.8%	10.5%	14.5%	13.1%
Depreciation	(1.5)	(2.0)	(2.6)	(2.2)	(3.7)	(3.7)
Amortisation	(0.0)	(0.2)	(0.4)	(0.9)	(1.7)	(1.7)
EBITDA Reported	15.6	15.8	20.0	18.6	37.3	34.0
EBITDA Adjusted	16.0	19.3	21.1	19.4	38.1	35.0
<i>Mrg</i>	17%	16%	16.1%	12.5%	16.9%	15.5%
Financial income	0.0	0.0	0.00	0.03	0.00	0.00
Financial expense	(0.8)	(0.7)	(0.7)	(1.0)	(1.9)	(1.1)
PBT Reported	13.2	13.0	16.3	14.4	30.0	27.5
PBT Adjusted	13.6	16.4	17.4	15.3	30.8	28.5
Tax	(2.3)	(3.1)	(2.6)	(2.5)	(7.5)	(6.9)
Reported tax rate	17.5%	24.1%	15.8%	20.0%	25.0%	25.0%
<i>Tax rate adjusted</i>	17.0%	19.0%	14.8%	16.2%	24.3%	24.1%
PAT Reported	10.9	9.8	13.7	12.1	22.5	20.6
PAT Adjusted	11.3	13.3	14.8	12.9	23.3	21.6
Amortisation & tax items	(0.1)	0.1	1.3	1.8	2.6	2.4
PAT Adjusted	10.8	13.4	15.0	13.8	25.1	23.0
Basic wtd. av. shares (m)	110.0	111.1	116.6	116.7	117.3	117.3
Diluted wtd. av. shares (m)	111.3	113.2	121.1	123.5	124.0	124.0
EPS rptd. basic (p)	9.9	8.9	11.8	10.3	19.2	17.6
EPS rptd. dil. (p)	9.8	8.7	11.3	9.8	18.1	16.6
EPS adj. basic (p)	9.8	12.0	12.8	11.8	21.4	19.6
EPS adj. dil. (p)	9.7	11.8	12.4	11.2	20.2	18.5

Source: Company data, Equity Development estimates.

Cashflow, outlook to FY25E

Yr to March 31 (£m)	FY20	FY21	FY22	FY23	FY24E	FY25E
PAT Reported	10.9	9.8	13.7	12.0	22.5	20.6
One-off items	0.4	3.4	1.1	0.8	0.8	1.0
Depreciation	1.5	2.0	2.6	2.2	3.7	3.7
Amortisation	0.0	0.2	0.4	0.9	1.7	1.7
Tax	2.3	3.1	2.6	2.5	7.5	6.9
Finance/other	0.6	(1.7)	0.2	(0.0)	1.9	1.1
Operating Cash Flow	15.8	16.9	20.6	18.4	38.1	35.0
(Increase)/Decrease inventories	2.5	(5.3)	(4.9)	2.9	(12.6)	4.3
(Increase)/Decrease in receivables	(0.9)	1.0	(2.2)	(0.7)	(11.5)	(1.5)
Increase/(Decrease) in payables	1.4	2.7	2.5	(0.0)	10.9	(9.3)
Movement in working capital	3.0	(1.6)	(4.7)	2.2	(13.2)	(6.4)
Cash generated by operations	18.7	15.3	15.9	20.6	24.8	28.5
Tax (paid)/received	(1.7)	(3.0)	(4.2)	(1.3)	(7.5)	(6.9)
Net cash from operations	17.0	12.3	11.8	19.3	17.3	21.7
Interest received	0.0	0.0	0.0	0.0	0.0	0.0
Intangibles	(0.0)	(0.1)	(1.5)	0.0	0.0	0.0
PPE	(1.7)	(1.7)	(1.3)	(1.3)	(3.0)	(2.0)
Acquisition	(3.5)	(1.0)	(1.0)	(10.1)	(4.0)	0.0
Sale of PPE	0.0	0.9	0.4	4.0	0.0	1.3
Net cash used in investing	(5.2)	(1.9)	(3.4)	(7.6)	(7.0)	(0.7)
Net OpFCF	11.8	10.4	8.4	11.7	10.3	21.0
Borrowings (net)	5.7	(13.0)	(8.1)	(1.3)	0.0	0.0
Share issue	0.0	7.5	0.0	0.3	0.0	0.0
Interest paid	(0.7)	(0.6)	(0.3)	(0.8)	0.0	0.0
Leases	(0.6)	(0.6)	(1.0)	(1.0)	(1.2)	(1.2)
Dividend	(11.0)	(3.0)	(2.6)	(5.4)	(6.1)	(5.4)
Net cash from financing	(6.6)	(9.6)	(11.9)	(8.2)	(7.3)	(6.6)
Net increase in cash / equivalents	5.2	0.8	(3.5)	3.5	3.0	14.4
Cash start	1.5	6.7	7.5	3.9	7.5	10.4
Forex	(0.0)	0.0	(0.0)	0.1	(0.2)	0.0
Cash end	6.7	7.5	3.9	7.5	10.4	24.7

Source: Company data, Equity Development estimates.

Balance sheet, outlook to FY25E

Yr to March 31 (£m)	FY20	FY21	FY22	FY23	FY24E	FY25E
Intangible assets	1.8	2.6	3.7	15.3	13.6	11.9
PPE net	3.5	2.8	2.6	5.2	4.5	2.8
RoU	1.5	1.5	2.1	15.6	15.6	15.6
Investments	0.0	0.0	1.3	0.0	0.0	0.0
Sum Fixed Assets	6.7	6.9	9.7	36.1	33.7	30.3
Inventories	14.5	19.9	25.9	25.6	38.3	33.9
Trade receivables	16.7	16.1	19.0	20.9	32.4	33.9
Tax assets	0.0	0.0	0.0	0.0	0.0	0.0
Financial insts	0.2	0.0	0.5	0.0	0.0	0.0
Cash, Equivalents	6.7	7.5	3.9	7.5	10.4	24.7
Sum Current Assets	38.1	43.4	49.3	54.0	81.0	92.5
Total Assets	44.9	50.3	59.0	90.1	114.7	122.8
Trade payables	(10.3)	(13.3)	(17.3)	(26.1)	(37.0)	(27.7)
Borrowings	(10.6)	(10.5)	(6.7)	(5.0)	(5.0)	(5.0)
Tax, Other	(2.3)	(2.9)	(1.3)	(3.2)	(3.2)	(3.2)
Sum Current Liabilities	(23.2)	(26.7)	(25.3)	(34.3)	(45.2)	(36.0)
Total Assets less Current Liabilities	21.7	23.6	33.8	55.8	69.5	86.9
Borrowings	(17.4)	(4.7)	(1.3)	(14.3)	(14.3)	(14.3)
Tax/Provisions	(0.2)	(0.1)	(0.2)	(1.6)	(1.6)	(1.6)
Sum Long-term liabilities	(17.6)	(4.8)	(1.5)	(15.9)	(15.9)	(15.9)
Total liabilities	(40.8)	(31.5)	(26.7)	(50.2)	(61.1)	(51.8)
Net Assets	4.1	18.8	32.3	40.0	53.6	71.0
Share Capital	11.0	11.7	11.7	11.7	11.7	11.7
Share Premium	0.0	7.2	7.2	7.4	(0.9)	(6.5)
Capital Reserve	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)
Retained earnings	15.1	21.9	33.1	39.8	64.8	87.8
Equity	4.1	18.8	32.3	40.0	53.6	71.0
Net debt / (cash)	21.3	7.6	4.0	11.8	9.0	(5.4)
Net debt / (cash) pre-IFRS 16			1.8	(3.2)	(5.0)	(18.4)

Source: Company data, Equity Development estimates.



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