

Acquisition of Clearly Drinks

24 June 2024

Supreme has announced the acquisition of Clearly Drinks Ltd., for a total net cash (debt free) consideration of £15m, funded from cash. Clearly Drinks is a manufacturer of specialised canned and bottled-at-source spring water and soft drinks with FY23 annual turnover of £22m and EBITDA of £3.0m¹. This is a significant diversification, which increases the FY25E contribution from non-vaping revenue streams from £85m (38% of total) to £100m (42%).

Clearly Drinks

Clearly Drinks is a long-established (1885), soft drinks and bottled-at-source spring water brand owner and private label manufacturer across the full product range (cans, glass and PET bottles), with c.70 customers nationwide including Waitrose, Aldi, Tesco, Sainsbury's, and Farm Foods. Clearly is also a contract manufacturer for a number of major overseas soft drinks companies. Its owned brands include Perfectly Clear, Northumbria Spring and Revolution Waves, with products ranging from spring water (pure and flavoured) and energy drinks to isotonic vitamin drinks, mixers, tonics and coffee-based beverages. Employing c.100, Clearly's 150,000 sq. ft. freehold facility includes three onsite natural spring water boreholes licensed to draw up to 300m litres/year of fresh spring water and a 350m units per year fully-automated canned drinks line.

Acquisition rationale

The acquisition introduces Supreme's vertically integrated distribution platform to Clearly's strong market presence, with the opportunity for added sales, marketing and of branded drinks products across Supreme's client base of supermarkets, discounters and online retailers, plus own-label products or licences under recognised brands, i.e. replicating Supreme's success in its Batteries and Lighting Business Categories. There is also the opportunity to add wellness and energy drinks products to the Sports Nutrition & Wellness Business Category. The acquisition introduces increased balance in Supreme's vaping/non-vaping earnings profile, following, for example, the acquisition of the assets of FoodIQ in January to augment Sports Nutrition business category operations. It also serves as a reminder of the Group's successful underlying business strategy of increasing market and brand reach across a range of popular consumer and household products.

Impact on estimates

The acquisition of Clearly creates a new Supreme Business Category. We estimate that the immediately earnings enhancing acquisition should add £14.7m to our FY25 revenue outlook based on estimated 5%YoY Clearly Drinks growth (pro rata), and (adj.) EBITDA by £2.0m (13.6% margin). FY25E (adj. dil.) EPS increases from 18.5p to 19.8p (+6.7%). Supreme reports full year FY24 results on 2 July, offering the opportunity to review estimates and add the medium-term impact on earnings.

Financial outlook

Yr to March 31 (£m)	2021	2022	2023	2024E	2025E
Revenue	122.3	130.8	155.6	225.2	239.7
EBITDA (adj)	19.3	21.1	19.4	38.1	37.0
EPS (adj, p)	11.8	12.4	11.2	20.2	19.8
DPS (p)	2.7	2.2	4.6	5.2	4.9
Net debt / (cash)	5.4	1.8	(3.2)	(5.0)	(1.9)
EV/EBITDA	8.7x	8.0x	8.6x	4.4x	4.5x
P/E	11.9x	11.3x	12.5x	6.9x	7.1x
Div yield	1.9%	1.6%	3.3%	3.7%	3.5%

Source: Company data, Equity Development estimates. ¹ Unaudited. ² Pre IFRS 16, H1 24.

Company Data

EPIC	SUP
Price (last close)	140p
52 week Hi/Lo	145/90p
Market cap	£164m
ED Fair Value / share	225p
Net debt / (cash) ²	£(5.0)m

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 Household Consumer Goods. The customer base includes leading brands such as, amazon, ASDA, b&m, BOOKER, home bargains, 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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Clearly is proud of its c.140 year old history and expansion nationwide from its base in the North East.



Clearly Drinks

An established market presence

Supreme will acquire Sunderland-based Clearly Drinks (<https://www.clearlydrinks.co.uk/>) via the acquisition of Acorn Topco, the 100% parent company owner, from North Edge Capital Ltd (<https://northedge.com>). The company is based at Southwick adjacent to the River Wear in Sunderland. Post-acquisition Clearly will initially continue to run its operations independently.

The Clearly acquisition brings:

- A state of the art canning line introduced in 2021, which enables an expanded product portfolio, capable of producing 30,000 cans/hour, 160m cans/year.
- A full range of formats (from 270ml – 1.5L PET (polyethylene terephthalate) bottles, 150ml – 330ml cans and 200ml – 750ml glass bottles) in addition to provision for secondary packaging, e.g. shrink-wrapped, in trays or cartons.
- Accreditations BRC AA+ (British Reputation through Compliance, previously British Retail Consortium Global Standards, BRCGS), food safety, top grade, ISO14001 (environmental management), ROSPA (workplace safety), organic certified and IIP (Investors in People) silver. The company has a net zero 2035 target strategy with a published ESG roadmap.

Below summarises our estimate of the impact of the acquisition on Supreme's FY25 earnings. We assume:

- Based on Clearly FY23 reported revenue of £22.0m and EBITDA of £3.0m (13.6% margin), a nine-month addition to Supreme revenues, also inclusive of seasonality in Clearly's earnings pattern, resulting in additional revenue of £14.7m (+6.5%) and additional (adj.) EBITDA of £2.0m (+5.7%). Non-vaping product revenue increases by 17.3%. We assume 5%YoY growth in Clearly FY24 revenues as the baseline for calculation.
- Our estimates are based on an assumed 30% gross margin on Clearly revenues and, on an annualised basis, an initial £3.0m of overheads (FY25E, pro rata £2.4m).
- As stated, the £15.0m acquisition is funded entirely by Supreme from cash, with no subsequent earnouts, and results in an estimated FY25 year-end cash position of £8.2m.

Clearly Drinks acquisition initial impact on FY25 earnings

£m	FY25E	FY25E
	Prior	Post
Total revenue	225.0	239.7
Vaping products	139.8	139.8
Non-vaping	85.2	99.9
Vaping products proportion	62%	58%
Non-vaping products proportion	38%	42%
(adj.) EBITDA	35.0	37.0
Margin	15.6%	15.4%

Source: Company data, Equity Development estimates. Note, Clearly contribution is pro rata for 9 months.

Supreme has indicated that, although Clearly will retain its current operating base (not least because of the location of boreholes for its drinks range), there will be the opportunity to introduce elements of the manufacturing systems Supreme has developed at scale and consequent **positive potential** for profitability.

Financial data

Summary Income Statement					
Yr to March 31 (£m)	FY21	FY22	FY23	FY24E	FY25E
Batteries	34.4	34.9	39.5	41.1	41.3
Lighting	25.9	27.0	15.4	17.1	18.5
Vaping	39.5	43.6	76.1	83.0	84.2
Sports Nutrition & Wellness	6.9	15.9	16.7	18.0	20.0
Branded Distribution	15.5	9.4	7.8	66.0	61.0
Clearly	0.0	0.0	0.0	0.0	14.7
Revenue	122.3	130.8	155.6	225.2	239.7
Gross Sum	31.9	36.9	39.6	62.0	65.0
<i>Mrg</i>	26.1%	28.2%	25.4%	27.5%	27.1%
COGS	(90.3)	(93.9)	(116.0)	(163.2)	(174.7)
Forex	1.1	1.6	1.3	1.0	(0.3)
Gross inc forex	33.0	38.5	40.9	63.0	64.7
<i>Mrg</i>	27.0%	29.4%	26.3%	28.0%	27.0%
Sum Op-ex	(19.4)	(21.5)	(28.2)	(31.1)	(34.1)
One-off costs	(3.4)	(1.1)	(0.8)	(0.8)	(1.0)
One off gain		0.0	2.8	0.0	0.0
EBIT Reported	13.6	17.0	15.4	31.9	30.6
EBIT Adjusted	17.0	18.1	16.3	32.7	31.6
<i>Mrg</i>	13.9%	13.8%	10.5%	14.5%	13.2%
Depreciation	(2.0)	(2.6)	(2.2)	(3.7)	(3.7)
Amortisation	(0.2)	(0.4)	(0.9)	(1.7)	(1.7)
EBITDA Reported	15.8	20.0	18.6	37.3	36.0
EBITDA Adjusted	19.3	21.1	19.4	38.1	37.0
<i>Mrg</i>	16%	16.1%	12.5%	16.9%	15.4%
Financial income	0.0	0.00	0.03	0.00	0.00
Financial expense	(0.7)	(0.7)	(1.0)	(1.9)	(1.1)
PBT Reported	13.0	16.3	14.4	30.0	29.5
PBT Adjusted	16.4	17.4	15.3	30.8	30.5
Tax	(3.1)	(2.6)	(2.5)	(7.5)	(7.4)
Reported tax rate	24.1%	15.8%	20.0%	25.0%	25.0%
<i>Tax rate adjusted</i>	19.0%	14.8%	16.2%	24.3%	24.2%
PAT Reported	9.8	13.7	12.1	22.5	22.1
PAT Adjusted	13.3	14.8	12.9	23.3	23.1
Amortisation & tax items	0.1	1.3	1.8	2.6	2.4
PAT Adjusted	13.4	15.0	13.8	25.1	24.5
Basic wtd. av. shares (m)	111.1	116.6	116.7	117.3	117.3
Diluted wtd. av. shares (m)	113.2	121.1	123.5	124.0	124.0
EPS rptd. basic (p)	8.9	11.8	10.3	19.2	18.8
EPS rptd. dil. (p)	8.7	11.3	9.8	18.1	17.8
EPS adj. basic (p)	12.0	12.8	11.8	21.4	20.9
EPS adj. dil. (p)	11.8	12.4	11.2	20.2	19.8

Source: Company data, Equity Development estimates.

Summary cashflow

Yr to March 31 (£m)	FY21	FY22	FY23	FY24E	FY25E
PAT Reported	9.8	13.7	12.0	22.5	22.1
One-off items	3.4	1.1	0.8	0.8	1.0
Depreciation	2.0	2.6	2.2	3.7	3.7
Amortisation	0.2	0.4	0.9	1.7	1.7
Tax	3.1	2.6	2.5	7.5	7.4
Finance/other	(1.7)	0.2	(0.0)	1.9	1.1
Operating Cash Flow	16.9	20.6	18.4	38.1	37.0
(Increase)/Decrease inventories	(5.3)	(4.9)	2.9	(12.6)	2.1
(Increase)/Decrease in receivables	1.0	(2.2)	(0.7)	(11.5)	(3.7)
Increase/(Decrease) in payables	2.7	2.5	(0.0)	10.9	(7.5)
Movement in working capital	(1.6)	(4.7)	2.2	(13.2)	(9.1)
Cash generated by operations	15.3	15.9	20.6	24.8	27.9
Tax (paid)/received	(3.0)	(4.2)	(1.3)	(7.5)	(7.4)
Net cash from operations	12.3	11.8	19.3	17.3	20.5
Interest received	0.0	0.0	0.0	0.0	0.0
Intangibles	(0.1)	(1.5)	0.0	0.0	0.0
PPE	(1.7)	(1.3)	(1.3)	(3.0)	(2.0)
Acquisition	(1.0)	(1.0)	(10.1)	(4.0)	(15.0)
Sale of PPE	0.9	0.4	4.0	0.0	1.3
Net cash used in investing	(1.9)	(3.4)	(7.6)	(7.0)	(15.7)
Net OpFCF	10.4	8.4	11.7	10.3	4.8
Borrowings (net)	(13.0)	(8.1)	(1.3)	0.0	0.0
Share issue	7.5	0.0	0.3	0.0	0.0
Interest paid	(0.6)	(0.3)	(0.8)	0.0	0.0
Leases	(0.6)	(1.0)	(1.0)	(1.2)	(1.2)
Dividend	(3.0)	(2.6)	(5.4)	(6.1)	(5.8)
Net cash from financing	(9.6)	(11.9)	(8.2)	(7.3)	(7.0)
Net increase in cash / equivalents	0.8	(3.5)	3.5	3.0	(2.1)
Cash start	6.7	7.5	3.9	7.5	10.4
Forex	0.0	(0.0)	0.1	(0.2)	0.0
Cash end	7.5	3.9	7.5	10.4	8.2

Source: Company data, Equity Development estimates.

Summary balance sheet

Yr to March 31 (£m)	FY21	FY22	FY23	FY24E	FY25E
Intangible assets	2.6	3.7	15.3	13.6	11.9
PPE net	2.8	2.6	5.2	4.5	2.8
RoU	1.5	2.1	15.6	15.6	15.6
Investments	0.0	1.3	0.0	0.0	0.0
Sum Fixed Assets	6.9	9.7	36.1	33.7	30.3
Inventories	19.9	25.9	25.6	38.3	36.1
Trade receivables	16.1	19.0	20.9	32.4	36.1
Tax assets	0.0	0.0	0.0	0.0	0.0
Financial investments	0.0	0.5	0.0	0.0	0.0
Cash, Equivalents	7.5	3.9	7.5	10.4	8.2
Sum Current Assets	43.4	49.3	54.0	81.0	80.5
Total Assets	50.3	59.0	90.1	114.7	110.8
Trade payables	(13.3)	(17.3)	(26.1)	(37.0)	(29.6)
Borrowings	(10.5)	(6.7)	(5.0)	(5.0)	(5.0)
Tax, Other	(2.9)	(1.3)	(3.2)	(3.2)	(3.2)
Sum Current Liabilities	(26.7)	(25.3)	(34.3)	(45.2)	(37.8)
Total Assets less Current Liabilities	23.6	33.8	55.8	69.5	73.0
Borrowings	(4.7)	(1.3)	(14.3)	(14.3)	(14.3)
Tax/Provisions	(0.1)	(0.2)	(1.6)	(1.6)	(1.6)
Sum Long-term liabilities	(4.8)	(1.5)	(15.9)	(15.9)	(15.9)
Total liabilities	(31.5)	(26.7)	(50.2)	(61.1)	(53.6)
Net Assets	18.8	32.3	40.0	53.6	57.1
Share Capital	11.7	11.7	11.7	11.7	11.7
Share Premium	7.2	7.2	7.4	(0.9)	(21.9)
Capital Reserve	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)
Retained earnings	21.9	33.1	39.8	64.8	89.3
Equity	18.8	32.3	40.0	53.6	57.1
Net debt / (cash)	7.6	4.0	11.8	9.0	11.1
Net debt / (cash) pre-IFRS 16		1.8	(3.2)	(5.0)	(1.9)

Source: Company data, Equity Development estimates.



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