

Trading update: an excellent quarter

30th January 2024

In a Trading Update for the 3 months to 31 December 2023, Supreme reports “excellent trading performance” during its traditionally busiest quarter, leading to the expectation that FY24 revenue should be at least £225m with (adj.) EBITDA of at least £38m (ED estimates were £221.2m and £33.5m). The Group also notes the UK Government decision to ban disposable vaping devices and will work to manage a seamless transition to alternative ‘pod’ devices which retain a major role in reducing tobacco smoking. Our Fair Value remains 225p/share.

Raised FY 24 outlook

Group FY24 revenue guidance is 1.7% above our prior revenue estimate and 13.4% above our (adj.) EBITDA outlook, indicative of a 16.9% (adj.) EBITDA margin compared to our previous 15.1% estimate. We have adjusted our outlook accordingly. Supreme highlights in particular the success of ElfBar distribution revenue and the Vaping division as a whole, plus growth in Sports Nutrition & Wellness, where we highlighted signs of easing raw materials pricing at the September 2023 Interim and reported the recent acquisition of the trade and assets of protein manufacturer FoodIQ UK Holdings Limited (ED report 04.01.2024 [Acquisition of protein manufacturing assets](#)).

Impact on disposable vapes and FY25: transition to reusable devices

Overall, Supreme estimates that disposable vapes should contribute £75m of FY24 revenue (33% of new guidance) and £9.0m in (adj.) EBITDA (24% of today’s guidance). The Group foresees the impact of the proposed Government ban on disposable vapes as an initial, temporary, increase in revenue as retailers stock reusable products, after which it expects that most of disposable demand will transfer to pod-type vaping devices. The Group had already instituted a number of measures to restrict underage vaping (ED report 18.10.2023 [Positive trading update and vaping safety measures](#)). Focus will shift towards management of this transition towards reusable (pod system and 10ml refillable) vaping devices which carry a higher margin and also remain central to the efforts of Government and health bodies to wean smokers off tobacco, the ‘Swap to Stop’ scheme.

For FY25 we assume that a c.£27.0m reduction in disposable vaping revenue (£18.0m of which is concentrated in the Branded Distribution segment) will be matched by the addition of revenue from reusable vaping products; our estimates assume a 70% transfer rate plus the one-off impact of retail restocking. Our resulting FY25 outlook for revenue is £227.4m and (adj.) EBITDA, £35.0m.

£1.0m share buyback programme announced

To accompany the trading update, Supreme also announces a £1.0m share buyback programme to be conducted over the coming three months.

Financial outlook to 31 March 2025

Year to 31 March (£m)	2021	2022	2023	2024E	2025E
Revenue	122.3	130.8	155.6	225.2	227.4
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	4.8
Net debt / (cash)	5.4	1.8	(3.2)	(5.0)	(21.0)
EV/EBITDA	7.2x	6.6x	7.1x	3.6x	4.0x
P/E	9.8x	9.4x	10.4x	5.7x	6.3x
Div yield	2.3%	1.9%	4.0%	4.5%	4.1%

Source: Company data, Equity Development estimates.

Company Data

EPIC	SUP
Price (last close)	116p
52 week Hi/Lo	135/87p
Market cap	£135m
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 (formerly Branded Household Consumer Goods).

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.

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Revised estimates

Below summarises our revised FY24 and FY25 estimates, based on the assumption that disposable vaping transitions to reusable devices during FY25.

For FY25 we assume that 70% of Supreme's revenue from disposable vapes will transition to reusable pod system and refillable 10ml devices, with a net increase in Vaping segment revenue of £19.0m and an £18.0m reduction in Branded Distribution revenue related to ElfBar disposable vape sales; thereafter (FY26 onwards) we expect revenue in this division to exclude vaping products.

The net impact we expect at (adj.) EBITDA level for FY25 is an increase from a prior estimate of £33.8m to £35.0m reflecting the concentration of vaping product revenue in higher-margin reusable devices for which Supreme has both the production capacity and an established network of responsible retailers.

Revised estimates					
FY24 E (£m)	New	Old	beta	£m	New YoY
Batteries	39.9	39.9	0.0%	0.0	0.9%
Lighting	17.5	17.5	0.0%	0.0	13.4%
Vaping	83.0	83.0	0.0%	0.0	9.1%
Sports Nutrition & Wellness	18.8	18.8	0.0%	0.0	12.3%
Branded Distribution	66.0	62.0	6.5%	4.0	7.5x
Revenue	225.2	221.2	1.8%	4.0	44.7%
Gross	63.1	58.1	8.7%	5.0	54.6%
Mrg.	28.0%	26.3%			
EBITDA (adj.)	38.1	33.5	13.9%	4.6	96.7%
Mrg.	16.9%	15.1%			
FY25 E (£m)	New	Old	beta	£m	New YoY
Batteries	39.9	39.9	0.0%	0.0	0.0%
Lighting	18.5	19.5	-5.1%	(1.0)	5.7%
Vaping	105.0	86.0	22.1%	19.0	26.5%
Sports Nutrition & Wellness	20.0	20.0	0.0%	0.0	6.4%
Branded Distribution	44.0	62.0	-29.0%	(18.0)	-33.3%
Revenue	227.4	227.4			1.0%
Gross	62.7	60.4	3.8%	2.3	-0.7%
Mrg.	27.6%	26.6%			
EBITDA (adj.)	35.0	33.8	3.5%	1.2	-8.3%
Mrg.	15.4%	14.9%			

Source: Company data, Equity Development estimates.

P&L outlook to FY25 E

Year to 31 March (£m)	FY22	FY23	FY24E	FY25E
Batteries	34.9	39.5	39.9	39.9
Lighting	27.0	15.4	17.5	18.5
Vaping	43.6	76.1	83.0	105.0
Sports Nutrition & Wellness	15.9	16.7	18.8	20.0
Other Consumer Goods	9.4	7.8	66.0	44.0
Revenue	130.8	155.6	225.2	227.4
Gross Sum	36.9	39.6	62.1	61.7
<i>Mrg</i>	28.2%	25.4%	27.6%	27.1%
COGS	(93.9)	(116.0)	(163.1)	(165.7)
Forex	1.6	1.3	1.0	1.0
Gross inc forex	38.5	40.9	63.1	62.7
<i>Mrg</i>	29.4%	26.3%	28.0%	27.6%
Sum Op-ex	(21.5)	(28.2)	(31.6)	(34.3)
One-off costs	(1.1)	(0.8)	(1.8)	(1.8)
One off gain	0.0	2.8	0.0	0.0
EBIT Reported	17.0	15.4	31.5	28.4
EBIT Adjusted	18.1	16.3	33.3	30.2
<i>Mrg</i>	13.8%	10.5%	14.8%	13.3%
Depreciation	(2.6)	(2.2)	(3.1)	(3.1)
Amortisation	(0.4)	(0.9)	(1.7)	(1.7)
EBITDA Reported	20.0	18.6	36.3	33.2
EBITDA Adjusted	21.1	19.4	38.1	35.0
<i>Mrg</i>	16.1%	12.5%	16.9%	15.4%
Financial income	0.00	0.03	0.00	0.00
Financial expense	(0.7)	(1.0)	(1.5)	(1.1)
PBT Reported	16.3	14.4	30.0	27.3
PBT Adjusted	17.4	15.3	31.8	29.1
Tax	(2.6)	(2.5)	(7.5)	(6.8)
Reported tax rate	15.8%	20.0%	25.0%	25.0%
<i>Tax rate adjusted</i>	14.8%	16.2%	23.6%	23.5%
PAT Reported	13.7	12.1	22.5	20.5
PAT Adjusted	14.8	12.9	24.3	22.3
Amortisation & tax items	1.3	1.8	2.4	2.4
PAT Adjusted	15.0	13.8	24.9	22.9
Basic wtd. av. shares (m)	116.6	116.7	117.3	117.3
Diluted wtd. av. shares (m)	121.1	123.5	124.0	124.0
EPS rptd. basic (p)	11.8	10.3	19.3	17.5
EPS rptd. dil. (p)	11.3	9.8	18.3	16.6
EPS adj. basic (p)	12.8	11.8	21.4	19.6
EPS adj. dil. (p)	12.4	11.2	20.2	18.5

Source: Company data, Equity Development estimates.

Cashflow, outlook to FY25 E

Year to 31 March (£m)	FY22	FY23	FY24E	FY25E
PAT Reported	13.7	12.0	22.5	20.5
One-off items	1.1	0.8	1.8	1.8
Depreciation	2.6	2.2	3.1	3.1
Amortisation	0.4	0.9	1.7	1.7
Tax	2.6	2.5	7.5	6.8
Finance/other	0.2	(0.0)	1.5	1.1
Operating Cash Flow	20.6	18.4	38.1	35.0
(Increase)/Decrease inventories	(4.9)	2.9	(12.6)	0.2
(Increase)/Decrease in receivables	(2.2)	(0.7)	(11.8)	(0.3)
Increase/(Decrease) in payables	2.5	(0.0)	10.9	(4.6)
Movement in working capital	(4.7)	2.2	(13.5)	(4.7)
Cash generated by operations	15.9	20.6	24.6	30.3
Tax (paid)/received	(4.2)	(1.3)	(7.5)	(6.8)
Net cash from operations	11.8	19.3	17.1	23.5
Investing activities				
Interest received	0.0	0.0	0.0	0.0
Intangibles	(1.5)	0.0	0.0	0.0
PPE	(1.3)	(1.3)	(3.0)	(1.0)
Acquisition	(1.0)	(10.1)	(4.0)	0.0
Sale of PPE	0.4	4.0	0.0	1.3
Net cash used in investing	(3.4)	(7.6)	(7.0)	0.3
Net OpFCF	8.4	11.7	10.1	23.8
Borrowings (net)	(8.1)	(1.3)	0.0	0.0
Share issue	0.0	0.3	0.0	0.0
Interest paid	(0.3)	(0.8)	0.0	0.0
Leases	(1.0)	(1.0)	(1.2)	(1.2)
Dividend	(2.6)	(5.4)	(6.1)	(5.6)
Net cash from financing	(11.9)	(8.2)	(7.3)	(6.8)
Net increase in cash / equivalents	(3.5)	3.5	2.8	17.0
Cash start	7.5	3.9	7.5	10.3
Forex	(0.0)	0.1	0.0	0.0
Cash end	3.9	7.5	10.3	27.3

Source: Company data, Equity Development estimates.

Balance sheet, outlook to FY25 E

Year to 31 March (£m)	FY22	FY23	FY24E	FY25E
Intangible assets	3.7	15.3	13.6	11.9
PPE net	2.6	5.2	5.1	3.0
RoU	2.1	15.6	15.6	15.6
Investments	1.3	0.0	0.0	0.0
Sum Fixed Assets	9.7	36.1	34.3	30.5
Inventories	25.9	25.6	38.3	38.0
Trade receivables	19.0	20.9	32.7	33.0
Tax assets	0.0	0.0	0.0	0.0
Financial insts	0.5	0.0	0.0	0.0
Cash, Equivalents	3.9	7.5	10.3	27.3
Sum Current Assets	49.3	54.0	81.3	98.4
Total Assets	59.0	90.1	115.6	128.9
Trade payables	(17.3)	(26.1)	(37.0)	(32.4)
Borrowings	(6.7)	(5.0)	(5.0)	(5.0)
Tax, Other	(1.3)	(3.2)	(3.2)	(3.2)
Sum Current Liabilities	(25.3)	(34.3)	(45.2)	(40.6)
Total Assets less Current Liabilities	33.8	55.8	70.4	88.3
Borrowings	(1.3)	(14.3)	(14.3)	(14.3)
Tax/Provisions	(0.2)	(1.6)	(1.6)	(1.6)
Sum Long-term liabilities	(1.5)	(15.9)	(15.9)	(15.9)
Total liabilities	(26.7)	(50.2)	(61.1)	(56.5)
Net Assets	32.3	40.0	54.5	72.4
Share Capital	11.7	11.7	11.7	11.7
Share Premium	7.2	7.4	0.1	(4.9)
Capital Reserve	(22.0)	(22.0)	(22.0)	(22.0)
Retained earnings	33.1	39.8	64.7	87.5
Equity	32.3	40.0	54.5	72.4
Net debt / (cash) ¹	4.0	11.8	9.0	(8.0)

Source: Company data, Equity Development estimates. ¹ pre IFRS 16.



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