

# The Artisanal Spirits Company



## Western growth enhanced by Eastern promise

18th September 2023

The Artisanal Spirits Company (ASC)'s FY2023 H1 results reconfirmed a strong Q2 as well as showing potential for sustained sales growth both domestically and overseas. Profits at EBITDA level remain on track to be positive in FY2023. With further membership expansion, resilient demand for ultra-premium Scotch and important Asian development in place, we reiterate our view that a fair value for the shares is 150p.

### Results show both progress and potential

ASC's 3% H1 sales growth endorses the Company's 18<sup>th</sup> July trading update which stated that revenue would be just over £10m. As we highlighted in our report [Investing in ultra-premium Scotch's global growth](#), the six months lapped a period of unusually strong growth in 2022 H1 when sales increased by 25%. Moreover, in FY2023 Q2 sales increased by a faster 7%, and this momentum continued into Q3. The company expects to match full year market expectations.

The Company remains confident about delivering EBITDA profitability in FY2023. While the FY2023 H1 EBITDA loss widened to £1.8m from £0.3m a year earlier, it should be noted that revenue growth and profit generation should be weighted to the second half. In FY2022 the profitability swing was £0.4m. We maintain our £1.2m adjusted EBITDA forecast for the full year.

Today's results include geographic detail of growth in membership numbers, which advanced by 9% overall in FY2023 H1. The strongest growth was international, with the US, Europe, Japan and the Rest of the World all posting double-digit gains, while China rose by 8%. Membership numbers are important: not only as a driver of growth and business quality, but also as a unique feature of SMWS. It creates a sense of belonging to a community for malt whisky connoisseurs.

Significant advances in Asia should enhance ASC's underlying growth potential. So far in FY2023 there have been important franchise and subsidiary announcements in Taiwan and South Korea as well as changes in Malaysia and Singapore. In FY2022, China, Japan, and Rest of World as a block, grew more quickly than the rest of the Company's overseas businesses. In FY2023 H1, these regions accounted for 28% of the overall business and around half of international.

### Assessment of fair value at 150p per share retained

We base our 150p fair value/share, which implies a 4.8x FY2023 EV/sales ratio, on a relative valuation comparison with other international distilled spirits companies and luxury providers.

Furthermore, we reiterate the positive implications for group valuation from SMWS's status as a membership organisation, the £492m notional retail value of the Company's maturing whisky stocks, plus recent business developments in Taiwan, South Korea, Malaysia and Singapore.

#### Company Data

EPIC	ART
Price (last close)	69p
52 weeks Hi/Lo	105p / 65p
Market cap	£48m
ED Fair Value/share	150p

#### Share Price Chart (p)



Source: ADVFN

#### Description

The Artisanal Spirits Company (ASC) are curators of the world's favourite, single-cask and limited-edition whisky.

Based in Edinburgh, ASC owns The Scotch Malt Whisky Society (SMWS) which was established in 1983 and currently has a growing worldwide membership of over 39,000 paying members. SMWS is focused on providing premium single cask spirits.

Since producing SMWS's first cask the company has created around 10,000 different whisky releases, which represents a constant flow of unique and exciting one-of-a-kind whiskies

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#### Key financials

Year to 31 Dec	2020A	2021A	2022A	2023E	2024E	2025E
Revenue (£m)	15.0	18.2	21.8	24.7	28.7	32.9
Revenue growth (%)	2.6	20.2	19.4	13.6	15.9	14.7
EV/sales (x)	4.2	3.5	2.9	2.6	2.2	1.9

Source: ED estimates, company historic data

## Western growth enhanced by Eastern promise

Second quarter sales growth acceleration, the prospect of full year EBITDA profitability and a number of important operational improvements were the key features of the ASC's FY2023 H1 results. In this report we note the importance of Asia as a structurally enhanced growth fillip for the company while Western Europe and North America continue resiliently to grow both membership numbers and sales.

### FY2023 H1 results highlights

As mentioned on the front page of this note, ART's 3% first half growth was reported in the 18<sup>th</sup> July trading update which also included the split between a relatively flat first quarter, and acceleration to 7% in the second quarter. So far in Q3, which is nearly complete, trading appears to have been more in line with Q2, which is encouraging.

EBITDA, using both adjusted and reported measures, was in loss in the first half of the year. However, the company highlights that this should **swing to profit in the second half of the year** and that it is comfortable with current market expectations. Our own forecasts are for reported EBITDA to be £1.2m in FY2023 as a whole, which implies a £3.0m H2 versus H1 improvement compared with a £0.4m uplift between H1 and H2 last year. We summarise key features of today's interim results in Figure 1.

**Figure 1 - FY2023 interim results highlights**

All figures in £m	FY 2022 H1	FY 2023 H1	Change
Revenue	9.9	10.2	3%
Gross profit	6.2	6.2	-
Gross margin	63%	61%	- 2 ppt
Adjusted EBITDA	-0.3	-1.8	-500%
EBITDA	-0.3	-2.0	-567%
Pre-tax loss	-1.1	-3.5	-218%
After tax loss	-1.4	-3.6	-157%
Net debt	-8.2	-18.8	-10.6
Cask inventory	22.8	23.9	5%
Cask inventory notional retail value	455	492	8%

Source: Company data

Net debt was £4.1m more at end FY2023 H1 than the £14.7m reported at end FY2022, which reflects both the completion of the company's Masterton Bond facility and investment in spirits and wood. The Masterton facility is now executing all bottling and despatch activities for the group and should enhance margins going forward.

We commented briefly on the margin and operational benefits of moving these activities in-house in our 15<sup>th</sup> November 2022 report ([New supply chain facility progressing as planned](#)). Note that in FY2022 H2 the company deployed IPO proceeds which had temporarily been used to reduce net debt.

The notional retail value of the ASC's cask inventory is a non-IFRS measure which is calculated as the total litres of spirit in casks when converted into bottle equivalent. The company then applies the average net revenue per bottle in the period to estimate the overall notional retail value.

**This remains an important component of the overall embedded value of the business and, at £492m, is clearly well in excess of both the current market capitalisation and enterprise value of the business.**

We also note that the bank valuation of these stocks has increased by £10m year-on-year.

Importantly, the balance sheet totals for inventory are an accounting measure and thus must be shown at the **lower** of cost and net realisable value. But it is what the whisky is ultimately worth at retail which is arguably more relevant to future sales.

Today's results include sales by country and geographical region. With around one third of overall sales, UK expansion in the first half was important and domestic sales enjoyed 23% growth as the region benefited from both sales' strength in the company's venues and additional cask sales, in line with the ASC's strategic objectives. European performance was also strong.

The main offsets internationally were China and the USA. In the case of the USA, it should be noted that the country's three tier distribution structure can lead to unusual volatility between trading periods, rather than being a reflection of softer underlying demand. China might be expected to benefit from weaker comparatives in the second half of FY2023.

**Figure 2 - Sales revenue by geographic region and overall split**

	Sales revenue (£'000s)			Revenue split	
	FY2022 H1	FY2023 H1	Change	FY2022 H1	FY2023 H1
UK	3,252	3,990	23%	33%	39%
USA	1,867	1,833	-2%	19%	18%
China	2,346	1,756	-25%	24%	17%
Europe	915	1,109	21%	9%	11%
ROW	670	682	2%	7%	7%
Australia	439	383	-13%	4%	4%
Japan	444	473	7%	4%	5%
<b>Total</b>	<b>9,933</b>	<b>10,226</b>	<b>3%</b>	<b>100%</b>	<b>100%</b>

Source: Company data

Aside from distribution of unique bottles of matured malt whisky to SMWS members, ASC also engages in the sale of single casks, both to trusted industry partners and to members. Cask sales were £0.5m in FY2023 H1 compared with £0.1m a year earlier and represented around 5% of group revenue in the period. Management have also indicated that this is a key strategic objective and we therefore expect further growth in this area in FY2023 H2.

## The integral value of membership

As we have highlighted in previous reports, the Scotch Malt Whisky Society is a membership organisation. This is important because Scotch whisky, notably malt whisky, lends itself to connoisseurship and interaction between members, notably at tasting events held in the company's venues and elsewhere. Moreover, as every cask is uniquely crafted to offer a distinct flavour, the ability of members to identify each other and communicate is important.

This apparent intimacy between the SMWS's members and the products which they consume and enjoy is enhanced by the company's [Unfiltered](#) magazine and the opportunity for members to communicate with each other at the SMWS's venues. Furthermore, a growing membership implies both sales growth and a significant barrier to entry. We summarise FY2023 H1 membership numbers by region in Figure 3.

International saw the fastest growth in membership numbers, with all regions, apart from Australia and China, outperforming the company's overall growth rate. Moreover, the increase in Rest of the World (ROW) occurred ahead of the new organisation of the company's operations in key markets.

For example, **around 500 new members were enrolled on the first day of trading in Taiwan** which was equivalent to a 1.5% addition to the first half total.

**Figure 3 - Global membership growth in 2023 H1**

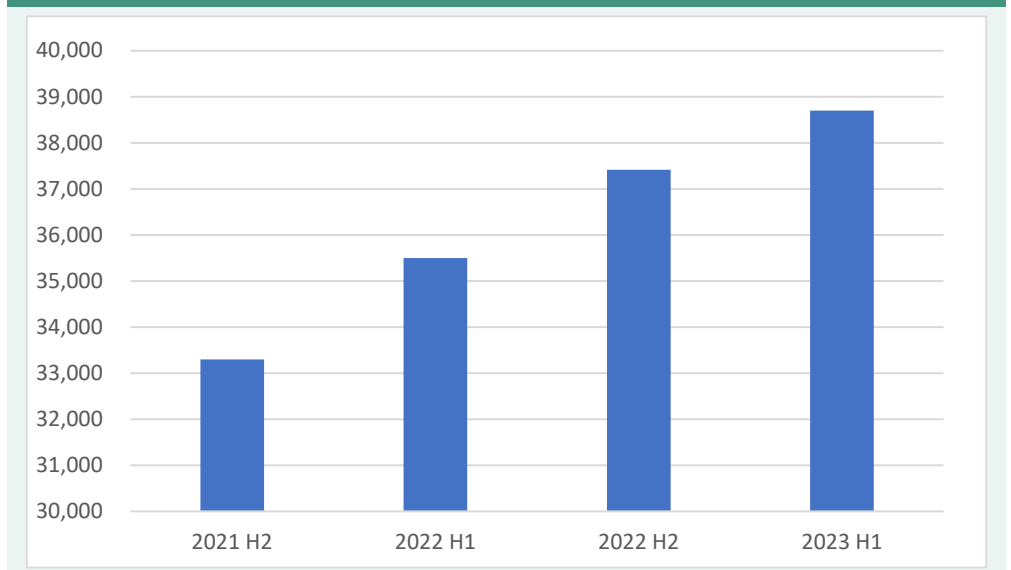
All figures in '000s of members	Jun-22	Jun-23	change
UK	17.7	18.2	3%
US	5.5	6.3	15%
China	1.6	1.7	8%
Europe*	3.9	4.8	22%
Australia	1.5	1.5	-
Japan	1.6	1.9	20%
ROW	3.8	4.3	13%
<b>Total members</b>	<b>35.6</b>	<b>38.7</b>	<b>9%</b>

\*Europe represents direct sales markets within continental Europe, but excludes franchise markets in Denmark and Switzerland which are shown within Rest of World

Source: Company data

A further benefit of being a membership organisation is that the company can offer single casks of malt whisky to its membership, typically on a syndicated basis. Such casks are also offered to high net worth individuals and trade buyers.

We show recent half year trends in membership growth in Figure 4.

**Figure 4 – End half-year number of SMWS members**


Source: Company data

## Eastern promise enhances growth outlook

The reorganization of the ASC's Scotch Malt Whisky Society activities in Asia was a salient feature of the first nine months of FY2023. This period saw reorganisation of the company's franchised activities in Malaysia, Singapore and South Korea as well as the establishment of a new subsidiary in Taiwan. We commented on the Taiwanese subsidiary in our 22<sup>nd</sup> August 2023 report: [Taiwan subsidiary uplifts Asian growth outlook](#).

The key reorganization events are summarised in Figure 5.

**Figure 5 - ASC's organizational expansion in Asia**

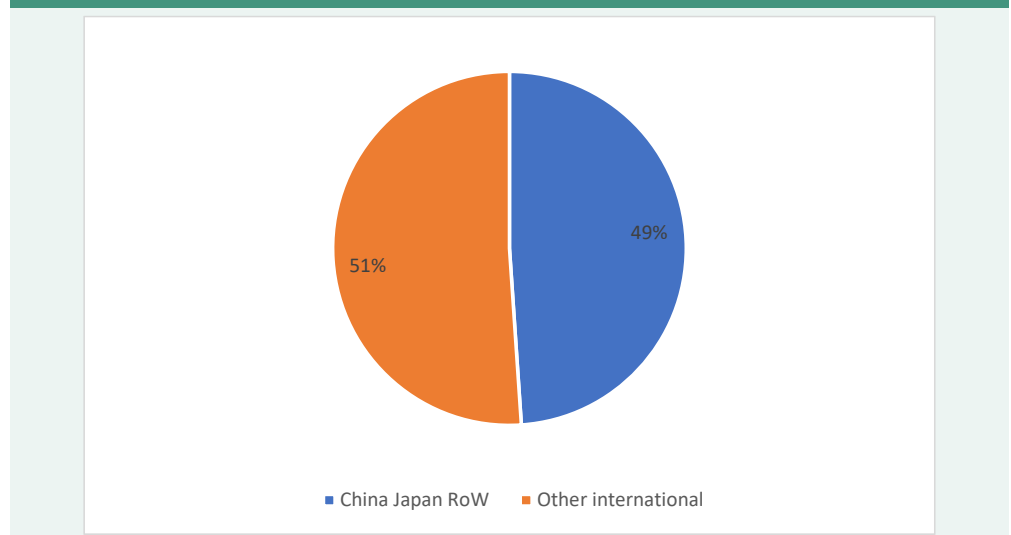
Country	Event	Timing
South Korea	New franchise	FY2023 Q2
Malaysia	Replacement franchise partner	FY2023 Q2
Singapore	Replacement franchise partner	FY2023 Q2
Taiwan	Subsidiary	FY2023 Q3

Source: Company data

Asia is important for ASC both in terms of size and growth. In FY2022, aggregate sales in China, Japan and Rest of the World (which includes Southeast Asia and Taiwan, clearly) increased by 23% from a year earlier compared with 11% growth in the rest of international and 5% for the online component of the UK business.

As a result of its faster growth, this block of countries increased in importance from 46% of international sales revenue to 49% in FY2022 – i.e. ahead of the above mentioned announcements and organisational changes. The position is summarised in Figure 6. In the first half of FY2023 the block represented 50% of net sales.

**Figure 6 – International sales breakdown in FY2022 (%)**



Source: Company data

Asia's importance as a source of potential growth should not be surprising. We noted in our 22<sup>nd</sup> August 2023 update [Taiwan subsidiary uplifts Asian growth outlook](#) that the country is the world's third largest by value for ultra-premium Scotch whisky, and thus the third largest Scotch market overall – i.e. it is an appropriate target market into which ASC's SMWS should look to expand membership numbers.

## Financials and Valuation

### Relative valuation

We reiterate our long-held fair value of 150p per share for ASC. This is based on an EV / Sales ratio relative to the company's two peer groups, both of which comprise publicly listed companies. These are **distilled spirits** and **luxury goods** with valuations as shown in Figures 7 and 8 respectively.

Important considerations for valuation – aside from the potential to trade at a 4.8x EV/sales ratio which our fair value implies – are that ASC's SMWS is a **membership organisation, demand for ultra-premium Scotch whisky has proved resilient** despite downward pressure elsewhere in consumer goods, and the embedded valuation support from the **£492m notional retail value of the cask inventory** at end FY2023 H1.

Moreover, almost 80% of the company's current market cap (£48m) is covered by the bank valuation of its maturing whisky stock.

**Figure 7 - Relative valuation - distilled spirits**

All figures in local currency units	Share price (local)	Shares (m)	Mkt cap (m)	Net debt (m)	EV	Sales 2023	EV/sales (x)
<b>Artisanal Spirits Company (ART)</b>	<b>69</b>	<b>69.7</b>	<b>48</b>	<b>16</b>	<b>64</b>	<b>25</b>	<b>2.6</b>
Brown Forman (BF.B)*	64.16	479.4	30,758	2,041	32,799	4,494	7.3
Campari (CPR)	11.38	1,131.4	12,875	1,506	14,381	3,001	4.8
Diageo (DGE)	3,167	2,244.1	71,061	15,425	86,486	17,141	5.0
Remy Cointreau (RCO)*	129.70	50.5	6,551	552	7,103	1,469	4.8
<b>Average</b>							<b>4.9</b>

*Share prices are as at 15 September 2023 UK close for European listed companies and 1700BST for Brown Forman \*FY2024*

Source: MarketScreener, ADVFN and Equity Development estimates

**Figure 8 - Relative valuation - luxury goods**

All figures in local currency units	Share price (local)	Shares (m)	Mkt cap (m)	Net debt (m)	EV	Sales 2023	EV/sales (x)
<b>Artisanal Spirits Company (ART)</b>	<b>69</b>	<b>69.7</b>	<b>48</b>	<b>16</b>	<b>64</b>	<b>25</b>	<b>2.6</b>
Hermes (RMS)	1,904	104.5	199,000	-10,759	188,241	13,485	14.0
LVMH (MC)	761	499.4	380,151	22,930	403,081	87,757	4.6
<b>Average</b>							<b>7.1</b>

*Share prices are as at 15 September 2023 UK close*

Source: MarketScreener, ADVFN and Equity Development estimates

## Financial forecasts

We make no changes to our FY2023 financial forecasts which are thus the same as those published in our 29<sup>th</sup> March 2023 report [Delivering robust profitable growth](#), a view which is consistent with the central outlook message from today's interim results release.

**Additionally, we continue to expect sales growth to be firmly double-digit during our forecasting period with the business becoming increasingly profitable.**

Two important statements in today's release are a retained commitment to the **doubling of revenue between 2020 and 2024**, which implies around £30m of sales in FY2024 compared with our own projection of closer to £29m and **confidence that the company will see margins continue to grow** over the longer term and deliver sustainable profits.

Our income statement, balance sheet and free cash flow projections are summarised in Figures 9, 10 and 11 respectively.

**Figure 9 - Income statement**

All figures in £'000s	2020A	2021A	2022A	2023F	2024F	2025F
<b>Revenue</b>	<b>15,026</b>	<b>18,237</b>	<b>21,781</b>	<b>24,747</b>	<b>28,672</b>	<b>32,896</b>
increase in revenue	2.6%	21.4%	19.4%	13.6%	15.9%	14.7%
Gross profit	8,804	11,211	13,845	15,851	18,653	21,565
Gross margin (%)	58.6%	61.5%	62.6%	64.1%	65.1%	65.6%
Selling & distribution expenses	-2,979	-4,046	-5,503	-5,526	-6,402	-7,345
Administrative expenses (exc D&A)	-6,055	-8,848	-8,616	-9,027	-9,298	-9,577
<b>EBITDA - adjusted</b>	<b>572</b>	<b>-626</b>	<b>395</b>	<b>1,299</b>	<b>2,953</b>	<b>4,643</b>
Exceptional items	-392	-897	-631			
Depreciation	-600	-575	-1,000	-914	-1,053	-1,208
Amortisation of intangible assets	-283	-271	-259	-259	-259	-259
EBIT - reported	-1,113	-2,529	-1,533	126	1,641	3,176
Other income	410	160				
Other costs (share options)			-200	-200	-200	-200
Finance costs	-499	-348	-577	-507	-541	-515
<b>Pre-tax profits - reported</b>	<b>-1,202</b>	<b>-2,717</b>	<b>-2,072</b>	<b>-381</b>	<b>1,100</b>	<b>2,661</b>
Taxation	-418	-631	359	-300	-220	-532
Net earnings	-1,648	-3,743	-1,981	-861	700	1,970
<b>Basic EPS (pence) - reported</b>	<b>-3.0</b>	<b>-5.9</b>	<b>-2.8</b>	<b>-1.2</b>	<b>1.0</b>	<b>2.8</b>

Sources: Company historic data and Equity Development estimates



**Figure 10 - Balance sheet**

All figures in £'000s	2020A	2021A	2022A	2023F
<b>Assets</b>				
<b>Non-current assets</b>				
Investment property	391	391	405	405
Property, plant & equipment	5,785	8,377	10,362	10,859
Intangible assets	2,599	2,420	2,249	1,990
<b>Total non-current assets</b>	<b>8,775</b>	<b>11,188</b>	<b>13,016</b>	<b>13,254</b>
<b>Current assets</b>				
Cask goods & bottled stock	21,651	23,719	28,129	29,129
Trade & other receivables	1,956	2,968	3,888	4,087
Forward currency contracts	83			
Cash & cash equivalents	2,176	2,012	2,331	2,331
<b>Total current assets</b>	<b>25,866</b>	<b>28,699</b>	<b>34,348</b>	<b>35,547</b>
<b>Total assets</b>	<b>34,641</b>	<b>39,887</b>	<b>47,364</b>	<b>48,801</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	3,157	3,949	3,703	3,814
Forward currency contracts				
Current tax liabilities	332	277	405	405
Financial liabilities	14,963			
Lease debt	139	259	360	360
Convertible loan notes				
<b>Total current liabilities</b>	<b>18,591</b>	<b>4,908</b>	<b>4,824</b>	<b>4,935</b>
<b>Non-current liabilities</b>				
Financial liabilities	901	6,796	16,984	18,077
Lease liability	1,428	3,332	2,959	2,959
Deferred tax liabilities	324			
Provisions	404			
<b>Total non-current liabilities</b>	<b>3,057</b>	<b>11,098</b>	<b>20,523</b>	<b>21,536</b>
Called up share capital	135	174	174	174
Share premium account	99	14,938	14,997	14,997
Translation reserve	-15			
Retained earnings	12,544	8,505	6,685	5,824
Hedging reserve	67			
Other reserves				1,107
Shareholders' funds	12,830	23,577	21,788	22,102
Minority interest	163	304	228	228
<b>Total liabilities</b>	<b>34,641</b>	<b>39,887</b>	<b>47,364</b>	<b>48,801</b>

Sources: Company historic data and Equity Development estimates

**Figure 11 - Cash flow statement**

All figures in £'000s	2020A	2021A	2022A	2023F
Profit (loss) for year after tax	-1,620	-3,348	-1,713	-681
<b>Cash flow from operations</b>	<b>-215</b>	<b>-4,013</b>	<b>-5,625</b>	<b>211</b>
Income taxes paid	-327		-75	-300
Interest paid	-477			
<b>Net cash flow from operating activities</b>	<b>-1,019</b>	<b>-4,666</b>	<b>-6,194</b>	<b>-596</b>
Cash flow from investing activities				
Purchase of intangible assets	-437	-92		
Purchase of property, plant & equipment	-660	-1,101	-2,911	-497
Proceeds received on sale of fixed assets	1			
Interest receivable	19			
Net cash used in investing activities	-1,077	-1,188	-3,385	-497
<b>Free cash flow before dividends etc</b>	<b>-2,096</b>	<b>-5,854</b>	<b>-9,579</b>	<b>-1,093</b>

Sources: Company historic data and Equity Development estimates



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