

## AGM statement confirms growth momentum

24th May 2023

Today's Annual General Meeting trading update from The Artisanal Spirits Company (ASC) confirms that the positive underlying sales momentum enjoyed in FY2022 has continued into the current year. The group remains confident of delivering both sales growth and EBITDA in line with expectations. Moreover, sales growth is expected to be at least double digit % in the second quarter after a relatively flat Q1. We leave our forecasts unchanged and maintain our opinion that fair value for the shares is 150p – i.e., still significantly above the current share price.

Today's announcement is consistent with ASC's FY2022 results release which stated "the new financial year has begun well," and was commented on in our 29<sup>th</sup> March 2023 report "[Delivering robust profitable growth.](#)" The company is confident that it will deliver revenue in line with market consensus of £25.2m in FY2023, which is ahead of our own £24.7m forecast, and believes that EBITDA will be above £1m, again consistent our own forecasts.

**Membership remains central to the ASC investment case.** According to today's release, membership numbers (which benefited from a notably strong performance in Europe), increased to 38,000 at end-April to post a 10% year on year gain., Elsewhere, the company highlighted continued signs of recovery in China, the successful launch of the new franchise in South Korea (with 300 new members on initial launch in April 2023) and the establishment of a new subsidiary in Taiwan. Malaysia and Singapore remain on-track.

**Our central investment case for ASC through its ownership of the Scotch Malt Whisky Society is unchanged.** The product offering is "ultra-premium" and above. As a luxury item, this flagship whisky offering should be less susceptible to economic fluctuations than more mainstream categories of distilled spirits. As a result, ASC should be in position to deliver sustainable growth on the demand side.

**With a notional retail value of £493m for its stock-in-cask whisky at the end-FY2022 stated at the time of FY2022 result, the supply side looks strong too.** The company benefits from abundant whisky stock – i.e. enough to satisfy demand through to 2028 and beyond, together with robust headroom on finance.

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

We base our 150p fair value/share, which implies a 4.9x FY2023 EV/sales ratio, largely on a relative valuation when compared with leading listed distilled spirits companies and luxury goods providers. ASC is simultaneously exposed to both these categories given its emphasis on ultra-premium-and-above Scotch malt whiskies.

Furthermore, the £493m updated notional retail value of the company's maturing whisky stocks (mentioned above) is currently over 6 times today's market capitalisation.

### Company Data

EPIC	ART
Price (last close)	97p
52 weeks Hi/Lo	105p / 52p
Market cap	£67m
ED Fair Value/share	150p

### Share Price, p



Source: LSE

### Description

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 37,000 paying members. SMWS is focused on providing premium single cask spirits. With an average whisky cask yielding around 250 bottles each time, each release is by its very nature a limited edition with exclusive characteristics.

The Group's objective is to bring together spirits from some of the world's best spirits producers, add value by managing the maturation process and provide exclusive access to a vast and unique range of outstanding single cask Scotch malt

### Key financials

Year to 31 Dec	2020A	2021A	2022A	2023E	2024E	2025E
Revenue (£m)	15.0	18.2	21.8	24.7	28.6	32.7
Revenue growth (%)	2.6	20.2	19.4	13.6	15.9	14.7
EV/sales (x)	5.4	4.5	3.7	3.3	2.8	2.5

Source: ED estimates, company historic data

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## 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 2 and 3 respectively.

**ASC boasts many positive qualities relative to its distilled spirits peers which should support the valuation.** The company is predominantly a direct-to-consumer based business which sells its products online into a growing membership base. Its focus is on the ultra-premium and above distilled spirits categories which are arguably less economically sensitive than products at other price points. As a result, it seems appropriate to include luxury goods companies in our relative valuation comparisons.

Were ASC to achieve our fair value of 150p, the **EV/sales ratio for FY2023 would be 4.8x** at most, which would still be beneath the average for either group despite ASC's ultra-premium price positioning, lack of supply chain threats and a membership headcount driven revenue model.

**Figure 2 - 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>97</b>	<b>69.7</b>	<b>67</b>	<b>16</b>	<b>84</b>	<b>25</b>	<b>3.4</b>
Brown Forman (BF.B)*	63.26	479.2	30,317	2,293	32,610	4,181	7.8
Campari (CPR)	12.40	1,120.6	13,829	1,481	15,310	2,987	5.1
Diageo (DGE)*	3,546	2,248.5	79,664	14,947	94,611	17,375	5.4
Remy Cointreau (RCO)*	152.25	50.4	7,680	456	8,136	1,549	5.3
<b>Average</b>							<b>5.4</b>

Share prices are as at 28 March 2023 UK close for European listed companies and 1730BST for Brown Forman \* FY2023

Source: MarketScreener, ADVFN and Equity Development estimates

**Figure 3 - 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>97</b>	<b>69.7</b>	<b>67</b>	<b>16</b>	<b>84</b>	<b>25</b>	<b>3.4</b>
Hermes (RMS)	1,890	104.5	197,600	-10,821	186,779	13,636	13.7
LVMH (MC)	834	501.1	417,998	21,240	439,238	88,069	5.0
<b>Average</b>							<b>7.8</b>

Share prices are as at 28 March 2023 UK close

Source: MarketScreener, ADVFN and Equity Development estimates



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