Supreme plc

Leaving the competition behind

7 December 2021

Maiden H1 results from Supreme confirm strong progress driven by organic growth, bolt-on acquisitions, new products and new customer wins. The scaling of its manufacturing, a clear point of differentiation, is behind the margin improvement and evidence of a strong, entrepreneurial management team. The outlook remains positive and an interim dividend of 2.2p has been proposed. We initiate with a fair value / share of 250p, underpinned by peer group comparatives and supported by the inherent asset value within its operations.

- Supreme exhibits all the positive characteristics we want to see from a strong FMCG company. It supplies a wide number of non-discretionary products to a diverse range of retailers from leading supermarkets, convenience stores, discounters and a growing online presence. Its offer combines highly recognised staples, such as battery and lighting product, along with innovative organically developed own-brand and owned-brand products including its market leading vaping liquid, **88vape**. It has established strong in-house manufacturing credentials, enabling it to broaden its product range within the exciting Sports Nutrition & Wellness segment, which exhibits many of the characteristics that delivered its Vaping growth. The wider group offer includes a healthy mix of cash generative products such as Batteries and Lighting, complemented by continued strong growth potential from Vaping and Sports Nutrition & Wellness.
- The company is profitable, backed by cash flow and has plenty of top line growth potential. Management have demonstrated strong entrepreneurial spirit to an impressive effect, delivering both strategically and operationally. In these uncertain times, we are drawn to those operating in the segments of retail **deemed essential,** including discount and convenience stores (around two thirds of its' revenue). As consumer inflationary pressures mount, the hunt for affordable value will continue to push more footfall into its core retailer customer space.
- H1 results confirm that **the group is performing well** despite an extremely challenging backdrop. Vaping continues to deliver solid growth; the Batteries unit has remained strong; while a period of increased corporate activity has positioned its Sports Nutrition & Wellness to embark on what we believe will be the next area of rapid expansion for the group.

Valuation

We set our current fair value at 250p / share. We see this underpinned by peer group comparisons and separately supported by the inherent value that resides in the Group's Vaping division, reflecting the significant amounts of cash that 'big tobacco' is spending on solutions which are not resonating well with the consumer as well as Supreme's offering.

Key Financials

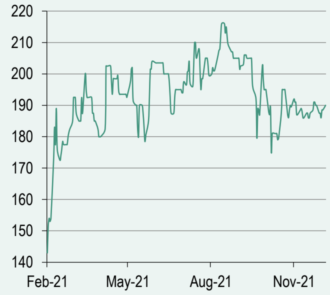
Year end Mar 21	2021	2022E	2023E	2024E
Revenue (£m)	122.3	130.0	136.3	142.2
EBITDA (£m)	19.3	21.5	24.0	25.7
EPS (p)	8.7	11.7	13.4	14.5
FCFS (p)	6.4	8.3	11.3	13.0
DPS (p)	0.0	6.6	7.3	8.0
Net debt (cash)	7.6	3.4	-1.7	-9.0
EV/EBITDA (x)	11.2	11.3	10.0	9.3
FCF yield (%)	3.3	4.3	5.8	6.7

Source: Company historic, ED forecasts

Company Data

EPIC	SUP
Price (last close)	190p
52 weeks Hi/Lo	225p / 140p
Market cap	£225m
ED Fair Value / share	250p
Avg. daily volume	254k

Share Price, p



Source: ADVFN

Description

Supreme is a leading manufacturer, supplier and brand owner of fast-moving consumer products. It has five key categories: Vaping, Sports Nutrition & Wellness, Batteries, Lighting and Branded Consumer

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H1 results

The interim statement is headlined with '*strong profit performance driven by organic growth, M&A and product launches*' that neatly encapsulates the Supreme investment case. Revenue increased 9% to £61.1m, including the key growth segments of Vaping (+13% organically) and Sports Nutrition & Wellness more than doubling due to recent M&A and organic initiatives being established. Indeed, the latter now represents 10% of group revenue and gross profit. A focus on higher margin categories has boosted gross and EBITDA margin, although we note that further growth investment is required and should be factored in before doing a straight-line margin read through to future performance. EBITDA increased 20% in H1.

The group has completed and successfully integrated the acquisitions of **Vendek**, a leading batteries and lighting distributor based in Republic of Ireland along with **Sci-MX**, a well-known sports nutrition brand; both deals were financed from existing resources. Also, in the Sports Nutrition & Wellness segment the group launched Sealions, a digital-only vitamins brand, and the retail brand, Millions & Millions in the period.

It has continued to scale its in-house manufacturing capability to drive longer term margin improvement. The supply chain has been proactively managed to ensure a minimal impact on trading, but the company notes that vigilance remains the watchword. There has been additional investment in stock of key lines and raw materials as supply chain challenges remain a factor for the sector. Net debt increased to £8.4m during the period reflecting a shift in working capital, but we see this as the current peak with H2 and beyond benefitting from the inventory unwind and strong cash generation. That said, debt leverage still remains at a very comfortable level of 0.4x and our forecasts assume lower debt by year end.

Business segments

As already noted, **Vaping** revenues grew 13% with gross profit ahead by a higher 25% as it continued to outperform the wider sector, further benefitting from manufacturing scale boosting margin. New contracts included wins with Sainsbury, Core Communications and McColls while its HMPPS contract expanded. The 88vape brand continues to perform well.

Lighting operations benefitted from one-off changes to legislation, while **Batteries** delivered a steady performance. There should be no surprise that, after the unprecedented demand enjoyed during 2021, **Branded Household Consumer Goods** revenue has '*begun to reset to its pre-COVID levels*', however, a significant cost rationalisation and integration into the central group functions means that profit contribution has been maintained.

The Group outlook statement is upbeat as the second half has started well and the Board '*remains confident in the future growth prospects in the medium-to-long term. It continues to expect adjusted EBITDA at least in-line with market expectations.'*

In-line with statements made by Supreme at the time of its IPO, an interim dividend of 2.2p is proposed, equivalent to ~50% net profit with a 1/3rd interim, 2/3rd distribution split.

Investment Case

- Key supplier to the fast growing, economically attractive discount and convenience retailer segment. A feature of retail success in recent years has been to 'avoid the middle ground', focus on either **upmarket** or **value**, as the middle ground is usually undifferentiated and most vulnerable to digital disruption. As a major diversified supplier to the independents / discounters we see Supreme as being extremely well placed, even in uncertain times. **The discount segment is forecast to grow by 36% to £32.5bn** over next 12 months (*source: Global Data).*

- A vertically integrated platform combining the group's manufacturing, distribution and marketing skills provides a strong route to market for brands and products. This is supported by proven new product development, range extension and product enhancement. Vertical integration also provides greater control over product and cost providing margin enhancement potential. Its manufacturing capacity has been well invested and has plenty of scope to facilitate immediate growth.

- Breadth of product diversity provides a range of non-discretionary spend from its growing vaping and sports nutrition & wellness categories through to its more established, 'customer-sticky' / recurring sales and cash generative Batteries and Lighting offering. Many of the items it supplies could be deemed 'essential' by the consumer, thus making them very attractive for retailers to stock.

- Diversified and growing customer base with over 3,300 active accounts for customers that manage more than 10,000 outlets. Many of its larger customers are now highly recognisable including **B&M, Home Bargains, Poundland, The Range, Sports Direct, Booker, Londis, SPAR, Costcutter, Asda, Halfords,** and **Iceland.**

- Strong entrepreneurial track record with a proven ability to broaden group offering successfully combining licencing/distribution agreement, organic and acquisition means. All moves continue to align with its centralised distribution model allowing very tight control of costs.

- Growth categories, include Vaping where it has created the UK's leading vaping liquid brand in 88vape and more recently its move into Sports Nutrition and Wellness. The latter has many of the same characteristics as vaping, with a large customer base eliciting demand for quality product at an affordable price. The Sports Nutrition portfolio has been enhanced through the acquisition of **Sci-Mx**.

- An ideal distribution model is not only about being efficiently managed, but also having strong cash generative characteristics.

- All of the above could not be achieved without a strong and very committed management team. This team has delivered **14% CAGR in FY revenue** and **26% CAGR FY EBITDA since 2018,** while net debt has reduced.

- We forecast Supreme to continue to deliver steady revenue growth as its various growth initiatives convert into sales. More importantly, greater scale to its differentiated manufacturing position will drive profit ahead of revenue and convert into free cash flow at a greater rate. This warrants a premium valuation and is behind our 250p fair value calculation

- We note that an implied £310m market capitalisation at our fair value is but a fraction of what big tobacco has invested to get their next generation product offering right, and yet it is still some way off working profitably. The Supreme management team have not only created a product that consumers want, but one that is also extremely attractive for its retail customer base…

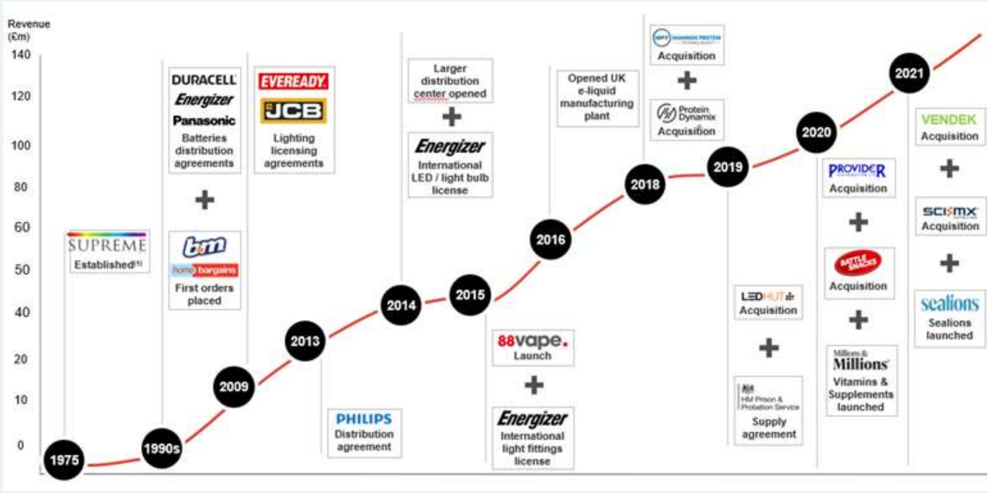
- …and something similar is eminently possible with the Sports Nutrition & Wellness offering in time.

Group history and activities

Supreme was formed in 1975 and has grown by successfully combining both organic and acquisitive initiatives, to become a leading European manufacturer, brand owner and distributor of fast-moving consumer staple products. From its Manchester base it has built strong positions in batteries, lighting and vaping as well as a more recent position in sports nutrition & wellness products. It has a healthily diversified customer base from independent traders/convenience stores through the large discounters up to the mainstream grocers, as well as a D2C (direct-to-consumer) website.

Since inception management has demonstrated a very strong **commercial nous** developing, initially, distribution, then licencing and importantly manufacturing. A high percentage of the group's sales are internally produced providing higher levels of cost control and output certainty. It has also ensured that online ordering and integrated management systems for retailers are available to provide a very solid route to market for its brands and product.

Impressive Group development over 5 decades



Source: Company

Key to the Supreme investment case is its quality of management:

- **CEO Sandy Chadha** has over 30 years' experience with the group, architect of the key strategic moves, highlighted above, and a 56.7% shareholder owning 66.1m shares
- **CFO Suzanne Smith** has strong finance experience including at a major accountant along with private equity, manufacturing, distribution, and software businesses

Divisional leaders

- Batteries – Andrew Beaumont, 30 years' experience with Supreme
- Lighting – David Neilson, 12 years with Supreme
- Vaping – Michael Holliday, more than seven years with Supreme
- Sports Nutrition & Wellness – Dan Clark with more than 15 years sector experience

Non-executives

- Chair – Paul McDonald, previously CFO at B&M including through its IPO process, with other discount retail experience includes Littlewoods, TJ Hughes, and Ethel Austin
- NED – Mark Cashmore, was CEO at Connect/Smiths News
- NED – Simon Lord, heavy corporate finance and M&A experience

Divisional breakdown

The group operates and reports under five main categories. Due to the centralised approach to distribution, it only discloses revenue and gross profit.

Vaping

Supreme entered the premium-e-liquid vaping market in 2015. The complete product is manufactured at its UK facility, VN Labs, which is fully compliant with TPD legislation and standards. It has an in-house development team working to ensure right product for the market. Supremes' brand, 88vape, is now the recognised UK market leader, retailing at £1 per 10ml bottle. This price point enables Supreme to earn a very healthy margin further strengthening the relationship it has with its customers. While traditional advertising routes are closed across the vaping sector, the group has reinforced the product with a heavy marketing presence that has supported customers' and driven high brand recognition.

Supreme produces 6m< bottles per month from its Manchester facility and has capacity increasing to 18m. The group also sell the KiK product range, described as 'no-nonsense, premium vaping' brand from Supreme.

Vaping products

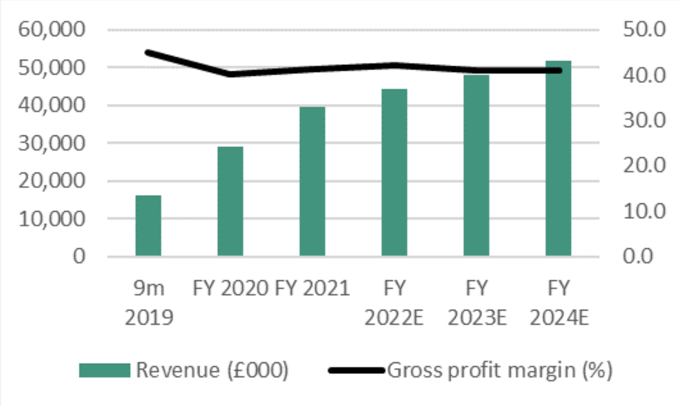
Source: Company

Despite well-known health concerns related to smoking, there remain **c. 6.9m smokers in the UK** (*source: ASH*), whose average consumption is ~9 cigarettes a day, but the trend away from traditional products towards vaping continues at a steady pace. PHE (Public Health England) suggest **vaping is 95% safer than cigarettes** while Cancer Research suggest that **e-cigarette users are 60% more successful in quitting**. Parliamentary consultations indicate that vaping will be included in future plans to make Great Britain smoke-free. Of 3.6m UK vapers, 1m already use 88vape; 50m units pa; average customer buys more than 1 product; outsells competition 7:1 so a clear market leader.

In 2019 the group entered into a supply agreement with HMPPS (Her Majesty's Prison and Probation Service) to supply its vaping product. HMPPS recognised the need to get a safe, tamper proof product into the prison system which Supreme was able to design, develop and source via in-house expertise and its existing supply chain network. Clearly there is scope to further sell this to other related service providers and indeed explore export opportunities at the right time. Other customer wins include the convenience outlet McColls and Core Communications, a convenience telecoms supplier, that will promote the 88vape brand with its customer base.

The European vaping market is said to be worth roughly **£5.3bn** (*source: Euromonitor for 2019*), with the UK just over £2bn of this, and is projected to grow to approximately £6.8bn by 2022 or CAGR of 8.7%.

Vaping revenue and gross margin, historic and forecast



Source: Company historic, ED estimates

Sports Nutrition & Wellness

Buoyed by the success of its vertically integrated platform, the group entered the Sports Nutrition & Wellness segment. Initially the acquisition of Shannon Protein Technologies and Protein Dynamix in 2018 helped to establish its presence, added to it through Battle Snacks and Sci-MX. The group has also recently developed own-brands Sealions (digital only vitamins with 1yr supply for £5) and Millions & Millions. Supreme manufacture protein powder and vitamins, complemented by ready-to-drink beverages, snack bars, meal replacements and other ancillary product. This demonstrates that above all Supreme has become a company that is highly trusted by its customer base to deliver quality product.

Example products

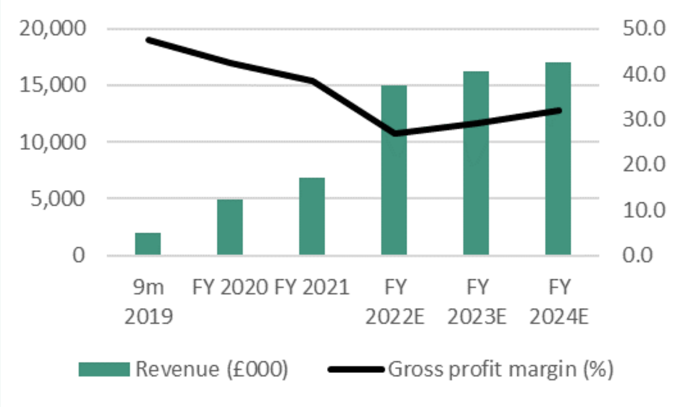
Source: Company

In protein the group has invested in pharmaceutical grade equipment with an ISO class 9 clean room, working to GMP standards. It has the capacity to produce 8m protein powder units pa. In Vitamins the facility has the capacity to produce 10m tablets per month. As manufacturing expands then the obvious scale benefits should feed into stronger margins

The UK sports nutrition market appears to be in the vanguard of a many structural drivers:

- Increasing health awareness in an ageing population
- Shift in demographic base to consume more sports nutritional products
- Strong digital growth drivers
- Improved quality of segment information available to consumers

Sports Nutrition & Wellness revenue and gross margin



Source: Company historic, ED estimates

Batteries

Over the decades Supreme has established itself as a significant battery distributor, having agreements with a number of strong household brands. It claims 20% share of the available UK market through its relationships with Duracell, Energizer, JCB and Panasonic. For retailers batteries offer some of the highest returns per square foot, providing healthy cross-cycle revenue potential.

The group has invested in state-of-the-art warehouse and distribution facilities in Manchester which enables it to supply in retail-ready packaging along with Point of Sale (POS) stands.

Many of its supplier relationships in this segment go back many decades and it continues to provide a strong foothold in its customers' space. They also distribute branded product under licence to further strengthen its hold on the customer.

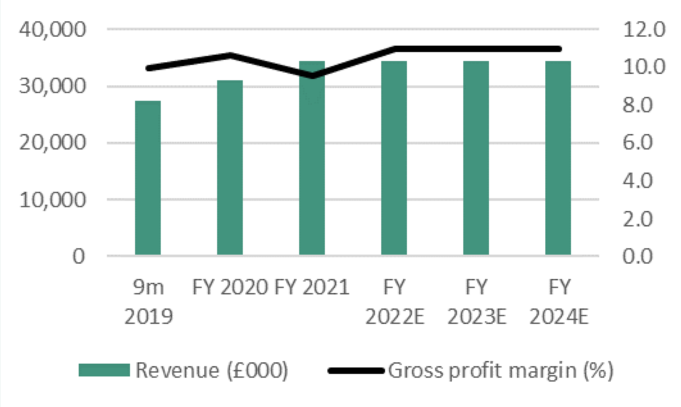
Industry observers put the **UK battery market at c. £600m** (*source: Statista*), growing at 8.6% CAGR over next the few years (*source: Mordor Intelligence*).

Batteries sold

Source: Company

This segment was a big lockdown winner, whose success may be hard to replicate in the coming years. But it continues to exhibit **consistent gross margin and cash performance**.

Batteries revenue and gross margin



Source: Company historic, ED estimates

Lighting

Another segment where the group has established a significant market position is the distribution of lighting products supported by many exclusive and long-term licencing agreements. These include Eveready / Energizer (since 2013, renewed to 2025) and JCB (runs to 2024). It supplies LED lighting across a range of brands with its product supplied in retail-ready, tamper-proof packaging providing the retailer with better investment return potential.

While a lot of product starts at its Manchester facility, the group is also able to offer direct shipments for larger orders; it currently transports to 41 countries. The group also supplies both trade and retail with brands including Everready, Energizer, JCB, Lumilife and PowerMaster. As with batteries it offers POS solutions to retailers including design solutions. The nature of the product with the importance of a brand to the consumer has underpinned a consistent gross margin performance.

Lighting brands sold

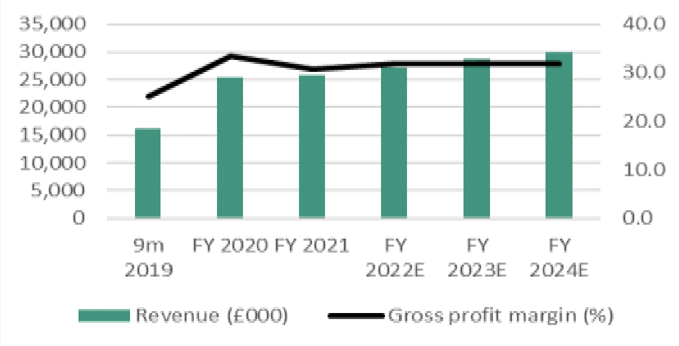
Source: Company

The group does have plans to expand into Europe, although currently the focus is on the UK, with further moves on hold due to the pandemic; management continue to evaluate opportunities. The recent acquisition of **Vendek**, a leading Irish distributor of batteries and lighting products, creates a hub from which European expansion can be based.

The move also provides significant product and customer overlap that drives up scale benefits as well as providing a platform for cross-selling. Euromonitor estimate that the European retail lighting market is worth **approx. £3bn and growing at >10%;** the UK is about £0.4bn, growing at a similar rate.

In addition, the Smart Home product is a more recent initiative and fits nicely with recognition of need for domestic energy-saving.

Lighting revenue and gross margin



Source: Company historic, ED estimates

Branded Household Consumer Goods

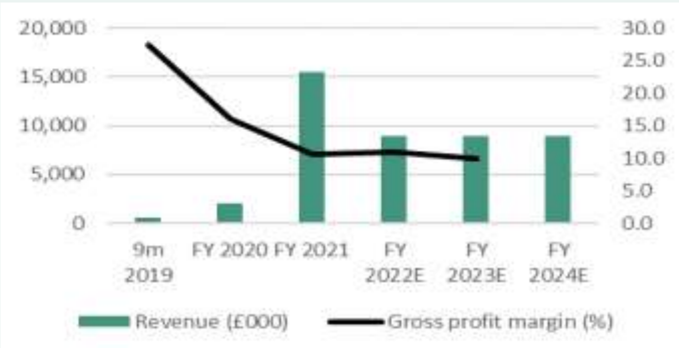
The group also offer a wide range of household essentials to complement its other FMCG (fast moving consumer goods) ranges. These includes a wide range of cleaning products, electrical accessories, food & drinks (Cadbury's chocolate/other branded confectionary, Tetley and Typhoo tea), haircare (shampoo, conditioners, hair dye), household and toiletries that did fantastically well for the group during lockdown when only essential retail was open and demand for cleaning products was at an unprecedented high.

Leading brands

Source: Company

Other products within its banded consumer range include **Haribo, Pritt, Unibond, Sellotape, Rizla** and **Swan** along with other products including motor/cycling, pet related etc. A wide range of products linked by a broad 'essentials' grouping, but from a customer and ultimately consumer viewpoint, they are needed. The longer-term challenge for the group is whether it can create a point of differentiation for these products, as the manufacturing or brand licencing route appears a lot harder to achieve.

Branded Consumer revenue and gross margin



Source: Company historic, ED estimates

Valuation thoughts

We believe that the Group, at the very least, will deliver steady **high single digit revenue growth** for the next couple of years. More importantly an improving mix towards more own branded manufactured product will drive enhanced profitability and margin improvement.

This points to an improvement in the quality of earnings which should be interpreted as a premium valuation. Stronger EBITDA is backed by improving FCF conversion and strengthens the Group's arm in terms of further self-funded expansion or through shareholder returns.

We have tried to identify a range of peers to take into account the differentiated nature of the Supreme model. We have only included specialist distributors that add value beyond straightforward logistics (Diploma, Bunzl, Electrocomponents, Ferguson, Travis Perkins, Grafton, Clipper Logistics); Consumer Staples includes Unilever, P&G, Nestle, Walmart, Pepsico and Reckitts and big tobacco has BATS, Philip Morris, Altria and Imperial Brands.

Ratios compared to peer group average

	Added value distributors	Consumer Staples	Tobacco	Supreme
P/E (x)	25.1	24.2	10.0	16.5
EV/EBITDA (x)	13.1	15.3	8.5	11.3
EV/Sales (x)	1.9	3.2	4.0	1.8
FCF yield (%)	3.9	3.8	7.5	4.3

Source ED, Marketscreener

From the above table we note the valuation disparity that Supreme is currently trading at but would also caution investors about getting too focused on the Tobacco valuations, which we explain below.

We have used a peer group of what are clearly value-adding operators that not only have strong customer relationships, proven model delivery and positive cash flow performance but which have also differentiated themselves from being a commodity logistics company. The market has recognised these characteristics, hence the premium valuation – Supreme have the same traits at this peer group which points to a rerating merited on trading valuation, while also currently offering a stronger FCF yield.

We also included a Consumer Staples peer group to show how the market values branded manufacturers of largely essential items. As we have identified above there are a number of US companies in this peer cohort where the local market has been more comfortable applying premium ratings. Clearly Supreme has a long way to go to be seen as the next Unilever or Reckitts, but it has already shown that it can build, support and profit from successful brand development through the great achievements of 88vape.

Finally, and to underpin our valuation thoughts on Supreme we note the significant investments made by big tobacco in their quest for next generation products, of which vaping liquids are a part. The return on this investment has so far been very poor, as seemingly too focused on an idealistic lifestyle product.

It is interesting to note that one of the major global tobacco companies at a recent Capital Markets presentation flagged up NGP underperformance as part of a strategic review. One of the accompanying slides noted *'scaling of vapour too rapid and too broad...lack of consumer validation'* which is certainly not the Supreme experience. That particular company will next focus on heated tobacco and look to turnaround its US vapour business - if it wants to get the UK market correctly addressed, then it needs to talk to Supreme! A couple of weeks ago Imperial Brands reduced FY NGP losses by 56% to £138m.

The £1bn acquisition of inhaler developer **Vectura** by **Philip Morris**, after a tussle with Private Equity, is another recent reminder of the importance that big tobacco attaches to getting the next generation of products right. The exit multiple was **16x historic EBITDA** and **5.2x EV/sales.**

Meanwhile, Supreme has just got on with developing a product that not only do consumers want but is also a very profitable item for its customer base to stock.

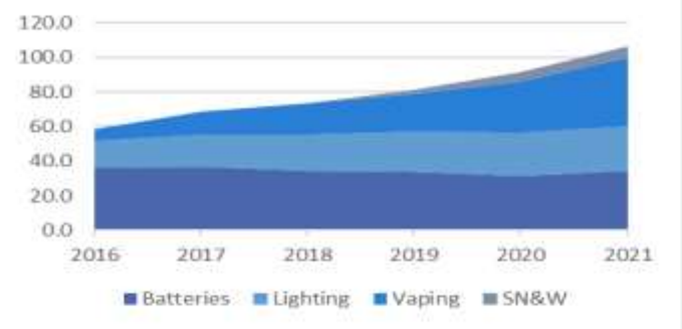
We initiate coverage with a fair value / share of 250p.

Group Financials

Supreme's IPO onto AIM was in Feb '21 at 134p through an oversubscribed issue (~5.6m new and 44.8m sales shares), raising ~£68m gross proceeds. Of these proceeds ~£7.5m was used to pay down debt and £60m for selling shareholders. It has a ~43% free float, with CEO Sandy Chadha owning ~57%.

It came to the market having delivered consistent top line progression driven by vaping, but ably supported by batteries and lighting. The chart below shows revenue for the past six years. While Batteries and Lighting have held their own, it has been the other categories that are diving the growth. The grey line represents the recent addition of Sports Nutrition & Wellness.

Revenue progression by division, £m

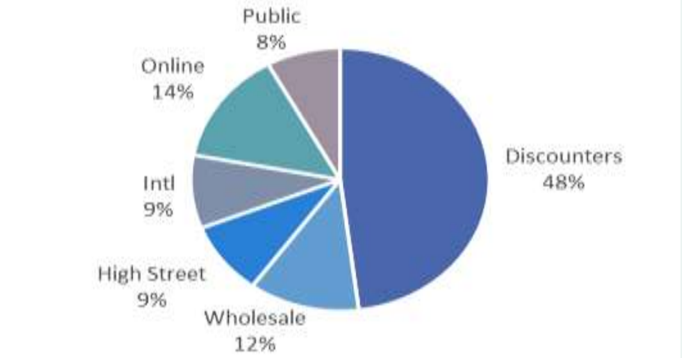


Source: Company

For us, it is fundamentally important that a company can demonstrate **top line growth**. The combination of its branded product offering, manufacturing mix, licencing and distribution agreements supported by proven logistics ensures that Supreme has a lot more of that to offer. Management has also demonstrated its ability to enhance top line growth via strategic, complementary M&A extracting well-recognised brands from businesses and adding them to its well-established vertically integrated platform meaning with minimal incremental overheads

The end market split, see chart below, also provides a number of channels to expand into. We have already noted that other industry commentators expect further strong growth from the discount segment where the group is extremely well positioned.

Supreme channels to market



Source: Company

After top line growth we look for companies that can deliver **cash-backed profit growth**, ideally expanding margin at the same time. While the group is vertically integrated and does have manufacturing, it does not have huge capital investment requirements to maintain these facilities.

Clearly growth will eventually require more capacity, but typically new kit cost runs to tens of thousands of pounds cost, rather than millions so all very digestible (although we do note the indication of a relocation of premises in the short to medium term in this latest RNS). Inventory management has been well controlled historically; Batteries and Lighting have a greater working capital requirement but here its long-term supplier relationships really help.

Income statement

Year end March, £m	**H1 21**	**H2 21**	**2021**	**H1 22**	**H2 22E**	**2022E**	**2023E**	**2024E**
Batteries	14,760	19,674	34,434	14,959	19,541	34,500	34,500	34,500
Lighting	11,109	14,796	25,905	13,157	14,043	27,200	28,700	30,000
Vaping	19,189	20,355	39,544	21,658	22,642	44,300	47,900	51,700
Nutrition/Wellness	2,177	4,679	6,856	6,367	8,633	15,000	16,200	17,000
Branded Consumer	9,101	6,413	15,514	4,941	4,059	9,000	9,000	9,000
Revenue	**56,336**	**65,917**	**122,253**	**61,082**	**68,918**	**130,000**	**136,300**	**142,200**
Batteries	*9.0*	*9.9*	*9.5*	*10.2*	*11.6*	*11.0*	*11.0*	*11.0*
Lighting	*30.3*	*31.3*	*30.9*	*34.1*	*30.1*	*32.0*	*32.0*	*32.0*
Vaping	*37.0*	*45.5*	*41.4*	*40.9*	*43.1*	*42.0*	*41.0*	*41.0*
Nutrition/Wellness	*41.2*	*37.4*	*38.6*	*33.3*	*22.4*	*27.0*	*29.1*	*32.0*
Branded Consumer	*11.2*	*9.9*	*10.6*	*10.5*	*11.6*	*11.0*	*10.0*	*10.0*
Gross margin (%)	***25.4***	***28.5***	***27.0***	***29.7***	***27.5***	***28.5***	***28.6***	***29.3***
Gross Profit	14.3	18.8	33.0	18.1	18.9	37.0	39.0	41.7
SG&A	-7.1	-12.3	-19.4	-9.4	-9.2	-18.6	-18.2	-19.2
Depreciation	0.9	1.1	2.0	1.2	1.6	2.8	3.0	3.0
Amortisation	0.1	0.2	0.2	0.1	0.1	0.2	0.2	0.2
Non-recurring	0.2	3.2	3.4	0.0	0.0	0.0	0.0	0.0
EBITDA	**8.4**	**10.9**	**19.3**	**10.2**	**11.3**	**21.5**	**24.0**	**25.7**
Share based payments	0.0	0.0	0.0	0.0	0.0	-2.0	-2.0	-2.0
Net Interest	-0.4	-0.3	-0.7	-0.3	-0.1	-0.4	0.0	0.0
PTP (Reported)	6.5	3.0	9.5	8.3	7.8	16.1	18.8	20.5
PTP (Adjusted)	**6.7**	**6.2**	**13.0**	**8.3**	**9.8**	**18.1**	**20.8**	**22.5**
Taxation	1.3	1.8	3.1	1.7	2.0	3.6	4.2	4.5
Tax rate reported	*20.6%*		*24.1%*	*20.0%*		*20.0%*	*20.0%*	*20.0%*
PAT	5.2	1.3	6.4	6.6	5.8	12.5	14.7	16.0
Attributable	5.2	1.3	6.4	6.6	5.8	12.5	14.7	16.0
Ord Dividends	0.0	0.0	0.0	2.6	5.1	7.7	8.5	9.3
Retained	5.2	1.3	6.4	4.1	0.7	4.8	6.2	6.7
No.shares (basic) m	110.0	110.5	111.1	116.6	116.6	116.6	116.6	116.6
Share (F Dil) m	111.3	112.2	113.2	123.9	123.9	123.9	123.9	123.9
Adjusted EPS (p)	**4.9**	**3.8**	**8.7**	**5.5**	**6.2**	**11.7**	**13.4**	**14.5**
DPS (p)				**2.2**	**4.4**	**6.6**	**7.3**	**8.0**

Source: Company historic, ED estimates

The Batteries and Branded Consumer operations are likely to deliver a consistent 10% gross margin due to the more mature nature of these businesses.

The higher growth segments are Vaping, ~40% gross margin and Sports Nutrition & Wellness, ~28/29% gross margin; but as manufacturing scale kicks in then the margins will benefit. We expect Lighting to show steady revenue growth at a stable margin.

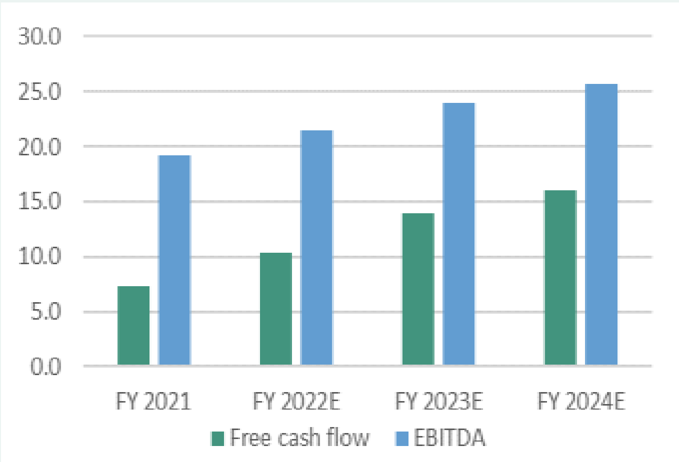
Cash flow highlights

Year end March, £m	2021	2022E	2023E	2024E
EBITDA	**19.3**	**21.5**	**24.0**	**25.7**
Exceptional items	-3.4	0.0	0.0	0.0
Other	-2.1	0.0	0.0	0.0
Working Capital	-1.6	-5.7	-4.7	-3.7
Operating cash flow	**12.2**	**15.8**	**19.3**	**22.1**
Tax	-3.0	-3.6	-4.2	-4.5
Interest	-0.6	-0.4	0.0	0.0
Other	-0.6	0.0	0.0	0.0
Capex	-1.5	-1.5	-1.2	-1.5
Asset disposal	0.9	0.0	0.0	0.0
Free cash flow (FCF)	**7.3**	**10.3**	**14.0**	**16.1**
FCF conversion (%)	*54*	*56*	*67*	*71*
Dividends	-3.0	-2.6	-8.0	-8.7
Acquisitions	-1.2	-3.5	-1.0	0.0
Disposals	0.0	0.0	0.0	0.0
Other	10.5	0.0	0.0	0.0
Debt movement	**13.6**	**4.2**	**5.0**	**7.3**
Net debt (cash)	**7.6**	**3.4**	**-1.7**	**-9.0**
Net debt leverage (x)	0.4	0.2	-0.1	-0.3

Source: Company historic, ED estimates

EBITDA conversion into FCF runs at a very solid ~60% and is on a rising trend.

Sound underlying cash generation, £m



Source: Company historic, ED estimates

Finally, in these increasingly inflationary and uncertain supply chain times, we identify the key costs and potential pressures but note that these are general factors rather than purely relating to Supreme

- Fuel – we estimate that 90% of the customer base is UK-based so its geographic reach is concentrated and therefore limited. Freight cost relative to revenue is small, less than 5%
- Energy – the group's manufacturing processes are relatively light on energy consumption
- People - the group employs ~250 people with ~20% linked to minimum wage so unlikely to be massively impacted by changes in legislation
- International supply chain – with over 30 years trading, the business is extremely well-networked and its ability to flex and shelter from the recent spikes in freight costs demonstrates the resilience of Supreme

Summary balance sheet

Year end March, £m	**2021**	**2022E**	**2023E**	**2024E**
Intangible assets	2.6	2.4	2.2	2.0
Tangible assets	2.8	3.3	2.5	1.4
Working capital	22.6	28.3	33.0	29.7
Cash	7.5	4.8	6.3	13.7
Debt	-15.1	-8.1	-4.7	-4.7
Other assets/liabilities	-1.6	-3.9	-6.5	-2.5
Net Assets	**18.8**	**26.7**	**32.9**	**39.6**

Source: Company historic, ED estimates

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