

A positive update of further momentum

17 April 2023

Supreme has issued a Trading Update for FY23 performance (year to 31 March) which it expects to be ahead of market expectations¹, and again in FY24 to slightly exceed the current market outlook. We have revised up our FY23 revenue outlook by 8.5% and, for FY24, by 7.6%.

FY23: growth led by Vaping

Supreme last updated on 10 January, reporting that Q3 trading to 31 December 2022 was significantly ahead year-on-year. The Group now reports strong second half FY23 performance, with organic growth in core businesses boosted by the two vaping acquisitions. As a result, Supreme expects to report revenue of “at least” £150.0m, which is 8.5% above our estimate of £138.5m, and (adj.) EBITDA of “at least” £19.3m, 5.2% above our estimate of £18.5m.

- The Group reports strong performance in the Vaping division, expecting revenue of c.£75.0m, 10.5% above our estimate of £69.7m, and also 3% above our outlook for FY24. Performance reflects the market strength of the flagship 88Vape brand combined with the impact of acquisitions, customer growth and increased e-liquids market share.
- The Group reports that other divisions remain resilient and profitable, with Lighting continuing to recover.
- As of 31 March, the Group expects borrowings net of cash to be neutral, i.e. £12.9m lower than at the Interim, reflecting strong cash conversion – we estimate EBITDA/Operating cashflow conversion at 65.8% in FY23 and 87.3% in FY24.

Our outlook raised, again

At the Interim we raised our outlook on the basis of strong results ([ED report 29th November 2022 H1 23 results buoyed by strong performance from Vaping](#)): FY23 revenue by 7% to £138.3m, and FY23 EBITDA (adj.) by 6% to £18.5m. The subsequent Trading Update added evidence of continuing positive momentum ([ED report 10th January 2023 Positive trading update – strong busiest quarter](#)). On the basis of the strength of trading Supreme now reports, **we again raise our outlook**: FY23 revenue, in line with the trading update, **by 8.5% to £150.0m** and (adj.) EBITDA by 5.2% to £22.6m. For FY24 we have raised our revenue outlook **by 7.6% to £162.0m** and (adj.) EBITDA from £22.2m to £22.6m. There is evident margin dilution to 13.9% from our prior 14.7% estimate; this principally reflects the surge in Vaping revenue such that FY23 (E) *already exceeds* our prior FY24 estimate.

Our Fair Value remains 190p/share – a price indicative of a FY24 EV/EBITDA of 9.4x

Financial outlook to FY24

Yr to March 31 (£m)	2020	2021	2022	2023E	2024E
Revenue	92.3	122.3	130.8	150.0	162.0
EBITDA (adj)	16.0	19.3	21.1	19.4	22.6
EPS (adj, p)	9.7	11.8	11.5	9.4	10.6
DPS (p)	10.0	2.7	2.2	4.7	2.5
Net debt / (cash)	21.3	7.6	4.0	3.4	(6.0)
EV/EBITDA	7.0x	5.8x	5.3x	5.8x	5.0x
P/E	10.2x	8.4x	8.6x	10.6x	9.4x

Source: Company data, Equity Development estimates. ¹ Supreme notes consensus market estimated FY23 revenue of £138m, (adj.) EBITDA of £18.5m and consensus market estimated FY24 revenue of £150.5m and (adj.) EBITDA of £22.2m.

Company Data

EPIC	SUP
Price (last close)	96p
52 week Hi/Lo	195/70p
Market cap	£112m
ED Fair Value / share	190p
Net debt (cash) £m	3.4

Share Price, p



Source: LSE

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, B&M, Home Bargains, The Range, Sports Direct, Lonsis, SPAR, Costcutter, Asda, Halfords, and Iceland, 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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Summary of revised estimates

As shown below, inclusive of the impact of acquisitions, the combined impact of our upward revision to estimates is:

- FY23 revenue outlook raised by 8.5%; gross raised by 2.1%; (adj.) EBITDA raised by 5.2%, with margin reduced from slightly 13.4% to 13.0%.
- FY24 revenue outlook raised by a further 7.6%; gross raised by 5.7%; (adj.) EBITDA raised by 1.8%, with a margin of 13.9% compared to a prior estimate of 14.7%.

Summary of revised estimates

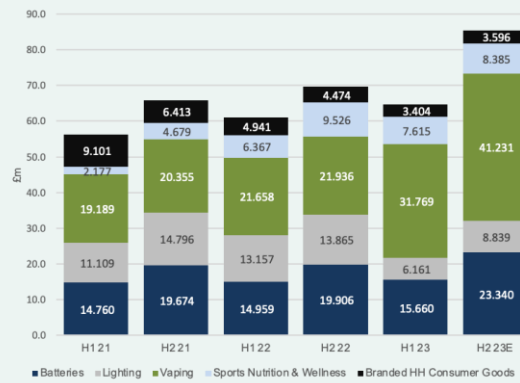
Prior estimates (£m) Y/E March 31 st	2022	2023E	2024E	23 YoY	24 YoY
Batteries	34.9	34.5	34.5	-1.0%	0.0%
Lighting	27.0	13.0	20.0	-51.9%	53.8%
Vaping	43.6	67.9	73.0	55.8%	7.5%
Sports Nutrition & Wellness	15.9	15.0	16.0	-5.6%	6.7%
Branded HH Consumer Goods	9.4	7.9	7.0	-16.1%	-11.4%
Revenue	130.8	138.3	150.5	5.7%	8.8%
Gross	38.5	40.5	45.2	5.1%	11.6%
<i>Mrg</i>	29.4%	29.3%	30.0%		
EBITDA (adj)	21.1	18.5	22.2	-12.3%	20.0%
<i>Mrg</i>	16.1%	13.4%	14.7%		
Revised ests. (£m)					
Batteries	34.9	39.0	39.0	11.9%	0.0%
Lighting	27.0	15.0	19.0	-44.5%	26.7%
Vaping	43.6	73.0	81.0	67.5%	11.0%
Sports Nutrition & Wellness	15.9	16.0	16.0	0.7%	0.0%
Branded HH Consumer Goods	9.4	7.0	7.0	-25.7%	0.0%
Revenue	130.8	150.0	162.0	14.7%	8.0%
Gross	38.5	41.3	47.8	7.3%	15.5%
<i>Mrg</i>	29.4%	27.6%	29.5%		
EBITDA (adj)	21.1	19.4	22.6	-7.7%	16.1%
<i>Mrg</i>	16.1%	13.0%	13.9%		
beta					
Batteries		13.0%	13.0%	N.M.	N.M.
Lighting		15.4%	-5.0%	N.M.	N.M.
Vaping		7.5%	11.0%	11.7%	3.4%
Sports Nutrition & Wellness		6.7%	0.0%	6.3%	-6.7%
Branded HH Consumer Goods		-11.4%	0.0%	N.M.	N.M.
Revenue		8.5%	7.6%	8.9%	-0.8%
Gross		2.1%	5.7%	2.2%	3.9%
<i>Mrg</i>		-1.7%	-0.5%		
EBITDA (adj)		5.2%	1.8%	4.6%	-3.9%
<i>Mrg</i>		-0.4%	-0.8%		

Source: Company data. Equity Development estimates.

Outlook summary

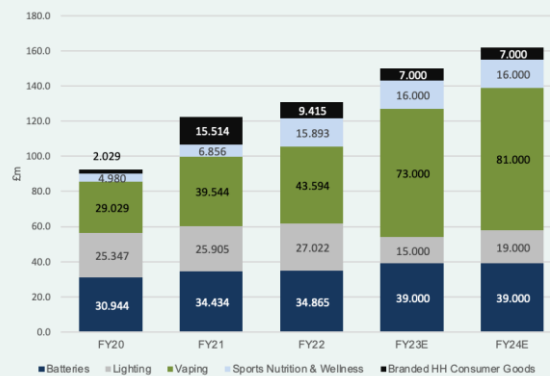
Comparison of semi-annual and FY20-24E revenue trends illustrates the comparative strength of projected H2 23 performance as the basis for future annual growth and platform for margin improvement.

Revenue – semi-annual to H2 23(E)



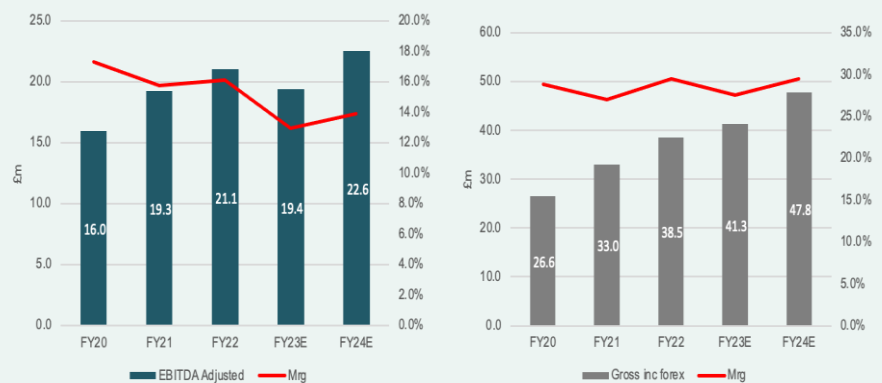
Source: Company data. Equity Development estimates.

Revenue – annual to FY24(E)



Source: Company data. Equity Development estimates.

EBITDA and Gross profitability trends to FY24 E



Source: Company data. Equity Development estimates.

Positive market developments

We highlight a number of positive developments impacting the **Vaping** division (49.2% of Interim revenue), and **Sports Nutrition & Wellness** (11.8% of revenue) division in particular.

Vaping – UK Government incentive scheme

There have been many recent reports highlighting the dangers of illicit or unregulated vaping products, particularly amongst the young (e.g. Sunday Times Magazine feature, 11th March *Generation Vape* www.thetimes.co.uk/article/generation-vape-how-schoolchildren-got-hooked-on-e-cigarettes-98fdskqdd). However, as reported by BBC News online (11.04.2023: www.bbc.co.uk/news/uk-65235343), the UK Government has launched renewed efforts **to reduce the prevalence of smoking by using vaping as the safer alternative**. As noted by BBC News:

- “One million smokers will be given a **free vaping starter kit** to encourage them to give up tobacco products. Pregnant women will also be offered up to £400 to stop smoking as part of a package of measures in England to be unveiled by the government on Tuesday. A consultation will be launched on compelling cigarette manufacturers to put advice on quitting inside packs. The government has committed to getting smoking rates in England below 5% by 2030. The plans also include a crackdown on underage and illicit vape sales.”

The move is a reminder of the Government's past commitment to the promotion of vaping as a means of encouraging long-term smokers to quit, with obvious benefits for personal health and implications for levels and costs of healthcare.

Sports Nutrition - whey price inflation eases

Reporting on FY22 results, in July 2022, Supreme noted the “transformational” impact of raw material price inflation; subsequently observing at the Interim in November 2022 that this inflationary pressure should begin to ease. Although for whey protein - a staple ingredient for fitness supplements - prices remain 5% above the 2017-22 average, there are signs that upward pricing pressure has eased, having peaked in October 2022.

As shown below the latest, April 2023, European Whey Protein Concentrate (US) data indicates that, at €2.545/ton, the bulk price of whey has retreated 37.4% from its October 2022 peak. The price of skim milk powder (German, €) has similarly declined, down 43%YoY from the April 2022 peak of €4.299/ton (source: CLAL.it, Italian economic dairy consultants).

US whey protein concentrate price, 2003 – April 2023 (€)

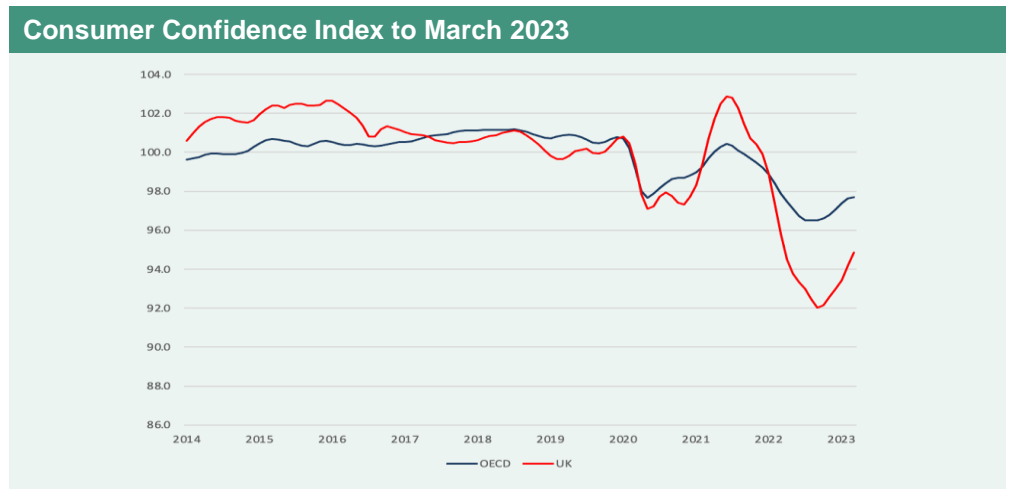


Source: https://www.clal.it/en/?section=whey_usa

UK consumer confidence – some signs of improvement

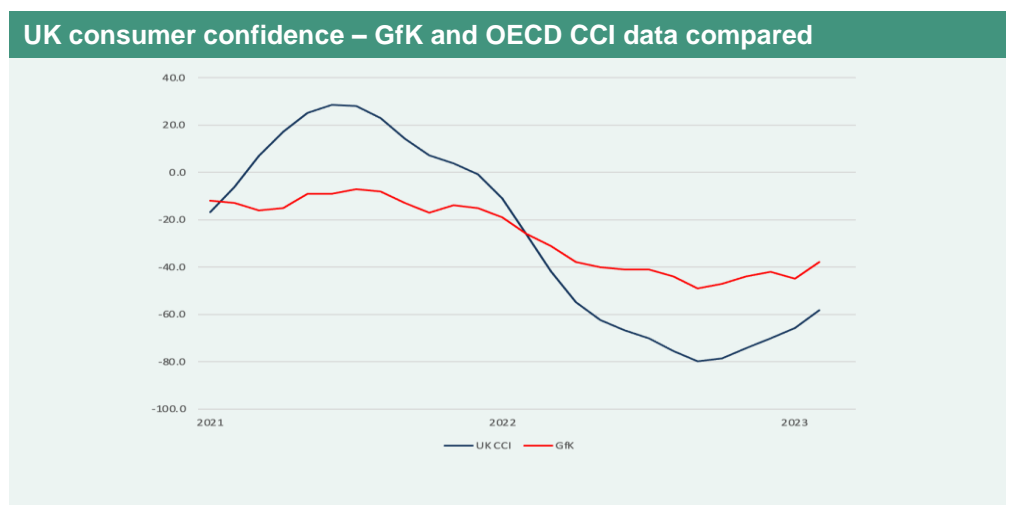
The latest UK GDP data (Office of National Statistics data, released on 13 April) indicates that Q4 2022 UK GDP growth was 0.1% Q/Q, with increased construction activity offset by the impact of public sector and rail strike action (source: <https://commonslibrary.parliament.uk/research-briefings/sn02784>). The IMF outlook for the UK remains muted.

As the BBC notes: “The UK is set to be one of the worst performing major economies in the world this year, according to the International Monetary Fund (IMF). It says the UK economy’s performance in 2023 will be the worst among the 20 biggest economies ... It now expects the UK economy to shrink by 0.3% in 2023 and then grow by 1% next year.” However, there are signs of a rebound in consumer confidence across the OECD and in the UK, as illustrated below.



Source: OECD

Consumer market observer GfK Group also notes an upturn in its Index of UK consumer confidence, in February at -38, up from a historic low of -49 in September 2022: “Despite widely reported headwinds of inflation continuing to outstrip wage rises, and the ongoing household challenge from the cost-of-living crisis, consumers have suddenly shown more optimism about the state of their personal finances and the general economic situation, especially for the coming year”. (www.gfk.com/press/uk-consumer-confidence-in-surprise-rebound-from-historic-lows).



Source: OECD, GfK Group. OECD data is modified for scaling at $((Index - 100) \times 10)$.

Summary P&L

Summary P&L outlook to FY24 E

£m		FY22	H1 23	H2 23E	FY23E	FY24E
Batteries		34.9	15.7	23.3	39.0	39.0
Lighting		27.0	6.2	8.8	15.0	19.0
Vaping		43.6	31.8	41.2	73.0	81.0
Sports Nutrition & Wellness		15.9	7.6	8.4	16.0	16.0
Branded HH Consumer Goods		9.4	3.4	3.6	7.0	7.0
Revenue		130.8	64.6	85.4	150.0	162.0
Gross Sum		36.9	17.6	22.8	40.3	47.3
	<i>Mrg</i>	28.2%	27.3%	26.7%	26.9%	29.2%
COGS		(93.9)	(47.0)	(62.6)	(109.7)	(114.8)
Forex		1.6	0.5	0.5	1.0	0.5
Gross inc forex		38.5	18.2	23.2	41.3	47.8
	<i>Mrg</i>	29.4%	28.1%	27.2%	27.6%	29.5%
Sum Op-ex		(21.5)	(13.4)	(13.3)	(26.7)	(33.2)
One-off costs		(1.1)	(1.4)	0.9	(0.5)	(2.7)
EBIT Reported		17.0	4.8	9.9	14.6	14.6
EBIT Adjusted		18.1	6.2	9.0	15.1	17.3
	<i>Mrg</i>	13.8%	9.7%	10.5%	10.1%	10.6%
Depreciation		(2.6)	(1.4)	(1.7)	(3.1)	(3.6)
Amortisation		(0.4)	(0.5)	(0.7)	(1.2)	(1.7)
EBITDA Reported		20.0	6.7	12.2	18.9	19.9
EBITDA Adjusted		21.1	8.1	11.3	19.4	22.6
	<i>Mrg</i>	16%	13%	13%	13%	14%
Financial income		0.0	0.0	0.0	0.0	0.0
Financial expense		(0.7)	(0.4)	(0.7)	(1.1)	(1.1)
PBT Reported		16.3	4.4	9.1	13.5	13.5
PBT Adjusted		17.4	5.8	8.2	14.0	16.2
Tax		(2.6)	(1.1)	(1.6)	(2.7)	(3.4)
Reported tax rate		15.8%	25.2%	17.5%	20.0%	25.0%
	<i>Tax rate adjusted</i>	14.8%	19.0%	19.5%	19.3%	20.8%
PAT Reported		13.7	3.3	7.5	10.8	10.1
PAT Adjusted		14.8	4.7	6.6	11.3	12.8
Amortisation & tax items		0.1	1.9	(0.9)	0.5	2.7
PAT Adjusted		13.9	5.2	6.6	11.3	12.8
Basic wtd. Av. shares (m)		116.6	116.6	116.6	116.6	116.6
Diluted wtd. av. shares (m)		121.1	121.1	121.1	121.1	121.1
EPS rptd basic (p)		11.8	2.8	6.5	9.3	8.6
EPS rptd dil (p)		11.4	2.7	6.2	8.9	8.3
EPS Adj basic (p)		11.9	4.5	5.7	9.7	11.0
EPS adj dil (p)		11.5	4.3	5.4	9.4	10.6

Source: Company data, Equity Development estimates.

Summary Cashflow

Summary cashflow, outlook to FY24 E					
Yr to March 31 (£m)	FY22	H1 23	H2 23E	FY23E	FY24E
PAT Reported	13.7	3.3	7.5	10.8	10.1
One-off items	1.1	0.4	0.1	0.5	2.7
Depreciation	2.6	1.4	1.7	3.1	3.6
Amortisation	0.4	0.5	0.7	1.2	1.7
Tax	2.8	1.1	1.6	2.7	3.4
Finance/other	0.0	0.4	(0.4)	0.0	0.0
Operating Cash Flow	20.6	7.0	11.3	18.3	21.5
(Increase)/Decrease inventories	(4.9)	(2.2)	(2.3)	(4.5)	(1.5)
(Increase)/Decrease in receivables	(2.2)	(6.7)	3.1	(3.6)	(1.8)
Increase/(Decrease) in payables	2.5	8.4	(5.8)	2.5	1.6
Movement in working capital	(4.7)	(0.5)	(5.0)	(5.5)	(1.8)
Cash generated by operations	15.9	6.5	6.3	12.8	19.7
Tax (paid)/received	(4.2)	(1.7)	(1.1)	(2.7)	(3.4)
Net cash from operations	11.8	4.9	5.2	10.1	16.3
Investing activities	0.0	0.0	0.0	0.0	0.0
Interest received	0.0	0.0	0.0	0.0	0.0
Intangibles	(1.5)	0.0	(4.8)	(4.8)	(4.0)
PPE	(1.3)	(0.5)	(0.5)	(1.0)	(1.3)
Acquisition	(1.0)	(10.1)	10.1	0.0	0.0
Sale of PPE	0.4	0.0	3.0	3.0	1.3
Net cash used in investing	(3.4)	(10.7)	8.0	(2.8)	(4.0)
Net OpFCF	8.4	(5.9)	13.2	7.3	12.3
Borrowings	(8.1)	12.5	0.0	12.5	4.0
Share issue	0.0	0.0	0.0	0.0	0.0
Interest paid	(0.3)	(0.2)	0.0	(0.2)	0.0
Leases	(1.0)	(0.5)	(0.5)	(1.0)	0.0
Dividend	(2.6)	(4.4)	(1.0)	(5.4)	(3.0)
Net cash from financing	(11.9)	7.3	(1.5)	5.8	1.0
Net increase in cash / equivalents	(3.5)	1.5	11.7	13.2	13.4
Cash start	7.5	3.9	5.4	3.9	17.1
Forex	(0.0)	0.0	0.0	0.0	0.0
Cash end	3.9	5.4	17.1	17.1	30.5
Net debt / (cash)	4.0	14.6	3.4	3.4	(6.0)

Source: Company data, Equity Development estimates.

Summary Balance sheet

Summary balance sheet, outlook to FY24 E					
Yr to March 31 (£m)	FY22	H1 23	H2 23E	FY23E	FY24E
Intangible assets	3.7	14.1	13.4	13.4	15.7
PPE net	2.6	3.6	0.5	0.5	(1.8)
RoU	2.1	1.7	2.1	2.1	2.1
Investments	1.3	0.6	1.3	1.3	1.3
Sum Fixed Assets	9.7	20.1	17.3	17.3	17.3
Inventories	25.9	30.6	30.4	30.4	32.0
Trade receivables	19.0	26.9	22.6	22.6	24.4
Tax assets	0.0	0.0	0.0	0.0	0.0
Financial insts	0.5	0.8	0.5	0.5	0.5
Cash, Equivalents	3.9	5.4	17.1	17.1	30.5
Sum Current Assets	49.3	63.8	70.6	70.6	87.3
Total Assets	59.0	83.8	87.9	87.9	104.6
Trade payables	(17.3)	(31.8)	(22.5)	(19.8)	(21.4)
Borrowings	(6.7)	(0.4)	(6.7)	(6.7)	(6.7)
Tax, Other	(1.3)	(0.8)	(1.3)	(1.3)	(1.3)
Sum Current Liabilities	(25.3)	(33.0)	(27.8)	(27.8)	(29.4)
Total Assets less Current Liabilities	33.8	50.8	60.1	60.1	75.2
Borrowings	(1.3)	(19.6)	(13.8)	(13.8)	(17.8)
Tax	(0.2)	(0.3)	(0.2)	(0.2)	(0.2)
Sum Long-term liabilities	(1.5)	(19.8)	(14.0)	(14.0)	(18.0)
Total liabilities	(26.7)	(52.9)	(41.8)	(41.8)	(47.3)
Net Assets	32.3	31.0	46.1	46.1	57.3
Share Capital	11.7	11.7	11.7	11.7	11.7
Share Premium	7.2	7.2	12.1	12.1	10.5
Capital Reserve	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)
Retained earnings	33.1	31.9	44.4	44.4	57.2
Equity	32.3	31.0	46.1	46.1	57.3
Net debt / (cash)	4.0	14.6	3.4	3.4	(6.0)

Source: Company data, Equity Development estimates.



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