

Positive trading update and vaping safety measures

18 October 2023

In a Trading Update for the six months to 30 September 2023 Supreme reports strong performance in line with a consensus market (adj.) FY24 EBITDA outlook¹ of £29.0m; matching Equity Development (ED) estimates. The Group expects H1 24 revenue of above £100.0m (+55%YoY) and (adj.) EBITDA of at least £15.0m (H1 23: £8.1m). Previously, to accompany the 26 September AGM, the Group indicated FY24 revenue of £195m - £205m, and (adj.) EBITDA of £28m - £30m, leading to an increase in our (adj.) EBITDA outlook of 13%. Supreme reports that the Elf distribution agreement has exceeded initial expectations, contributing c.50% of H1 revenue and gross profit growth, whilst all of the other four Business Categories have reported both revenue and profits growth. The Group has guided to FY24 revenue from the Elf opportunity of c.£40.0m and a contribution to (adj.) EBITDA of c.£4.0m. This falls within the Other Consumer Goods Business Category with ED FY24 estimates of £46.0m in revenue and £6.0m at gross level.

Vaping sale safety measures announced

At the AGM Supreme had reiterated its awareness of concerns surrounding youth vaping in the UK, being: “fully supportive of any proactive measures or changes in legislation that potentially restricts specific products, packaging, flavours or point of sale”. The Group has now announced an **eight-point series of measures** and recommendations designed to “ensure its owned brands do not create any interest from underage vapers”. The measures, which we repeat in full, comprise: (1) the introduction of plain, uniform, packaging across its entire 88vape range; (2) discontinuation of all brightly coloured 88vape disposable vapes; (3) age-appropriate flavour branding, e.g. replacing “Peach Dream” with “Peach”; (4) to trade only with retailers with robust age verification processes; (5) to promote the in-store location of vaping products separately and away from confectionary; (6) instal vape disposal bins, currently underway with partner retailer B&M; (7) continue to cooperate with the government in all its efforts to combat the underage vaping problem; and (8) encourage other vape brand owners that they work with to follow suit with this initiative.

We highlight in particular the measures to discontinue production of brightly-coloured disposable vapes, make packaging plain and remove flavour branding which promotes analogies with confectionary. Attention to the behaviour of retailers, from age verification processes to the location of vaping products, are also **proactive measures rather than more generalised statements**.

Outlook

Following our recent AGM upgrade, our estimates remain unchanged and **Fair Value remains at 200p/share, indicative of a FY24 EV/EBITDA of 8.2x**. The Group will report Interim results on Tuesday 28 November and host a presentation for investors at 14.00 GMT on that day².

Company Data

EPIC	SUP
Price (last close)	108p
52 week Hi/Lo	135/74p
Market cap	£126m
ED Fair Value / share	200p
Net debt / (cash)	£(3.2)m

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 Household Consumer Goods.

The customer base includes leading brands such as, amazon, ASDA, B&M, BOOKER, home bargains, 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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Financial outlook

Yr to March 31 (£m)	2021	2022	2023	2024E	2025E
Revenue	122.3	130.8	155.6	204.2	215.8
EBITDA (adj)	19.3	21.1	19.4	29.0	29.5
EPS (adj, p)	11.8	12.4	11.2	15.3	15.8
DPS (p)	2.7	2.2	4.6	3.7	3.9
Net debt / (cash)	5.4	1.8	(3.2)	(3.1)	(14.8)
EV/EBITDA	6.7x	6.1x	6.6x	4.4x	4.4x
P/E	9.1x	8.7x	9.6x	7.0x	6.8x
Div yield	2.5%	2.0%	4.3%	3.5%	3.6%

Source: Company data, Equity Development estimates. ¹ Company-compiled consensus of analysts' estimates for Y/E 31 March 2024 of (adj.) EBITDA. ²Registration for the event at <https://www.equitydevelopment.co.uk/news-and-events/supreme-investor-presentation-28november2023>.

Eight measures to combat under-age and disposable vaping

Designed to limit the attractiveness of its vaping products to minors, prevent their sale by retailers and promote similar measures in co-operation with government and trade bodies, Supreme has issued the following eight-point package of actions, measures and proposals, which we repeat verbatim:

“As an industry leader, and to ensure its owned brands do not create any interest from underage vapers, Supreme today announces the following proactive measures over the coming months, which it believes should be adopted across the UK vaping market:

- **1. Plain packaging:** Packaging across its entire 88vape range, from disposables to 10ml liquids, will be immediately assessed to ensure the use of colour is very limited (used only to differentiate one stock item from another) and the packaging is plain and uniform. Supreme does not use images, cartoons or characters on its packaging.
- **2. Discontinue all bright coloured disposables:** The Company’s 88vape disposable range will be switched to either plain black, white or grey hardware with any bright colours discontinued at the earliest opportunity.
- **3. Age-appropriate flavours only:** The naming conventions of all flavours across the 88vape range will be simplified, for example “Peach Dream” will become “Peach” and “Sweet Strawberry” will become “Strawberry” to reduce the shelf appeal for underage vapers. Any flavours which are likely to be more appealing to underage vapers will be removed entirely from the range.
- **4. To trade only with retailers with age robust verification:** Supreme will increase its ‘pre-order’ due diligence on all retailers and e-tailers in its network to ensure they expressly confirm that they have robust age verification protocols in place. Supreme will no longer trade with those that cannot comply with this requirement.
- **5. Responsible location of products in store:** Supreme will strongly recommend to all retailers that their Vaping products should not be located close to confectionary and will work with retailers to find a suitable location in store to avoid underage vapers from coming into contact with vaping products.
- **6. Vape disposal bins in store:** Supreme is currently rolling out vape disposal units across the entire estate of its largest customer, B&M Retail, in a bid to encourage more responsible disposal of the single use devices.
- **7. Government co-operation:** Supreme will continue to cooperate with the government in all its efforts to combat underage vaping and would welcome further legislation of the industry, such as those proposed by the Vaping Industry Association who argue that the sale of vaping products should be licenced with substantial fines for those retailers that are found to be selling vapes to underage individuals.
- **8. Industry co-operation:** Supreme will encourage other vape brand owners that they work with to follow suit.”

As we have noted, these are **proactive practical initiatives** which Supreme is able to enforce across its own manufacturing, packaging and branding systems, with the addition of recommendations to a network of retailers which we note include a range of the most well-known high street names.

Summary P&L

Summary P&L outlook to FY25 E				
£m	FY22	FY23	FY24E	FY25E
Batteries	34.9	39.5	39.9	40.3
Lighting	27.0	15.4	17.5	21.0
Vaping	43.6	76.1	82.0	88.5
Sports Nutrition & Wellness	15.9	16.7	18.8	20.0
Branded HH Consumer Goods	9.4	7.8	46.0	46.0
Revenue	130.8	155.6	204.2	215.8
Gross Sum	36.9	39.6	54.1	57.7
<i>Mrg.</i>	28.2%	25.4%	26.5%	26.7%
COGS	(93.9)	(116.0)	(150.1)	(158.1)
Forex	1.6	1.3	1.0	1.0
Gross inc forex	38.5	40.9	55.1	58.7
<i>Mrg.</i>	29.4%	26.3%	27.0%	27.2%
Sum Op-ex	(21.5)	(28.2)	(32.8)	(35.9)
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	22.3	22.8
EBIT Adjusted	18.1	16.3	24.1	24.6
<i>Mrg.</i>	13.8%	10.5%	11.8%	11.4%
Depreciation	(2.6)	(2.2)	(3.2)	(3.2)
Amortisation	(0.4)	(0.9)	(1.7)	(1.7)
EBITDA Reported	20.0	18.6	27.2	27.7
EBITDA Adjusted	21.1	19.4	29.0	29.5
<i>Mrg.</i>	16.1%	12.5%	14.2%	13.7%
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	20.8	21.7
PBT Adjusted	17.4	15.3	22.6	23.5
Tax	(2.6)	(2.5)	(5.2)	(5.4)
Reported tax rate	15.8%	20.0%	25.0%	25.0%
<i>Tax rate adjusted</i>	14.8%	16.2%	23.0%	23.1%
PAT Reported	13.7	12.1	15.6	16.2
PAT Adjusted	14.8	12.9	17.4	18.0
Amortisation & tax items	1.3	1.8	3.3	3.3
PAT Adjusted	15.0	13.8	18.9	19.5
Basic wtd. av. shares (m)	116.6	116.7	116.7	116.7
Diluted wtd. av. shares (m)	121.1	123.5	123.5	123.5
EPS rptd. basic (p)	11.8	10.3	13.4	13.9
EPS rptd. dil. (p)	11.3	9.8	12.6	13.2
EPS adj. basic (p)	12.8	11.8	16.2	16.7
EPS adj. dil. (p)	12.4	11.2	15.3	15.8

Source: Company data, Equity Development estimates.

Summary cashflow

Summary cashflow, outlook to FY25 E				
Yr to March 31 (£m)	FY22	FY23	FY24E	FY25E
PAT Reported	13.7	12.0	15.6	16.2
One-off items	1.1	0.8	1.8	1.8
Depreciation	2.6	2.2	3.2	3.2
Amortisation	0.4	0.9	1.7	1.7
Tax	2.6	2.5	5.2	5.4
Finance/other	0.2	(0.0)	1.5	1.1
Operating Cash Flow	20.6	18.4	29.0	29.5
(Increase)/Decrease inventories	(4.9)	2.9	(9.1)	(1.4)
(Increase)/Decrease in receivables	(2.2)	(0.7)	(8.8)	(1.7)
Increase/(Decrease) in payables	2.5	(0.0)	7.5	(2.8)
Movement in working capital	(4.7)	2.2	(10.4)	(5.9)
Cash generated by operations	15.9	20.6	18.6	23.6
Tax (paid)/received	(4.2)	(1.3)	(5.2)	(5.4)
Net cash from operations	11.8	19.3	13.4	18.2
Investing activities	0.0	0.0	0.0	0.0
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	6.4	18.5
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)	(4.4)	(4.5)
Net cash from financing	(11.9)	(8.2)	(5.6)	(5.7)
Net increase in cash / equivalents	(3.5)	3.5	0.9	12.7
Cash start	7.5	3.9	7.5	8.4
Forex	(0.0)	0.1	0.0	0.0
Cash end	3.9	7.5	8.4	21.2

Source: Company data, Equity Development estimates.

Summary balance sheet

Summary balance sheet, outlook to FY25 E				
Yr to March 31 (£m)	FY22	FY23	FY24E	FY25E
Intangible assets	3.7	15.3	13.6	11.9
PPE net	2.6	5.2	5.0	2.8
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	34.2	30.3
Inventories	25.9	25.6	34.7	36.1
Trade receivables	19.0	20.9	29.7	31.3
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	8.4	21.2
Sum Current Assets	49.3	54.0	72.7	88.6
Total Assets	59.0	90.1	106.9	118.9
Trade payables	(17.3)	(26.1)	(33.6)	(30.7)
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)	(41.8)	(39.0)
Total Assets less Current Liabilities	33.8	55.8	65.2	79.9
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)	(57.6)	(54.8)
Net Assets	32.3	40.0	49.3	64.0
Share Capital	11.7	11.7	11.7	11.7
Share Premium	7.2	7.4	0.9	(3.9)
Capital Reserve	(22.0)	(22.0)	(22.0)	(22.0)
Retained earnings	33.1	39.8	58.7	78.2
Equity	32.3	40.0	49.3	64.0
Net debt / (cash) pre-IFRS 16	1.8	(3.2)	(3.1)	(14.8)

Source: Company data, Equity Development estimates.



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