

AGM statement affirms market momentum

19 September 2024

In a statement to accompany today's AGM, Supreme PLC Chairman Paul McDonald noted "record organic revenue and profit growth" for the year to 31 March 2024. The Group also closed the year debt-free. Subsequently, the Group has continued to build on positive trading momentum into H1 25, and, following a solid start, expects FY25 performance to be in line with market expectations.

Inclusive of the acquisition of Clearly Drink, Supreme reports that annualised sales from non-vaping products are expected to exceed £100m; this is in line with ED estimates. The Group also expects acquisitions to continue to offer opportunities for further diversification and to expand its market presence.

Measures in place to manage changes in the UK vaping market

The Group reports that core lines in the vaping revenue "continue to perform well" whilst it is well-positioned to manage expected regulatory changes in the UK market, with investment in rechargeable pod system vaping devices, a revised range of flavours and own-brand packaging, and the imposition of rigid age verification across all its retail partners.

Proven expertise in distribution of value staple consumer goods

Supreme has built an efficient distribution platform for a wide range of quality, value, household products: vaping replacements for harmful tobacco products, addressing the 6.4m¹ smokers (13% of the adult population) whom the government intends to wean off the habit; batteries and lighting, staple, replacement household items; sports and wellbeing products to meet growing demand for a healthier, more active lifestyle; and recently, entry into the soft drinks market with the acquisition of Clearly Drinks.

Group expertise combines efficient distribution management from its Manchester Trafford Walk centre – the 'Ark' – with an established network of retail chains to ensure product flow to consumers, and ample opportunity to increase the scale of operations.

Valuation

Our Fair Value of 225p/share indicates a FY26 EV/EBITDA of 7.3x, which remains at a discount to a range representative of peers across Supreme's product categories.

Company Data

EPIC	SUP
Price (last close)	172p
52 week Hi/Lo	209/87p
Market cap	£202m
ED Fair Value / share	225p
Net debt / (cash)	£(11.6)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 six key categories of consumer spending: Vaping, Sports Nutrition & Wellness, Batteries, Lighting, Branded Distribution (household goods) and Soft Drinks. 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)	2022	2023	2024	2025E	2026E
Revenue	130.8	155.6	221.2	239.7	231.3
EBITDA (adj)	21.1	19.4	38.1	37.0	36.2
EPS (adj, p)	12.4	11.2	20.2	19.5	19.6
DPS (p)	2.2	4.6	3.7	4.9	4.6
Net debt / (cash)	1.8	(3.2)	(11.6)	(18.2)	(37.2)
EV/EBITDA	9.0x	9.8x	5.0x	5.1x	5.2x
P/E	13.9x	15.4x	8.5x	8.8x	8.8x
Div yield	1.3%	2.7%	2.2%	2.9%	2.7%
ED FV EV/EBITDA		13.0x	6.6x	6.8x	7.3x
ED FV PE		20.1x	11.1x	11.5x	11.5x

Source: Company data, Equity Development estimates. FV: Fair Value. Net debt / (cash) is pre IFRS 16.

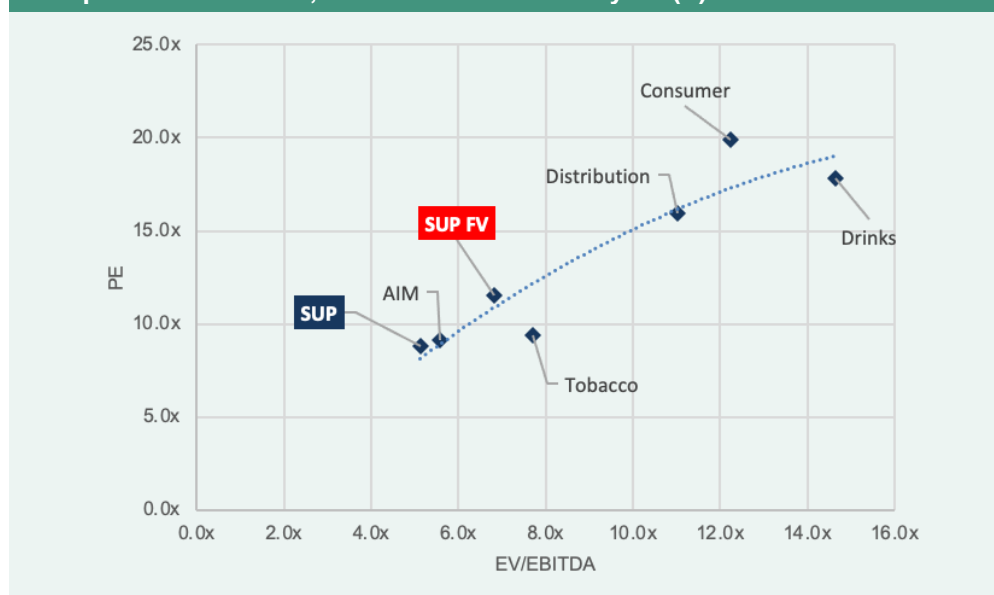
¹ <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandlifeexpectancies/bulletins>

Valuation considerations

Supreme trades on a FY25 (E) EV/EBITDA of 5.1x and PE of 8.8x, representing a significant discount to market cap-weighted averages amongst peers in Supreme's product segment range:

- **Distributors** - Diploma, Bunzl, Ferguson, Travis Perkins, 11.0x / 15.9x.
- **Consumer Staples** - Unilever, P&G, Nestle, Walmart, PepsiCo, Reckitt, 12.2x / 19.9x.
- **Tobacco** - BATS, Philip Morris, Altria, Imperial Brands, 7.7x / 9.4x.
- **Soft Drinks** - PepsiCo Inc., The Coca-Cola Company, Britvic, Fevertree plc, A.G. Barr, 14.6x / 17.8x.
- **AIM classification peers** - IG Design, Kitwave, Uniphar, 5.6x / 9.1x.

Comparative valuation, EV/EBITDA and PE +1 year (E)



Source: Koyfin, Equity Development estimates. Updated 12.09.24.

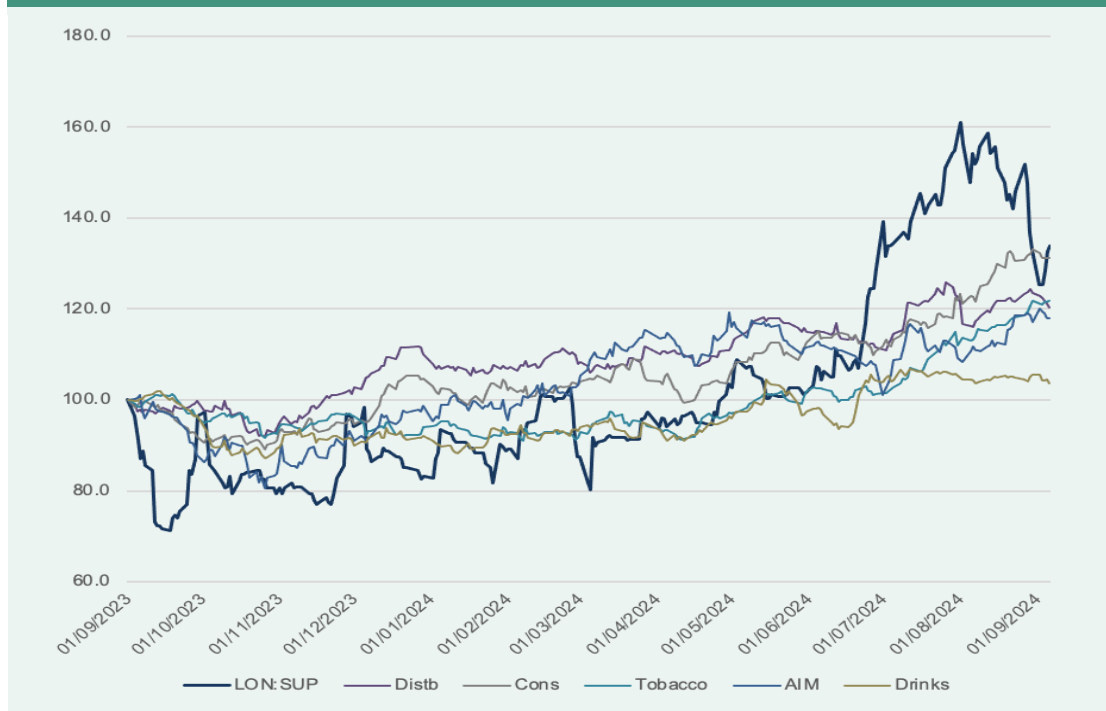
ED Supreme Fair Value is indicative of a FY25 EV/EBITDA multiple of 6.8x and PE, 11.5x.

Comparative valuation, EV/EBITDA, PE, EV/Revenue

Ticker	Name	Mkt cap (£m)	Price (£/\$)	EV/Rev	EV/EBITDA	PE
DPLM	Diploma PLC	5,844	33.4	3.4x	15.0x	22.9x
BNZL	Bunzl plc	12,107	27.6	0.9x	9.0x	14.1x
FERG	Ferguson Enterprises Inc.	31,609	131.7	1.1x	11.7x	16.3x
TPK	Travis Perkins plc	1,816	6.6	0.5x	6.1x	17.7x
UL	Unilever PLC	122,465	49.3	2.1x	10.5x	15.3x
PG	The Procter & Gamble Company	309,830	131.9	3.8x	13.5x	19.0x
NSRGY	Nestlé S.A.	201,414	78.7	2.4x	11.1x	13.8x
WMT	Walmart Inc.	486,739	60.6	0.8x	12.6x	24.8x
RKT	Reckitt Benckiser Group plc	31,652	34.9	2.1x	8.1x	11.1x
BATS	British American Tobacco p.l.c.	65,735	22.8	2.9x	5.9x	6.3x
PM	Philip Morris International Inc.	147,027	94.6	4.9x	11.7x	14.8x
MO	Altria Group Inc.	68,718	40.3	4.2x	7.1x	7.9x
IMBBY	Imperial Brands PLC	18,802	22.4	2.4x	5.5x	5.8x
IGR	IG Design Group plc	154	1.2	0.2x	2.0x	6.7x
KITW	Kitwave Group plc	224	2.5	0.4x	5.3x	8.2x
UPR	Uniphar plc	618	1.7	0.3x	6.6x	10.1x
PEP	PepsiCo Inc.	183,719	133.8	2.3x	12.0x	16.4x
FEVR	Fevertree Drinks PLC	1,004	6.6	1.9x	13.0x	22.5x
BVIC	Britvic plc	3,134	9.7	1.6x	9.7x	15.4x
BAG	A.G. BARR p.l.c.	721	5.0	1.2x	7.5x	13.1x
KO	The Coca-Cola Company	233,367	54.1	5.5x	16.8x	19.0x

Source: Koyfin, Equity Development estimates.

Share price performance year to date, Supreme vs peer groups, rebased @ 100.0



Source: Google Finance.

Peer group-based sum-of-parts valuation

The sum-of-parts indicative valuation shown below is based on the market cap-weighted average valuations for each of the three most representative product groups - Consumer Staples, Tobacco and, with the acquisition of Clearly Drinks, Soft Drinks – applied according to the pro-rata contribution to gross profitability of each of Supreme's relevant Business Categories. The inputs are:

- Supreme FY25 and FY26 ED estimated (adj.) EBITDA.
- Contribution to gross of each Business Category (company-reported and ED estimated).
- Peer group market cap-weighted EV/EBITDA multiples (source Koyfin, +1 year).
- For Branded Distribution we use a pro-rata revenue of vaping revenue and other to reallocate vaping-related value to the Vaping segment (i.e. Tobacco).
- Latest year-end Group net debt (cash).
- Group shares in issue.

Below summarises our sum-of-parts valuation.

Peer group-based sum-of-parts valuation				
FY25E EBITDA	% of gross	Peer	EV/EBITDA	EV £m
Batteries	8.2%	Consumer	12.2x	37.2
Lighting	11.1%	Consumer	12.2x	50.4
Vaping	64.0%	Tobacco	7.7x	182.5
Sports Nutrition	8.7%	Consumer	12.2x	39.6
Branded Distribution	1.2%	Consumer	12.2x	5.4
Soft Drinks	6.7%	Soft Drinks	14.6x	36.6
EV indicated (£m)				351.7
Indicated EV/EBITDA multiple				9.5x
Net debt / (cash) (£m)				(11.6)
FY25 E indicated equity (£m)				340.0
Per share value indicated (p)				289.8
FY26E EBITDA	% of gross	Peer	EV/EBITDA	EV £m
Batteries	7.5%	Consumer	12.2x	33.3
Lighting	10.8%	Consumer	12.2x	47.7
Vaping	62.4%	Tobacco	7.7x	174.0
Sports Nutrition	7.8%	Consumer	12.2x	34.5
Branded Distribution	0.8%	Consumer	12.2x	3.3
Soft Drinks	10.9%	Soft Drinks	14.6x	57.7
EV indicated (£m)				350.5
Indicated EV/EBITDA multiple				9.7x
Net debt / (cash) (£m)				(11.6)
FY26 E indicated equity (£m)				338.84
Per share value indicated (p)				288.8

Source: Koyfin, Equity Development estimates.

The sum-of-parts exercise indicates a **blended FY25-26 equity value per share of 289p**.

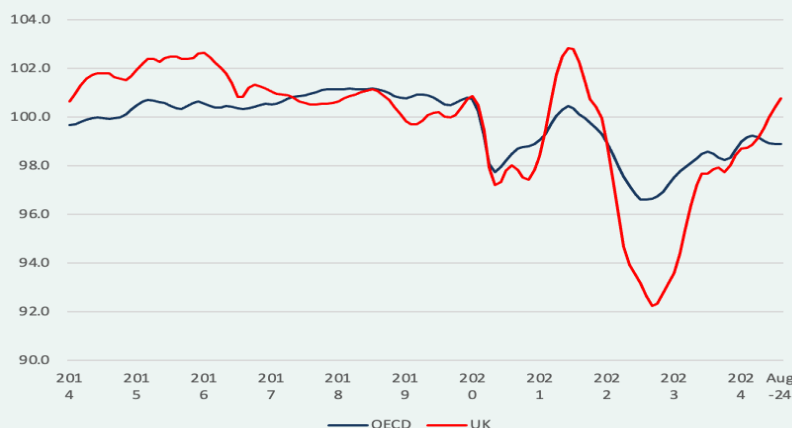
Our ED Fair Value, 225p, is derived from a 5-year DCF with inputs: WACC 4.2%; beta 0.30 (source: Financial Times data); terminal multiple 8.0x; terminal growth rate 3.0%.

Appendix I: Consumer confidence ... improving?

The latest, August, OECD and UK, Consumer Confidence Index data remained mixed, albeit with some positive signals; the UK at 100.75. As reported by Retail Economics¹:

- “The GfK Consumer Confidence Index **remained unchanged** at -13 in August, matching the previous month’s score. Three measures showed improvement and two declined, reflecting a mixed sentiment among UK consumers.”
- “Consumer perceptions of the **general economic situation** over the last 12 months dropped by three points to -35, though this remains 17 points higher than in August 2023. Expectations for the general economic situation over the next 12 months decreased by four points to -15, marking the first decline since February 2024, though still 15 points better than the previous year.”
- “The **personal finances** index over the past year increased by one point to -7, eight points higher than in August 2023. Projections for personal finances over the next 12 months improved by three points to +6, nine points above the same period last year.”
- **GfK commented²**: “Against a backdrop of falling core inflation, higher interest rates and rising average weekly earnings, the **Consumer Confidence Index has regained momentum** this month with a welcome five-point improvement. Although the headline figure remains strongly negative at -25, hopes for our personal financial situation for the coming year are heading back towards positive territory, a metric that is key to indicating the future financial position of households. This renewed optimism can also be seen in the similar turnaround for our view on the general economic outlook for the next 12 months, and the eight-point advance in major purchase intentions is potentially better news for retailers as we move into autumn. However, while the financial pulse of the nation is still weak, these signs of optimism are welcome during this challenging time for consumers across the UK.”

Consumer confidence regains momentum



Source: <https://data.oecd.org/leadind/consumer-confidence-index-cci.htm#indicator-chart>

¹ [https://www.retail-economics.co.uk/retail-insights-trends/gfk-consumer-confidence-index-august-2024?slug=retail-economic-](https://www.retail-economics.co.uk/retail-insights-trends/gfk-consumer-confidence-index-august-2024?slug=retail-economic-news#:~:text=The%20GfK%20Consumer%20Confidence%20Index,mixed%20sentiment%20among%20UK%20consumers.)

[news#:~:text=The%20GfK%20Consumer%20Confidence%20Index,mixed%20sentiment%20among%20UK%20consumers.](https://www.retail-economics.co.uk/retail-insights-trends/gfk-consumer-confidence-index-august-2024?slug=retail-economic-news#:~:text=The%20GfK%20Consumer%20Confidence%20Index,mixed%20sentiment%20among%20UK%20consumers.)

² <https://www.gfk.com/press/uk-consumer-confidence-improves-five-points-in-August>

Weak consumer confidence may be negative for retailers, however constrained spending or a mixed outlook is also fertile ground for the range of value products which Supreme provides.

Financial data

P&L						
£m	FY21	FY22	FY23	FY24	FY25E	FY26E
Batteries	34.4	34.9	39.5	40.5	41.3	41.8
Lighting	25.9	27.0	15.4	16.5	18.5	18.3
Vaping	39.5	43.6	76.1	82.8	84.2	85.2
Sports Nutrition & Wellness	6.9	15.9	16.7	18.0	20.0	21.0
Branded Distribution	15.5	9.4	7.8	63.5	61.0	41.7
Clearly	0.0	0.0	0.0	0.0	14.7	24.3
Revenue	122.3	130.8	155.6	221.2	239.7	231.3
Gross Sum	31.9	36.9	39.6	62.4	65.5	66.9
<i>Mrg</i>	26.1%	28.2%	25.4%	28.2%	27.3%	28.9%
COGS	(90.3)	(93.9)	(116.0)	(158.8)	(174.2)	(164.3)
Forex	1.1	1.6	1.3	1.1	(0.3)	0.0
Gross inc forex	33.0	38.5	40.9	63.5	65.2	66.9
<i>Mrg</i>	27.0%	29.4%	26.3%	28.7%	27.2%	28.9%
Sum Op-ex	(19.4)	(21.5)	(28.2)	(31.5)	(35.2)	(37.9)
One-off costs	(3.4)	(1.1)	(0.8)	(0.6)	(1.5)	(0.5)
One off gain		0.0	2.8	0.0	0.0	0.0
EBIT Reported	13.6	17.0	15.4	32.0	30.0	29.0
EBIT Adjusted	17.0	18.1	16.3	32.6	31.5	29.5
<i>Mrg</i>	13.9%	13.8%	10.5%	14.7%	13.2%	12.8%
Depreciation	(2.0)	(2.6)	(2.2)	(3.8)	(3.8)	(5.0)
Amortisation	(0.2)	(0.4)	(0.9)	(1.7)	(1.7)	(1.7)
EBITDA Reported	15.8	20.0	18.6	37.5	35.5	35.7
EBITDA Adjusted	19.3	21.1	19.4	38.1	37.0	36.2
<i>Mrg</i>	16%	16.1%	12.5%	17.2%	15.4%	15.7%
Financial income	0.0	0.00	0.03	0.15	0.00	0.00
Financial expense	(0.7)	(0.7)	(1.0)	(2.0)	(1.1)	(1.1)
PBT Reported	13.0	16.3	14.4	30.1	28.9	27.9
PBT Adjusted	16.4	17.4	15.3	30.7	30.4	28.4
Tax	(3.1)	(2.6)	(2.5)	(7.7)	(7.2)	(7.0)
Reported tax rate	24.1%	15.8%	20.0%	25.5%	25.0%	25.0%
<i>Tax rate adjusted</i>	19.0%	14.8%	16.2%	25.1%	23.8%	24.6%
PAT Reported	9.8	13.7	12.1	22.4	21.7	21.0
PAT Adjusted	13.3	14.8	12.9	23.0	23.2	21.5
Amortisation & tax items	0.1	1.3	1.8	2.6	2.4	3.3
PAT Adjusted	13.4	15.0	13.8	25.0	24.1	24.3
Basic wtd. av. shares (m)	111.1	116.6	116.7	117.2	117.2	117.2
Diluted wtd. av. shares (m)	113.2	121.1	123.5	123.7	123.7	123.7
EPS rptd. basic (p)	8.9	11.8	10.3	19.1	18.5	17.9
EPS rptd. dil. (p)	8.7	11.3	9.8	18.1	17.5	16.9
EPS adj. basic (p)	12.0	12.8	11.8	21.3	20.6	20.7
EPS adj. dil. (p)	11.8	12.4	11.2	20.2	19.5	19.6

Source: Company data, Equity Development estimates.

Cashflow						
Yr to March 31 (£m)	FY21	FY22	FY23	FY24	FY25E	FY26E
PAT Reported	9.8	13.7	12.0	22.4	21.7	21.0
One-off items	3.4	1.1	0.8	0.2	1.5	0.5
Depreciation	2.0	2.6	2.2	3.8	3.8	5.0
Amortisation	0.2	0.4	0.9	1.7	1.7	1.7
Tax	3.1	2.6	2.5	7.7	7.2	7.0
Finance/other	(1.7)	0.2	(0.0)	2.4	0.0	1.1
Operating Cash Flow	16.9	20.6	18.4	38.2	35.9	36.2
(Increase)/Decrease inventories	(5.3)	(4.9)	2.9	1.2	(5.1)	1.0
(Increase)/Decrease in receivables	1.0	(2.2)	(0.7)	(14.7)	6.1	1.0
Increase/(Decrease) in payables	2.7	2.5	(0.0)	7.7	2.3	(2.3)
Movement in working capital	(1.6)	(4.7)	2.2	(5.8)	3.2	(0.2)
Cash generated by operations	15.3	15.9	20.6	32.4	39.1	36.0
Tax (paid)/received	(3.0)	(4.2)	(1.3)	(5.3)	(7.2)	(7.0)
Net cash from operations	12.3	11.8	19.3	27.1	31.9	29.0
Interest received	0.0	0.0	0.0	0.0	0.0	0.0
Intangibles	(0.1)	(1.5)	0.0	(0.1)	0.0	0.0
PPE	(1.7)	(1.3)	(1.3)	(5.3)	(2.0)	(2.2)
Acquisition	(1.0)	(1.0)	(10.1)	(2.5)	(15.0)	0.0
Sale of PPE	0.9	0.4	4.0	0.1	0.0	0.0
Net cash used in investing	(1.9)	(3.4)	(7.6)	(11.3)	(17.0)	(2.2)
Net OpFCF	10.4	8.4	11.7	15.8	14.9	26.8
Borrowings (net)	(13.0)	(8.1)	(1.3)	(4.4)	0.0	0.0
Share issue	7.5	0.0	0.3	(1.0)	0.0	0.0
Interest paid	(0.6)	(0.3)	(0.8)	0.0	0.0	0.0
Leases	(0.6)	(1.0)	(1.0)	(1.2)	(2.5)	(2.5)
Dividend	(3.0)	(2.6)	(5.4)	(4.3)	(5.8)	(5.4)
Net cash from financing	(9.6)	(11.9)	(8.2)	(11.6)	(8.3)	(7.9)
Net increase in cash / equivalents	0.8	(3.5)	3.5	4.2	6.6	19.0
Cash start	6.7	7.5	3.9	7.5	11.6	18.2
Forex	0.0	(0.0)	0.1	(0.1)	0.0	0.0
Cash end	7.5	3.9	7.5	11.6	18.2	37.2

Source: Company data, Equity Development estimates.

Balance sheet

Yr to March 31 (£m)	FY21	FY22	FY23	FY24	FY25E	FY26E
Intangible assets	2.6	3.7	15.3	13.7	11.9	10.2
PPE net	2.8	2.6	5.2	7.5	14.7	12.0
RoU	1.5	2.1	15.6	13.9	13.9	13.9
Investments	0.0	1.3	0.0	0.0	0.0	0.0
Sum Fixed Assets	6.9	9.7	36.1	35.1	40.6	36.1
Inventories	19.9	25.9	25.6	24.4	29.6	28.5
Trade receivables	16.1	19.0	20.9	35.6	29.6	28.5
Tax assets	0.0	0.0	0.0	0.0	0.0	0.0
Financial insts	0.0	0.5	0.0	0.0	0.0	0.0
Cash, Equivalents	7.5	3.9	7.5	11.6	18.2	37.2
Sum Current Assets	43.4	49.3	54.0	71.7	77.3	94.2
Total Assets	50.3	59.0	90.1	106.8	117.9	130.3
Trade payables	(13.3)	(17.3)	(26.1)	(27.3)	(29.6)	(27.2)
Borrowings	(10.5)	(6.7)	(4.3)	(1.3)	(1.3)	(1.3)
Tax, Other	(2.9)	(1.3)	(3.9)	(5.5)	(5.5)	(5.5)
Sum Current Liabilities	(26.7)	(25.3)	(34.3)	(34.0)	(36.3)	(34.0)
Total Assets less Current Liabilities	23.6	33.8	55.8	72.7	81.6	96.3
Borrowings/ lease liabilities	(4.7)	(1.3)	(14.3)	(13.4)	(13.4)	(13.4)
Tax/Provisions	(0.1)	(0.2)	(1.6)	(1.3)	(1.3)	(1.3)
Sum Long-term liabilities	(4.8)	(1.5)	(15.9)	(14.8)	(14.8)	(14.8)
Total liabilities	(31.5)	(26.7)	(50.2)	(48.8)	(51.0)	(48.7)
Net Assets	18.8	32.3	40.0	58.0	66.9	81.6
Share Capital	11.7	11.7	11.7	11.7	11.7	11.7
Share Premium	7.2	7.2	7.4	7.4	(3.7)	(13.3)
Capital Reserve	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)
Retained earnings	21.9	33.1	39.8	56.8	80.9	105.2
Equity	18.8	32.3	40.0	58.0	66.9	81.6
Net debt / (cash)	7.6	4.0	(3.2)	(11.6)	(18.2)	(37.2)

Source: Company data, Equity Development estimates.



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