

Acquisition of protein manufacturing assets

5th January 2024

Supreme has announced the acquisition, out of administration, of the trade and assets of protein manufacturer FoodIQ UK Holdings Limited for a consideration of £175,000. The acquisition brings Supreme a state-of-the-art, fully-automated contract manufacturing facility which was opened only 18 months ago at a cost of £1.2m. Situated in Hayes, West London the facility adds c.40% to Supreme's wellness manufacturing capacity. It also provides a fully-accredited showcase for its wellness production capabilities and potentially opens up new customer opportunities.

At the September 2023 Interim the contribution to total revenue from the Sports Nutrition & Wellness business category stood at 8.5%, and 8.7% of gross, a 27.1% margin. The business category had suffered from a spike in raw materials input prices – notably whey protein concentrate – in 2021-22, but this situation has now normalised with the latest December 2023 data indicating pricing at 1% below the 2019 average. The outlook for Sports Nutrition & Wellness products is positive: the UK sports nutrition market is projected to grow at an 8.3% CAGR (2023-30) to c.£2.2bn (verifiedmarketresearch.com) within a trend which includes preference for organic products, promotion of alternatives to meat-based protein and the rising popularity of zero or low alcohol drinks. This is boosted by data released on 1 January by the OECD which indicates that the UK and Ireland top a list of 33 countries for daily consumption of the 'five a day' combination of fruit and vegetables, at 33% of adults in each country.

Supreme derived c.69% of H1 revenue from its own brand and Elf Bar vaping products, however the Group has maintained its focus on development of its wellness products, with H1 growth (+17.5%YoY) for example boosted by a rebranding of its Sci-MX range of high protein powders, shakes and bars. **Today's acquisition further underlines the Group's commitment to growth in its Wellness division.**

H1 performance led to raised FY24 outlook

For the six months to 30 September, Supreme reported revenue of £105.1m, +63%YoY, gross profit of £28.5m, +57%YoY (27.1% margin) and (adj.) EBITDA of £15.2m, +88%YoY. Consequently, Group guidance for the full year was raised: from revenue of £195m - £205m to £210m - £220m, and (adj.) EBITDA from £28m - £30m to £32m - £35m.

Following the Group's increased FY24 guidance (revenue raised 7%, and (adj.) EBITDA by 14% - 17%), we raised our outlook to revenue of £221.2m, +8%, and (adj.) EBITDA of £33.5m, +16%. We expect a FY24 total dividend of c.£5.1m, with £1.7m paid at the Interim. Our Fair Value was raised to 225p/share.

Financial outlook to 31 March 2025

Yr to March 31 (£m)	2021	2022	2023	2024E	2025E
Revenue	122.3	130.8	155.6	221.2	227.4
EBITDA (adj)	19.3	21.1	19.4	33.5	33.8
EPS (adj, p)	11.8	12.4	11.2	17.4	17.8
DPS (p)	2.7	2.2	4.6	4.5	4.6
Net debt / (cash) ¹	5.4	1.8	(3.2)	(2.7)	(17.4)
EV/EBITDA	6.7x	6.1x	6.7x	3.9x	3.8x
P/E x	9.62	9.15	10.13	6.52	6.38
Div yield %	2.38	1.94	4.05	3.96	4.05

Source: Company data, Equity Development estimates. ¹Net debt pre IFRS 16.

Company Data

EPIC	SUP
Price (last close)	113.5p
52 week Hi/Lo	135/87p
Market cap	£133m
ED Fair Value / share	225p
Net debt / (cash)	£4.8m

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 Distribution (formerly Branded Household Consumer Goods).

The customer base includes leading brands such as, Amazon, Asda, B&M, Costcutter, Home Bargains, Halfords, 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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Sports Nutrition & Wellness business category

To recap, H1 24 Sports Nutrition & Wellness revenue grew 17%YoY to £8.9m, 8.5% of the total, with a gross contribution of £2.4m, 8.7% of total, and with an improving margin of 27.1% contrasting with 17.6% in H1 23. For FY24 our outlook (unchanged) is for revenue of £18.8m, +12.3% YoY, and gross profit of £4.3m, 7.4% margin. For FY25 we forecast revenue of £20.0m, +6.4% YoY, and gross profit of £4.6m, a 7.7% margin.

Below illustrates the FoodIQ Hayes facility acquired. The facility adheres to the highest manufacturing standards, with full room encapsulation, closed coupled systems, dust extraction and a hvac system (heating ventilation and air-conditioning) which creates a positive pressure gradient; overall, matching the highest British Retail Consortium (BRC) food safety standards. This will open up the opportunities for this division and help to drive further diversification of the business portfolio.

FoodIQ manufacturing facility acquired



Source: FoodIQ

Normalised raw materials price trend continues

The latest December 2023 data for Whey Protein Concentrate (WPC) continued autumn price stabilisation returning to 2019 levels, following the sharp spike in 2021-22 during which impacted the Business Category gross margin, falling from 33.3% in H1 22 to 14.9% in H2 22. As shown, the (€/tonne) price of US WPC in December was €1.892/tonne, 53% below the 2022 peak, and 1% below the 2019 average.

Whey price trend November 2003 – December 2023



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

P&L outlook to FY25 E

£m	FY22	FY23	FY24E	FY25E
Batteries	34.9	39.5	39.9	39.9
Lighting	27.0	15.4	17.5	19.5
Vaping	43.6	76.1	83.0	86.0
Sports Nutrition & Wellness	15.9	16.7	18.8	20.0
Branded Distribution	9.4	7.8	62.0	62.0
Revenue	130.8	155.6	221.2	227.4
Gross Sum	36.9	39.6	58.1	59.4
<i>Mrg</i>	28.2%	25.4%	26.3%	26.1%
COGS	(93.9)	(116.0)	(163.1)	(168.0)
Forex	1.6	1.3	1.0	1.0
Gross inc forex	38.5	40.9	59.1	60.4
<i>Mrg</i>	29.4%	26.3%	26.7%	26.6%
Sum Op-ex	(21.5)	(28.2)	(32.2)	(33.2)
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	26.9	27.2
EBIT Adjusted	18.1	16.3	28.7	29.0
<i>Mrg</i>	13.8%	10.5%	13.0%	12.8%
Depreciation	(2.6)	(2.2)	(3.1)	(3.1)
Amortisation	(0.4)	(0.9)	(1.7)	(1.7)
EBITDA Reported	20.0	18.6	31.7	32.0
EBITDA Adjusted	21.1	19.4	33.5	33.8
<i>Mrg</i>	16.1%	12.5%	15.2%	14.9%
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	25.4	26.1
PBT Adjusted	17.4	15.3	27.2	27.9
Tax	(2.6)	(2.5)	(6.4)	(6.5)
Reported tax rate	15.8%	20.0%	25.0%	25.0%
<i>Tax rate adjusted</i>	14.8%	16.2%	23.3%	23.4%
PAT Reported	13.7	12.1	19.1	19.6
PAT Adjusted	14.8	12.9	20.9	21.4
Amortisation & tax items	1.3	1.8	2.4	2.4
PAT Adjusted	15.0	13.8	21.5	22.0
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	16.3	16.8
EPS rptd. dil. (p)	11.3	9.8	15.4	15.9
EPS adj. basic (p)	12.8	11.8	18.4	18.8
EPS adj. dil. (p)	12.4	11.2	17.4	17.8

Source: Company data, Equity Development estimates.

Cashflow, outlook to FY25 E

Yr to March 31 (£m)	FY22	FY23	FY24E	FY25E
PAT Reported	13.7	12.0	19.1	19.6
One-off items	1.1	0.8	1.8	1.8
Depreciation	2.6	2.2	3.1	3.1
Amortisation	0.4	0.9	1.7	1.7
Tax	2.6	2.5	6.4	6.5
Finance/other	0.2	(0.0)	1.5	1.1
Operating Cash Flow	20.6	18.4	33.5	33.8
(Increase)/Decrease inventories	(4.9)	2.9	(12.0)	(0.4)
(Increase)/Decrease in receivables	(2.2)	(0.7)	(11.2)	(0.9)
Increase/(Decrease) in payables	2.5	(0.0)	10.2	(4.0)
Movement in working capital	(4.7)	2.2	(12.9)	(5.3)
Cash generated by operations	15.9	20.6	20.6	28.5
Tax (paid)/received	(4.2)	(1.3)	(6.4)	(6.5)
Net cash from operations	11.8	19.3	14.2	22.0
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	7.2	22.3
Borrowings (net)	(8.1)	(1.3)	5.5	0.0
Share issue	0.0	0.3	0.0	0.0
Interest paid	(0.3)	(0.8)	(0.4)	0.0
Leases	(1.0)	(1.0)	(1.2)	(1.2)
Dividend	(2.6)	(5.4)	(5.2)	(5.3)
Net cash from financing	(11.9)	(8.2)	(1.3)	(6.5)
Net increase in cash / equivalents	(3.5)	3.5	5.9	15.7
Cash start	7.5	3.9	7.5	13.5
Forex	(0.0)	0.1	0.0	0.0
Cash end	3.9	7.5	13.5	29.2

Source: Company data, Equity Development estimates.

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	5.1	3.0
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	34.3	30.5
Inventories	25.9	25.6	37.6	38.0
Trade receivables	19.0	20.9	32.1	33.0
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	13.5	29.2
Sum Current Assets	49.3	54.0	83.2	100.3
Total Assets	59.0	90.1	117.5	130.8
Trade payables	(17.3)	(26.1)	(36.4)	(32.4)
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)	(44.6)	(40.6)
Total Assets less Current Liabilities	33.8	55.8	72.9	90.1
Borrowings	(1.3)	(14.3)	(19.8)	(19.8)
Tax/Provisions	(0.2)	(1.6)	(1.6)	(1.6)
Sum Long-term liabilities	(1.5)	(15.9)	(21.4)	(21.4)
Total liabilities	(26.7)	(50.2)	(65.9)	(62.0)
Net Assets	32.3	40.0	51.5	68.8
Share Capital	11.7	11.7	11.7	11.7
Share Premium	7.2	7.4	0.6	(4.1)
Capital Reserve	(22.0)	(22.0)	(22.0)	(22.0)
Retained earnings	33.1	39.8	61.2	83.2
Equity	32.3	40.0	51.5	68.8
Net debt / (cash)	4.0	11.8	11.3	(4.4)
Net debt / (cash) pre IFRS 16	1.8	(3.2)	(2.7)	(17.4)

Source: Company data, Equity Development estimates.



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