UP Global Sourcing Holdings PLC

3rd November 2020

Ultimately, there's brand value

What could have been a "year of living dangerously" for UPGS was a year of living positively. Today's headline preliminary FY2020 results contain few surprises, so investors should in our view reflect on the company's relatively upbeat stance for the near-term outlook. Despite new Covid measures, a combination of effective brand management, new distribution channels and geographical expansion augurs well for sustainable revenue growth.

The sales, profit and financial strength outcomes in today's preliminary results reconfirmed the key data in UPGS's FY2020 trading statement, which was released on 7th September. The data appear particularly praiseworthy given the challenges associated with Covid-19 both in terms of sourcing and distribution. Sales revenue slipped by only 6.1% and EBITDA and pre-tax profits recorded smaller declines of 3.3% and 2.7% respectively.

UPGS positions its product portfolio to provide beautiful products for every home. The company's skill in managing such 'feel good' brands is central to its ability to expand through broader distribution (including online) and new geographic regions. Growth plans for Kleeneze and Progress are particularly ambitious. The stated aim is for them to match Beldray and Salter for sales value within three years.

UPGS is broadening its distribution footprint with online and supermarkets proving key success stories. Online and supermarkets have clearly benefited from UK and German restrictions associated with Covid-19. However, they also represent an important endorsement of UPGS's brands. With renewed European lockdowns in prospect, its robust brand portfolio appears well placed.

Broader international scope should be an important source of growth for UPGS. There is no reason why the company's success in Germany should not be replicated elsewhere overseas. In particular, UPGS markets a range of household products – notably cookware, laundry and music - which should appeal across Continental Europe and be supported by the online channel.

We maintain our assessment of fair value for UPGS's shares at 150p, which is a healthy premium to current levels. At that price, key valuation multiples would still only be a 1.1x EV/sales ratio and 17x P/E ratio based on FY2022 forecasts.

Key Financials

Year end 31 July	2018A	2019A	2020A	2021E	2022E
Revenue (£'000)	87,571	123,257	115,684	122,700	130,000
Revenue change	-20.4%	40.8%	-6.1%	6.1%	5.9%
EBITDA (adj, £'000)	6,280	10,720	10,363	11,055	11,738
EPS adj (p)	5.0	8.1	7.9	8.4	8.9
DPS (p)	2.7	4.1	4.0	4.2	4.5
EV/EBITDA (x)	15.2	8.9	9.2	8.6	8.1
P/E ratio (x)	20.3	12.4	12.8	12.0	11.3
Yield	2.7%	4.0%	3.9%	4.2%	4.4%

Source: Company historic data, ED estimates

Company Data

EPIC	UPGS
Price (last close)	101p
52 weeks Hi/Lo	114p/31p
Market cap	£82m
Net debt	£4m

Share Price, p

Source: ADVFN

Description

UP Global Sourcing Holding (UPGS) develops new, innovative concepts and brings professional, sought-after products to the mass market.

Their offices span two continents, with headquarters in the UK, a sourcing office and showroom in Guangzhou, as well as a showroom in Germany.

Chris Wickham (Analyst)
0207 065 2690
chris@equitydevelopment.co.uk

Hannah Crowe
0207 065 2692
hannah@equitydevelopment.co.uk

Ultimately, there's brand value

Investment case

Today's preliminary FY2020 results statement, which includes early indications of trading in FY2021, is consistent with the overall investment case for UPGS. The group's legacy self-summary ***"We source, we brand, we distribute"*** – remains capable of delivering underlying revenue growth at, or in excess of, mid-single digits on an underlying cash positive basis.

But we recognize further, powerful messages that argue positively for both valuation and business growth. Within the areas of branding and distribution there are clearly significant changes taking place. We note the acceleration of both supermarkets and online as well as the company's ambitious plans for Kleeneze and Progress. In addition, there is a more aggressive approach to international expansion.

Moreover, the company already has an established reputation for being "best in class" at product sourcing and being innovative with applications and design - for example, its collapsible laundry baskets. This reputation is an important contributor to the trust which it generates across a broader range of distribution channels and as it builds its brands.

After a brief update on the preliminary results, this report looks at prospects for UPGS's brand portfolio, key developments in distribution and the opportunities outside the UK.

Preliminary results highlights

Key financial features of UPGS's FY2020 fiscal year, which ended 31st July 2020, were released in a 7th September 2020 trading statement, which we commented on in our update Equity Development - Brand strength reaps rewards. The company ended the year on a strong note with all of sales revenue, EBITDA, and pre-tax profits ahead of its most recent guidance.

Furthermore, UPGS is performing well financially. **Net debt fell by a substantial £10.6m** of which only £1.0m of the decrease was attributable to the company's decision to suspend its interim dividend and £0.5m resulting from the furlough scheme. Bank facility headroom rose to £21.3m from £10.1m a year earlier. We summarise today's results, which mirror the trading statement, in Figure 1.

Importantly FY2021, which so far includes August, September and October, started well with the order book ahead of the same the three months a year earlier. Despite the uncertain overall consumer environment associated with a fresh round of anti Covid-19 lockdown measures, ongoing potential for a no-deal Brexit, and a volatile economic backdrop, the company states that not only is current trading in line, they are also confident about future prospects, in our view justifiably.

In addition to the financial statements, today's preliminary results release includes detailed data for revenue by brand, country, distribution channel and product category. The company's Premier Brands grew by 8% and moved from being 61% to 70% of total revenue with licensed brands Russell Hobbs and Salter recording the fastest rates of expansion. Recently acquired Kleeneze jumped sharply to above £1m.

Looking at distribution, online and supermarkets were the salient outperformers out of UPGS's Strategic Pillars and increased by 40% and 47%, respectively. Moreover, online in the second half of FY2020 contributed **18% of group sales**, which is not far shy of its targeted 20%.

By geography, the UK proved most resilient to the inevitable Covid-19 related headwinds and recorded just a 1% decline while Germany, only marginally underperformed the group as a whole. Small household appliances was the strongest performing product category.

Figure 1 - UPGS FY2020 financial highlights

£m	**FY2019**	**FY2020**	**Change**
Year to 31st July			
Group revenue	123.3	115.7	-6.1%
Online revenue	11.4	16.7	47.2%
Supermarket revenue	20.1	28.1	39.9%
Underlying EBITDA	10.7	10.4	-3.3%
Underlying EBITDA margin	8.7%	9.0%	+30bps
Underlying pre-tax profit	8.4	8.2	-2.7%
Pre-tax profit	8.1	8.4	2.9%
Net debt	14.4	3.8	-73.6%
Net debt/EBITDA (underlying)	1.3x	0.4x	
Bank facility headroom	10.1	21.3	11.2
Underlying EPS (p)	8.1	7.9	-2.5%
Full year dividend per share (p)	4.1	4.0	-3.2%

Source: Company data

Figure 2 includes a detailed summary of UPGS's sales revenue performance by brand, distribution channel, country and category in FY2020. In addition, we update the current breakdown of sales by each criterion.

The central short-term messages from Figure 2 are:

- Kleeneze and Progress are gaining traction in the early stages of their prioritisation,
- online and supermarkets are growing massively in importance, and
- that underlying international trends are firmly positive.

A change in ownership of a key German client caused an unusual setback in FY2020, which supports the case for the scale of the sales decline in FY2020 being exceptional. The company's core competence is in household goods.

Figure 2 - Sales growth by brand, channel and location

£'000s y/e July	FY2019	FY2020	Change	% of group
Brand				
Beldray	32,292	32,762	1.5%	28.3%
Salter	20,884	25,834	23.7%	22.3%
Intempo	8,248	5,049	-38.8%	4.4%
Russell Hobbs	9,368	11,741	25.3%	10.1%
Progress	4,095	4,410	7.7%	3.8%
Kleeneze	165	1,183	617.0%	1.0%
other	48,205	34,705	-28.0%	30.0%
Total	123,257	115,684	-6.1%	100.0%
Distribution channel				
Discount retailers	64,605	44,685	-30.8%	38.6%
Supermarkets	20,108	28,126	39.9%	24.3%
Online channels	11,357	16,719	47.2%	14.5%
Total	96,070	89,530	-6.8%	77.4%
Multiple-store retailers	18,942	15,010	-20.8%	13.0%
other	8,245	11,144	35.2%	9.6%
Total	123,257	115,684	-6.1%	100.0%
Location				
United Kingdom	74,751	74,045	-0.9%	64.0%
Germany	11,846	10,951	-7.6%	9.5%
Rest of Europe	34,659	29,716	-14.3%	25.7%
USA	1,053	403	-61.7%	0.3%
Rest of World	948	569	-40.0%	0.5%
Total	123,257	115,684	-6.1%	100.0%
Category				
Small domestic appliances	34,061	38,667	13.5%	33.4%
Housewares	26,768	28,210	5.4%	24.4%
Audio	27,286	17,067	-37.5%	14.8%
Laundry	11,204	12,287	9.7%	10.6%
Heating and cooling	8,779	6,342	-27.8%	5.5%
Luggage	5,113	4,052	-20.8%	3.5%
other	10,046	9,059	-9.8%	7.8%
Total revenue	123,257	115,684	-6.1%	100.0%

Source: Company data

UPGS's brands - beautiful products for every home

Overview

UPGS's brands and the positioning and distribution of the products which fall under the umbrella of these brands, explain the company's ability to deliver beautiful products for every home. Indeed, "beautiful products for every home" should increasingly become the mission statement of the group. It implies "feel good," lifestyle-enhancing products at affordable prices.

UPGS benefits from a broad portfolio of household product brand names, which are a combination of wholly owned and licensed brands. In our view, the wholly owned brands offer an important measure of the company's ability to bring relatively established names into the group and develop them further in terms of perception and product profile with the result that sales accelerate.

The licensed brands' performance tends to confirm UPGS's ability to operate with prestigious names, yet still deliver affordability. Moreover, the licensor benefits from a wider, good quality product range than might be associated with core competences alone.

Categories served

UPGS's owned brands fall into the eight categories which we summarise in Figure 2. They are all categories of household goods which provide everyday usefulness, are visible and provide a sense of wellbeing. Around one third of the group's sales are reported as "small domestic appliances."

A feature of Figure 3 is UPGS's household reach. Having identified 8 categories of household goods worthy of a division, the company subdivides each into 4 sub-categories – i.e. the company operates in 32 identifiable areas of relatively mainstream domestically oriented goods.

Figure 3 - UPGS product portfolio by category and sub-category

Division		**Categories served**		
Cookshop	Cookware	Bakeware	Food preparation	Countertop
Audio	Bluetooth	Portable	Charging	Retro
Laundry	Ironing boards	Airers	Cleaning	Storage
Electrical SDA	Kitchen	Floorcare	Party	Healthy living
Tabletop	Ceramics	Glassware	Placemats	Coasters
Luggage	Lightweight	Hardshell	Cabin approved	Accessories
Heating	Wall fires	Suites	Outdoor	Accessories
Cooling	Desktop	Floorstanding	Portable	Industrial

Source: Company data

Despite the size of the range of headline categories, there is a clear common thread. They are all categories which respond well to what effective branding can generate in terms of an endorsement of reliability, relevance and the above mentioned feel good factor.

None of these is a category where consumers might be expected to feel comfortable with pursuing a cheap option. However, the customer does want to benefit from affordability. Hence, the objective to provide "beautiful products for every home" is pertinent.

Owned brands in more detail

UPGS is a prolific brand owner. Aside from **Beldray, Intempo, Kleeneze** and **Progress** the company owns a number of earlier stage key brands and a number of smaller, in certain cases regional, brands. The brands are broadly attributable to the categories in which the company operates.

Given 32 identifiable sub-categories, a large brand portfolio is not surprising. However, within owned brands there is clear prioritisation for the Premier Brands mentioned above. Outside the core, there are brands which satiate specific regional demand – e.g. **George Wilkinson** which originated in Burnley, Lancashire and **Portobello** that benefits from London heritage. **Giles & Posner** evolved from a core competence in chocolate fountains.

Rather than be seen as portfolio proliferation or the existence of a "tail," we believe that brands outside the premier core should be seen as an opportunity. In fact, the company's leading brand Beldray was obtained in 2009 and became a significant turnaround story. UPGS has a demonstrable track record in rejuvenating and enlivening smaller household brands, largely through sourcing skills and effective price and product positioning.

For investors, a "ready to accelerate" collection of brands should be seen as a significant opportunity to create shareholder value. While UPGS's track record on acquisitions is positive, having a number of brand names ripe for acceleration should be seen as equally advantageous. Either way, the company's ability to manage brands is central to the investment case. Kleeneze is the latest to gain from that skillset as FY2020's results show.

We summarise the owned brand portfolio by brand name, key category and website (where applicable) in Figure 4.

Figure 4 - UPGS owned brand portfolio, categories and websites

Brand	Strategic category	Web address
Beldray	Laundry, Electrical SDA, Heating, Cooling	www.beldray.com
Constellation	Luggage	www.constellationluggage.com
Giles & Posner	Electrical SDA, Tabletop	www.gilesandposner.com
Intempo	Music	www.intempo.co.uk
Kleeneze	Laundry, Electrical SDA, Cleaning	www.kleeneze.com
Portobello mugs	Tabletop	www.portobellomugs.com
Progress	Cookshop	www.progresscookshop.com
Z Frame	Luggage	www.zframe.com

Source: Company data

Licensed brands

UPGS's licensed brands **Russell Hobbs** and **Salter** usefully complement the owned portfolio. Neither brand is available to UPGS in the areas of the owners' core competences which are electrical and scales respectively. However, they present UPGS with further opportunities to offer high level premium products at affordable prices. Within its Russell Hobbs and Salter offerings there is a clear commitment to matching the quality that these brands embellish.

Furthermore, they are both important brands in terms of sales value and growth. Russell Hobbs and Salter combined were around one third of group sales in FY2020 and both increased sales by in excess of 20%, despite significant headwinds.

Premier Brands

UPGS categorises four of its owned brands as 'Premier Brands'. Combined with the two licensed brands this premier category increased sales revenue by 7.9% in FY2020 and accounted for 70% of group sales compared with 61% in FY2019. Typically, a higher concentration of a consumer goods company's leading brands as a portion of sales is seen as a positive development as we implied earlier.

We summarise the FY2020 performance of UPGS's Premier Brands, which includes the licensed brands Russell Hobbs and Salter, in Figure 5. The table includes data for both absolute sales and as a portion of the group. Despite challenges associated with Covid-19, only Intempo was in negative territory.

Figure 5 - Premier Brands performance in FY2020

	Sales revenue			Proportion of total	
£m, y/e July	**FY2019**	**FY2020**	**change**	**FY2019**	**FY2020**
Beldray	32.3	32.8	1.5%	26.2%	28.3%
Salter	20.9	25.8	23.7%	17.0%	22.3%
Intempo	8.2	5.0	-38.8%	6.7%	4.4%
Russell Hobbs	9.4	11.7	25.3%	7.6%	10.1%
Progress	4.1	4.4	7.7%	3.3%	3.8%
Kleeneze	0.2	1.2	617.0%	0.2%	1.0%
Total Premier	**75.1**	**80.9**	**7.9%**	**60.9%**	**69.9%**
Total sales	123.3	115.7	-6.1%	100.0%	100.0%

Source: Company data

Beldray continues to be the flagship brand among the company's wholly owned names. While its growth was relatively slow in FY2020 this is not particularly surprising given that the name represented 28% of a group's sales revenue and UPGS was subject to significant headwinds.

But the Beldray story is an important demonstration of what the company can do with a brand, having taken it from relative obscurity to £30m sales within a decade.

Success with Beldray has important implications for Kleeneze and Progress. The company states that it wants to elevate these two brands, which currently generate **£6m** in sales on a combined basis, to similar levels to Beldray and Salter, whose combined revenue in FY2020 was **£59m**, within three years.

If successful, the implied impact on growth from an accelerated Kleeneze and Progress would be significant. Other factors being equal, the two brands' sharp acceleration would add of the order of 10% to 15% to UPGS's overall sales revenue growth rate.

Raising brand awareness

UPGS's approach to brand management is consistent with its legacy product sourcing and strategic pillars of distribution strategies. The company is not a major purchaser of advertising space. Equally, UPGS is not making an attempt to build blockbuster brands via any "above the line" approach – for example, television or outdoor advertising.

Rather, the company uses what might be regarded as keyhole tactics when building brand awareness. This is important given UPGS's commitment to pricing products as affordable. We discuss these tactics in more detail.

The company's approach to online is to use the internet not just as a distribution platform but also as an awareness builder. For example, it makes good use of Amazon's Marketing Services as well as having a substantial number of products listed on the platform across the range of its brand portfolio.

Moreover, UPGS is active on social media. As well as the corporate Facebook account @ultimateproductsUPGS which showcases both owned and licensed brands, Beldray, Giles & Posner, Intempo, and Progress all have designated UPGS administered Facebook pages. The company is also active on Twitter.

Distribution – brands expand the reach

Online growth in FY2020

A salient feature of FY2020 was the rapid advance of UPGS's online sales, which in the second half of the financial year at 18% was not far shy of its long term 20% of group revenue target. Furthermore, supermarkets as a portion of group sales are also on the rise.

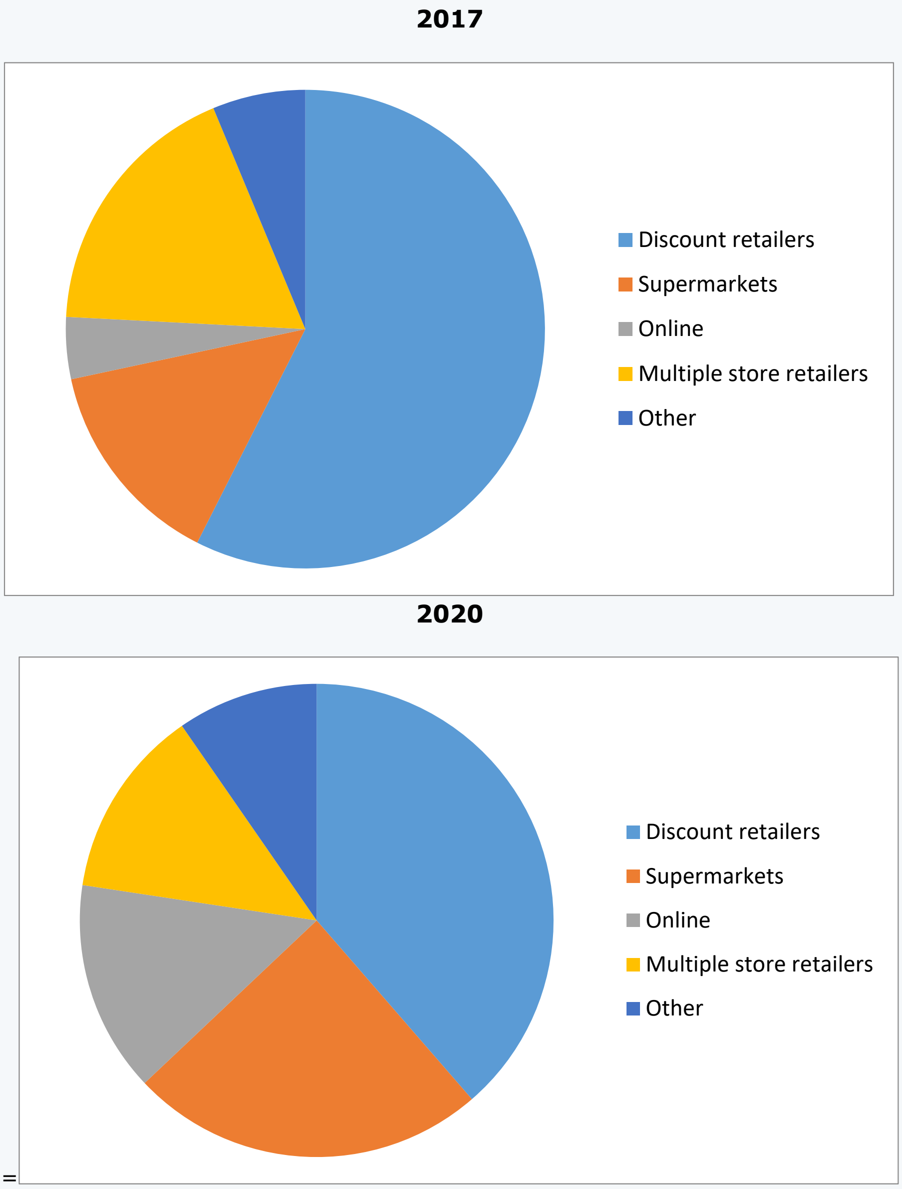
Non-essential store closures associated with Covid-19 clearly benefited the online sector as a whole. However, it is important in our view to note that distribution channels such as online and supermarkets can only work if the brand and product offerings match consumer demand. These channels are effectively a level playing field between competing providers.

Evolution of the four pillars

UPGS's legacy four strategic pillars for distribution are discount retailers, UK supermarkets, online and multiple store retailers. Three years ago UK supermarkets and online were only 18% of UPGS's business. In FY2020 they accounted for 39% % of the group sales revenue.

The increased importance of UK supermarkets and online is summarised in Figure 6. Aside from being an endorsement of UPGS's brand strength online delivers some financial benefits. It is easier to control inventory and to expand the offer in terms of total number of stock keeping units with an online business. In addition, gross margins are higher for online.

Figure 6 – distribution channel comparison between 2020 and 2017



Source: Company data

International – sizable potential

A large proportion of Western Europe is relatively underserved by UPGS. Hence, international could be a significant growth opportunity. Moreover, the company has already demonstrated its ability to match its success in the UK with a significant German offering and to grow its business online. Both of these support the case for feasibility.

Scaling the opportunity in Western Europe

Growth potential in Western Europe is in our view a function not only of the overall size of the economies concerned but also the contribution which overall consumers expenditure makes as a portion of those economies. Combined, Western Europe is equivalent to roughly one quarter of world GDP.

Figure 7 summarises the breakdown of European GDP for the larger countries. Currently, UPGS's overall business is dominated by two markets. While they are the two largest economies in Western Europe, they still only account for only 29% of the overall European economy.

Furthermore, household consumption is the leading component of the economies of Western Europe. As a result, the larger the economy, the larger the implied addressable market for UPGS. In the UK, household consumption is around 66% of GDP while for the European Union it represents 54%.

Figure 7 - European GDP by country in 2019

	GDP in US$bn	Share of total
Germany	3,863	17%
United Kingdom	2,744	12%
France	2,707	12%
Italy	1,989	9%
Russia	1,638	7%
Spain	1,398	6%
Netherlands	902	4%
Turkey	744	3%
Switzerland	715	3%
Poland	566	3%
10 largest countries	17,266	77%
Other countries	5,168	23%
Total	**22,434**	**100%**

Source: IMF World Economic Outlook- October 2019

Germany leads the way

UPGS's strongest international market to date has been Germany, which in FY2020 generated 26% of the company's international sales and 10% of the group's total sales revenue.

Clearly, there is substantial headroom to grow in Germany given that UPGS already has an established footprint in the country. The company opened a showroom in Germany in April 2018 and is well established in terms of its distribution footprint.

Moreover, the German opportunity tends to vindicate some of the company's ambitious plans for its Premier Brands, notably Kleeneze and Progress.

Growth potential further afield

Germany offers a useful barometer for UPGS's potential in the rest of Northern Europe as arguably the UK does. While the economies of Scandinavia and Benelux are relatively small they boast higher than European average per capita incomes. In addition, lifestyles and associated demand for "feel good" products in the home tend to be similar.

However, the large economies and populations of France, Italy, Poland and Spain are also noteworthy. Combined, these four nations account for 30% of European GDP. Moreover, they are all countries with established distribution channels in terms of both traditional retailing and online.

Economics of international expansion

Expansion of UPGS's business via online channels is a relatively capital light option. In particular, the company has a well-established track record of building brands on third party platforms – notably Amazon – rather than develop its own in-house capability.

That said, as Germany and the UK demonstrated there is a clear benefit from having in-market showroom capability. However, the economics of such investment are by no means crippling. In FY2018 when the showroom opened, overall investment in fixed assets was £0.8m. Given that Germany generated £11m in sales revenue in FY2020, the returns on that kind of investment appear attractive.

Financials and valuation

Forecasts

This report includes our updated forecasts for income statement, balance sheet and free cash flow in FY2021 and FY2022. Given the comprehensive nature of September's trading statement, we make minimal changes to our expectations for sales growth and profits in these two years. What our forecasts continue to reflect is the underlying revenue growth of the business, ongoing adherence to cost control and improved working capital management.

We estimate 6% sales growth in both FY2021 and FY2022. The central message is one of at least mid-single digit sales revenue growth, which is in itself a brisk pace. We factor some caution about economic uncertainty in the aftermath of Covid-19 into our estimates.

Moreover, there is scope further ahead for international growth significantly to exceed current expectations. And we note upbeat comments in relation to Kleeneze and Progress.

We expect online to increase to a higher portion of the overall business irrespective of when and how anti Covid-19 measures finally end. The channel is not only trending upwards in importance overall but has also grown materially in status for UPGS itself. Our income statement, balance sheet and free cash flow projections are detailed in Figures 8 to 10.

Figure 8 - Income statement

£'000s, y/e 31 July	2019A re-stated	2020A	2021E	2022E
Revenue	123,257	115,684	122,700	130,000
% increase in revenue	40.8%	-6.1%	6.1%	5.9%
Gross profit	27,244	26,600	28,336	30,152
Gross margin (%)	22.1%	23.0%	23.1%	23.2%
EBITDA - underlying	10,720	10,363	11,055	11,738
EBITDA margin - underlying	8.7%	9.0%	9.0%	9.0%
Net financial income	-810	-753	-808	-850
Pre-tax profit - reported	8,130	8,362	7,960	8,966
Pre-tax profit - adjusted	8,387	8,163	8,692	9,233
Taxation	-1,720	-1,747	-1,685	-1,893
Tax rate (%) - adjusted	20.5%	20.3%	20.4%	20.5%
Net income - adjusted	6,667	6,504	6,919	7,340
EPS – basic adjusted (p)	8.1	7.9	8.4	8.9
Dividend per share (pence)	4.1	4.0	4.2	4.5

Source: ED estimates, Company historic data

Figure 9 - Balance Sheet

£'000s, y/e 31 July	2019A	2020A	2021E	2022E
Assets				
Intangible assets	98	86	86	86
Property, plant and equipment	4,993	5,065	6,022	5,179
Deferred tax	130	106	106	106
Total non-current assets	5,221	5,257	6,214	5,371
Inventories	20,399	16,022	20,750	21,685
Trade and other receivables	18,644	18,495	19,617	20,784
Derivatives	1,335	53		
Current tax				
Cash and cash equivalents	122	329	329	329
Total current assets	40,500	34,899	40,696	42,797
Total assets	**45,721**	**40,156**	**46,910**	**48,168**
Liabilities				
Share capital	205	205	205	205
Share premium account	2	2	2	2
Share-based payment reserve	529	796	1,063	1,330
Hedging reserve and other reserves	1,238	-961	-1,814	-1,801
Retained earnings	11,227	15,527	17,410	20,955
Total equity	11,552	13,414	16,866	20,691
Trade and other payables	15,284	17,614	14,600	13,569
Derivative financial instruments	54	1,342		
Current tax	812	280		
Borrowings	14,567	3,903	12,590	11,806
Lease liabilities	793	710	710	710
Total current liabilities	31,510	23,849	27,900	26,085
Long term borrowings		89	89	89
Lease liabilities	2,659	2,804	2,054	1,304
Total non-current liabilities	2,659	2,893	2,143	1,393
Total equity and liabilities	**45,721**	**40,156**	**46,910**	**48,168**

Source: ED estimates, Company historic data

Figure 10 -Free Cash Flow

£'000s, y/e 31 July	**2019A**	**2020A**	**2021E**	**2022E**
Profit for the period	6,410	6,615	6,275	7,073
Adjustments for:				
Finance costs (net)	816	753	808	850
Income tax expense	1,720	1,747	1,685	1,893
Depreciation and impairment	1,512	1,417	1,543	1,643
Amortisation	11	12		
Loss on disposal of a current asset		18		
Derivative financial instruments	132	324		
Share based payments	257	267	267	267
Income taxes paid	-1,314	-2,255	-1,965	-1,893
Total	9,538	8,898	8,613	9,833
Working capital adjustments				
(Increase)/decrease in inventories	-3,932	4,377	-4,728	-935
Decrease/(increase) in receivables	-3,933	150	-1,122	-1,167
(Decrease)/increase in payables	2,947	2,339	-3,014	-1,031
Total	-4,918	6,866	-8,864	-3,133
Net cash from operations	**4,620**	**15,764**	**-251**	**6,700**
Cash flows used in investing activities				
Purchase of intangible assets	-9			
PP&E	-711	-601	-2,500	-800
Proceeds from P, P & E disposals	18	12	13	13
Finance income	6			
Repayment of lease liabilities			-750	-750
Total	-696	-589	-3,237	-1,537
Free cash flow before financing	3,924	15,175	-3,488	5,164
Interest paid	-702	-753	-808	-850
Free cash flow before dividends etc	**3,222**	**14,422**	**-4,296**	**4,314**
Dividends paid	-2,428	-2,307	-4,391	-3,529
Purchase of own shares (EBT)	-1,649	-506		
Free cash flow after dividends etc	**-855**	**11,609**	**-8,687**	**785**

Source: ED estimates, Company historic data

Valuation

UPGS's shares have performed extremely well since their trough in April 2020, when uncertainty associated with Covid-19 was at its most intense. Moreover, the shares are in positive territory year to date having closed last year at 92.5p.

We compare UPGS's valuation based on FY2020 with a select group of household brand manufacturers and online distributors in Figure 11 below. EV/sales and EV/EBITDA are both beneath peer group average and we note the superior dividend yield.

From a P/E perspective the Gear4Music ratio should be of interest given that it is an online focused company. In this context, UPGS's rising trend in online business as a portion of sales should be seen as positive for valuation.

We maintain our assessment of fair value for UPGS's shares at 150p, which is a healthy premium to current levels. At that price, key valuation multiples would still only be a 1.1x EV/sales ratio and a 17x P/E ratio based on our FY2022 forecasts

Figure 11 - Relative Valuation

	Share price (pence)	Shares (m)	Mkt cap (£m)	Net debt (£m)	EV (£m)	Sales 2021 (£m)	EV/ sales (x)	EBITDA 2021 (£m)	EV/ EBITDA (x)	EPS 2021 (p)	P/E 2021 (x)	DPS 2021 (p)	Yield (%)
Accrol Group*	44	195	86	5	90	139	0.7	12.9	7.0	n/a	n/a	n/a	n/a
Gear4Music	685	21	144	5	148	146	0.9	11.4	13.0	20.0	34.3	n/a	n/a
Luceco	225	161	362	13	375	183	2.1	37.9	9.9	n/a	n/a	6.0	2.7%
Portmeirion Group	365	22	51	2	53	90	0.6	10.7	4.9	n/a	7.0	14.0	3.8%
UPGS	**101**	**82**	**83**	**12**	**95**	**123**	**0.8**	**11.1**	**8.6**	**8.4**	**12.0**	**4.2**	**4.2%**
Warpaint	67	77	51		51	37	1.4	3.7	13.7	n/a	n/a	3.0	4.5%
Average							1.1		9.5		23.1		3.8%

Source: Company data, financial websites and Equity Development estimates
*Note - *FY2020*
UPGS dividend includes the postponed and restored interim in FY2020

Investor Access

Hannah Crowe
Direct: 0207 065 2692
Tel: 0207 065 2690
hannah@equitydevelopment.co.uk

Equity Development Limited is regulated by the Financial Conduct Authority

More information is available on our website

www.equitydevelopment.co.uk