

10 May 2024

## Near term disruption, but growth case remains strong

Ultimate Products announces today that sales revenue fell by 7% in its FY2024 third quarter and is anticipated to remain in negative territory in Q4. As a result, the company believes that EBITDA will now be in the range of £17.5m to £18.5m compared with a current market consensus figure of £21.5m. However, current sales setbacks look likely to prove temporary. The company clearly states its confidence in the group's prospects for FY2025 as a whole.

Today's announcement prompts us to cut our forecasts for both FY2024 and FY2025 sales revenue, and EBITDA as well as our estimated fair value for the shares. We reduce our FY2024 sales forecast from £167m to £157m, which implies a 6% decrease, and EBITDA from £21.6m to £18.0m. Given the 17% cut in current year EBITDA expectations it seems prudent to adjust our fair value / share figure by a similar amount. So, we reduce it by 20% from 250p to 200p.

Today's statement cites a slowdown in intra-month sales from landed stocks which includes call off, regular stock and online sales, all of which reflect a broader slowdown in retail sales to customers. UP also highlights previously referred to overstocking issues which it cites as easing sufficiently to allow for the resumption of more normal ordering patterns from its customer base. The company's retained confidence in prospects for FY2025 is encouraging for a return to growth.

Moreover, the forward order book for FY2025 is seeing significant growth relative to FY2024. As a result, we expect the growth rate to resume in FY2025 to as much as 9%. Our underlying sales revenue assumption is for 6% annual growth. To match our expectations in FY2025, the growth rate relative to the arguably more normal FY2023 would only have to compound at 2%.

UP's core franchise values and investor attractions remain intact despite recent disruption. The company generates around two thirds of sales from the Beldray and Salter brands and continues to work on the improved messaging around these two important homewares goods names. Additionally, the business is structured as attractively capital light, due to outsourced manufacturing with positive implications for return on net equity and free cash flow.

The reduction in our fair value from 250p to 200p should be seen as a prudent measure. Furthermore, despite the reduction in today's forecasts, UP's valuation relative to peers continues to look attractive. The company's yield is above its peers and the prospect of ongoing share buybacks should also be supportive, in our view. Both are symptomatic of UP's cash generative nature.

Key Financials					
Year to 31st July	2021A	2022A	2023A	2024E	2025E
Revenue (£m)	136.4	154.2	166.3	157.4	172.0
Revenue growth	17.9%	13.1%	7.9%	-5.4%	9.3%
EBITDA adjusted (£m)	10.6	18.8	20.2	18.0	21.1
EPS adjusted (p)	9.8	14.7	15.4	12.2	14.9
DPS (p)	5.0	7.1	7.4	6.1	7.5
EV/EBITDA (x)	14.9	8.4	7.8	8.8	7.5
P/E ratio (x)	17.4	11.5	11.1	13.9	11.4
Yield	3.0%	4.2%	4.3%	3.6%	4.4%

Source: Equity Development estimates, Company historic data

### Company Data

EPIC	ULTP
Price (last close)	170p
52 weeks Hi/Lo	114p/181p
Market cap	£151.8m
ED Fair Value / share	200p

### Share Price, p



Source: ADVFN

### Description

Ultimate Products plc (ULTP) 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 China and a further showroom in Continental Europe.

Key owned brands include **Salter, Beldray, Progress, Kleeneze, Petra and Intempo**. The company also markets non-electrical Russell Hobbs products under licence, now on a rolling four-year basis.

The company changed its name to Ultimate Products plc on 31 October 2023 and its stock ticker to ULTP.

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## Near term disruption but growth case remains strong

A larger than expected 7% decline in sales revenue in its FY2024 Q3 and an expectation that weakness of a similar magnitude will be repeated in FY2024 Q4 prompted a trading update from Ultimate Products plc today. The company also expects its profits, as measured by EBITDA, to be of the order of 15% to 20% lower than previous expectations.

### Sales revenue setbacks

UP's FY2024 Q3 covers the three months to end-April with revenue falling by 7% in the period compared with 4% in the first half announced at the time of interim results. We commented on the interim position in our 8<sup>th</sup> April 2024 report [Balancing sales growth with cash flow generation](#)

The reasons for a larger sales decline in Q3 is attributed to the company's intra-month sales of its landed stocks – i.e. items which are not associated with pre-orders from the larger customers. These include call off, regular stock and online sales.

The implied weakness in overall domestic consumer demand is clearly a tough challenge. However, UP arguably has the tools to deal with that. First, the company does not engage in inflationary pricing. Second, UP is in the process of rebranding Salter, its most important offering, and it also has plans for its second largest brand Beldray.

In addition, UP does not confine itself to the UK. While its domestic market was 70% of sales revenue in FY2023, significant work on international expansion has been in place for some time, most notably with the relocation of its flagship European showroom from Germany to France last year.

### Changes to forecasts

Our revised forecasts, which are confined largely to FY2024, are summarised in Figure 1. If our assessment regarding FY2025 is correct, the compound growth rate relative to FY2023 will be 2% compared with our longer-term assumption of a 6% underlying annual expansion rate in sales.

Our EBITDA forecast assumes that gross margins will increase by around 100 basis points to 26.0% in FY2024 with a similar, probably slightly lower, number in FY2025.

**Figure 1 - Revisions to forecasts**

All figures in £m	FY2024			FY2025		
	old	new	change	old	new	change
Sales revenue	167.1	157.4	-5.8%	180.5	172.0	-4.7%
EBITDA - adjusted	21.6	18.0	-16.7%	23.0	21.1	-8.5%
EPS (p) - adjusted	15.4	12.2	-20.6%	17.0	14.9	-12.2%

Source: ED estimates

We revise our end year net debt forecast upwards to £11.6m from £7.8m which is roughly equivalent to the change in EBITDA.

## Valuation and Financials

### Relative valuation

We reduce our fair value assessment for UP by 20% to 200, which remains above the current share price. Moreover, this reduction is arguably prudent given is larger in scale than either our downgrade to FY2024 sales or EBITDA forecasts which primarily drive our fair value assessments.

A salient feature of our relative valuation is UP's attractive and superior dividend yield, which is backed up by positive cash flow and commitment to a consistent 50% pay-out ratio (either side of COVID). At a 200p share price this would shrink to 3.1% but remain in line with selected peers. Clearly, there is scope both from free cash flow and retained earnings perspectives to drive dividends higher were the company to wish to break from its stated policy.

Based on our revised forecasts, at a share price of 200p UP would trade on 1.2x EV/sales, similar to the average of the peer group we choose for relative valuation. EV/EBITDA would be 10.2x and the P/E ratio would be 16.4x. We summarise relative valuation in Figure 2.

**Figure 2 - Relative valuation**

	Share price	Mkt cap	Net	EV	Sales	EV/sales	EBITDA	EV/EBITDA	EPS	P/E	DPS	YLD
	(p)	(£m)	debt (£m)	(£m)	2024 (£m)	(x)	2024 (£m)	(x)	2024 (p)	(x)	2024 (p)	%
Accrol (ACRL)	39	126	62	187	207	0.9	21.2	8.8	2.9	13.2	0.3	0.6
Gear4Music (G4M)	147	31	28	59	144	0.4	9.8	6.0	3.6	40.5		
Luceco (LUCE)	159	250	20	270	230	1.2	33.6	8.0	11.9	13.4	4.8	3.0
Portmeirion (PMP)	248	35	16	50	100	0.5	10.7	4.7	24.8	10.0	7.3	2.9
Procook (PROC)	27	29	33	62	63	1.0	8.0	7.8	0.9	31.1		
<b>Ultimate Products (ULTP)</b>	<b>170</b>	<b>147</b>	<b>12</b>	<b>158</b>	<b>157</b>	<b>1.0</b>	<b>18.0</b>	<b>8.8</b>	<b>12.2</b>	<b>13.9</b>	<b>6.1</b>	<b>3.6</b>
Warpaint (W7L)	465	358	-4	354	106	3.3	26.3	13.5	22.8	20.4	11.3	2.4
<b>Average</b>						<b>1.2</b>		<b>8.2</b>		<b>20.4</b>		<b>2.5</b>

Source: ADVFN (prices), MarketScreener (EBITDA), Stockopedia (Debt, EPS, dividends) and Equity Development estimates (UPGS forecasts)

### Financial forecasts

Our revised forecasts for income statement, balance sheet and free cash flow appear in Figures 3 to 5. The sales revenue assumption is a 6% underlying sales growth rate although that has today been indicated by the company to be in reverse in FY2024. We expect it will bounce back into firmly positive territory in FY2025.

The salient change in our balance sheet feature of our projections is that net debt will close FY2024 will close the year at around £11.6m compared with £7.8m previously envisaged. However, at 0.6x forecast EBITDA this would still leave headroom for buybacks given the company's comfort with raising net indebtedness to of the order of £20m.

**Figure 3 - Income statement**

All figures in £'000s	2022A	2023A	2024E	2025E
<b>31st July year end</b>				
<b>Revenue</b>	<b>154,191</b>	<b>166,315</b>	<b>157,400</b>	<b>172,020</b>
% increase in revenue	13.1%	7.9%	-5.4%	9.3%
Cost of sales	-115,836	-123,568	-116,476	-128,155
Gross profit	38355	42747	40924	43865
Gross margin (%)	24.9%	25.0%	26.0%	25.5%
Administrative expenses	-19,605	-22,534	-22,900	-22,800
<b>EBITDA - adjusted</b>	<b>18,750</b>	<b>20,213</b>	<b>18,024</b>	<b>21,065</b>
EBITDA margin - adjusted (%)	12.2%	12.2%	11.5%	12.2%
Depreciation & amortisation - total	-2,066	-2,260	-2,496	-2,732
EBIT - adjusted	16,684	17,953	15,528	18,333
EBIT margin - adjusted	10.8%	10.8%	9.9%	10.7%
Net financial expense	-842	-1,132	-1,172	-808
<b>Pre-tax profit - adjusted</b>	<b>15,842</b>	<b>16,821</b>	<b>14,356</b>	<b>17,525</b>
Taxation	-3,120	-3,560	-3,804	-4,644
Tax rate (%) - adjusted	19.7%	21.2%	26.5%	26.5%
<b>After tax income - adjusted</b>	<b>12,722</b>	<b>13,261</b>	<b>10,552</b>	<b>12,881</b>
Share based payment charges	-403	-837	-837	-837
Statutory profit after tax (attributable)	12,370	12,586	9,885	12,244
<b>EPS - basic adjusted (p)</b>	<b>14.7</b>	<b>15.4</b>	<b>12.2</b>	<b>14.9</b>
Dividend per share (pence)	7.1	7.4	6.1	7.5

Source: ED estimates, Company historic data

**Figure 4 - Balance sheet**

All figures in £'000s	2022A	2023A	2024E	2025E
<b>31st July year end</b>				
<b>Assets</b>				
Intangible assets	37,025	37,003	37,003	37,003
Property, plant and equipment	6,369	8,443	7,008	5,378
Total non-current assets	43,394	45,446	44,011	42,381
Inventories	29,162	28,071	28,466	31,110
Trade and other receivables	32,194	29,890	28,288	29,415
Cash and cash equivalents	6,202	5,086	5,086	5,086
Total current assets	71,700	64,280	61,840	65,612
<b>Total assets</b>	<b>115,094</b>	<b>109,726</b>	<b>105,851</b>	<b>107,993</b>
<b>Liabilities</b>				
Trade and other payables	29,644	30,005	26,497	27,058
Derivative financial instruments		1,806		
Current tax	170			
Borrowings	22,314	15,891	12,778	7,673
Lease liabilities	817	836	836	836
Deferred consideration	987			
Total current liabilities	53,932	48,538	40,111	35,566
Borrowings (negative => cash)	8,144	3,990	3,990	3,990
Deferred tax	7,585	6,797	6,000	6,000
Lease liabilities	1,940	4,262	3,512	2,762
<b>Total non-current liabilities</b>	<b>17,669</b>	<b>15,049</b>	<b>13,502</b>	<b>12,752</b>
Share capital	223	223	223	223
Share premium account	14,334	14,334	14,334	14,334
Employee benefit trust reserve	-1,571	-1,571	-1,571	-1,571
Share-based payment reserve	1,166	2,003	2,840	3,677
Hedging reserve and other reserves	3,239	-4,265	-6,945	-9,718
Retained earnings	26,102	35,415	43,357	52,730
<b>Total equity</b>	<b>43,493</b>	<b>46,139</b>	<b>52,238</b>	<b>59,675</b>
<b>Total equity and liabilities</b>	<b>115,094</b>	<b>109,726</b>	<b>105,851</b>	<b>107,993</b>

Source: ED estimates, Company historic data

**Figure 5 - Free cash flow**

All figures in £'000s	2022A	2023A	2024E	2025E
<b>31st July year-end</b>				
Profit for the period	12,370	12,586	9,885	12,244
Adjustments for:				
Finance costs (net)	842	1,132	1,172	808
Income tax expense	3,069	3,399	3,804	4,644
Depreciation and impairment	2,044	2,238	2,474	2,710
Amortisation	22	22	16	16
Loss on disposal of a current asset				
Derivative financial instruments				
Share based payments	403	837	837	837
Income taxes paid	-2,345	-3,957	-3,804	-4,644
Working capital adjustments				
(Increase)/decrease in inventories	-7,721	1,090	-395	-2,644
Decrease/(increase) in receivables	-5,649	2,691	1,602	-1,127
(Decrease)/increase in payables	1,221	559	-3,508	561
<b>Cash generated from operations</b>	<b>4,530</b>	<b>20,399</b>	<b>12,082</b>	<b>13,405</b>
<b>Cash flows used in investing activities</b>				
Acquisition of a business	-1,960	-987		
Purchase of intangible assets				
PP&E	-1,843	-999	-1,039	-1,081
Proceeds from P, P & E disposals				
Finance income				
Repayment of lease liabilities		2,322	-750	-750
Total	-3,803	336	-1,789	-1,831
<b>Free cash flow before financing</b>	<b>727</b>	<b>20,735</b>	<b>10,293</b>	<b>11,574</b>
Interest paid	-850	-1,147	-1,172	-808
<b>Free cash flow before dividends etc</b>	<b>250</b>	<b>19,056</b>	<b>9,121</b>	<b>10,766</b>
Dividends paid	-4,830	-6,255	-6,009	-5,660
Sale of own shares	0	0		
Principal paid on lease obligations	-936	-840		
Debt issue costs paid		-94		
<b>Free cash flow after dividends etc</b>	<b>-5,516</b>	<b>11,867</b>	<b>3,113</b>	<b>5,106</b>

Source: ED estimates, company historic data



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