

Acquisition of Cuts Ice Ltd. and Flavour Core Ltd.

9 August 2022

Supreme has announced the acquisition of independent vaping products manufacturer Cuts Ice Limited, and Flavour Core Limited, developer of flavours and e-liquids regulatory practices compliance. The acquisitions bring e-liquid technical and regulatory compliance knowhow, plus offering manufacturing synergies and bring additional access to European markets.

Cuts Ice Limited owns the leading vape brand T-Juice (see: <https://www.t-juice.com>) and developed the Red Astaire vaping flavour (a woody red berries and eucalyptus blend) which has achieved brand recognition in European markets. Founded in 2012 and based in Park Royal, London, (see <https://www.cutsice.com>) Cuts Ice is a specialist in the scientific development of e-liquid vaping flavourings. Its development processes generate a *toxicological monograph* using gas chromatographic and mass spectrometry analysis to provide a detailed picture of e-liquid flavouring components at molecular level. Its ISO Class-7 cleanroom matches GMP (good manufacturing practice) industry standards, to meet vaping-related Tobacco Products Directive (TPD) and other regulatory standards compliance. For Supreme the acquisition brings expertise in the development of vaping flavours, in addition to which Cuts Ice has an established European presence (majority of sales), in France, Germany, Italy, Spain and Belgium, with which to complement Supreme's strong UK presence.

Flavour Core Limited (see: <https://www.flavour-core.com>) was founded in 2016, based in Swindon, and develops and manufactures flavourings solely on an OEM basis for the e-liquids industry. Noting that a 'significant number of aroma chemicals used routinely in the food industry are not suitable for vaping', Flavour Core screens compounds to identify 'molecules of concern', cross-check with published banned lists and assess for potentially harmful CMR (carcinogenic, mutagenic, reprotoxic) properties to produce the required toxicological monograph basis for flavour combinations.

Funded from existing resources; earnings enhancing

The acquisitions are funded from existing resources, where Supreme has proven experience in the integration process, and are expected to be immediately EBITDA (adj.) earnings enhancing, with integration into its Vaping division systems and operations to follow.

The acquisitions bring to Supreme important vape flavourings, scientific and regulatory expertise, and practices to augment the vaping brand and commercial success Supreme has established in the UK. At this stage we leave our existing outlook in place with the proviso to revise at the next earnings update.

Financial outlook

Year to Mar 31 (£m)	2020	2021	2022	2023E	2024E
Revenue	92.3	122.3	130.8	129.5	142.2
EBITDA (adj)	16.0	19.3	21.1	17.5	22.2
EPS (adj, p)	10.1	11.8	12.4	9.3	11.7
FCFS (p)	15.5	11.1	10.1	11.6	13.3
DPS (p)	10.0	2.7	2.2	4.7	2.6
Net debt / (cash)	21.3	7.6	4.0	4.7	(3.8)
EV/EBITDA	7.1x	5.9x	5.4x	6.5x	5.1x
P/E	10.0x	8.5x	8.1x	10.8x	8.6x
FCF yield (%)	15.4	11.0	10.0	11.6	13.2
Div yield (%)	9.9	2.7	2.2	4.6	2.6

Source: Company data, Equity Development estimates

Company Data

EPIC	SUP
Price (last close)	100p
52 weeks Hi/Lo	245p/71p
Market cap	£117m
ED Fair Value / share	190p
Net debt (cash)	£4.7m

Share Price, p



Source: LSE

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 items.

Its customer base includes leading brands such as Costcutter, B&M, ASDA, TK Maxx, Poundland, Sainsbury's, Home Bargains, Heron Foods, Booker, Bestway, Aldi, Tool Station, Range, Travis Perkins and Nisa.

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