

Positive trading update – strong busiest quarter

10th January 2023

Supreme reports that trading in the three months up to 31 December 2022 was significantly ahead year-on-year, with revenue and gross profit up 30%YoY. As a result, the Group is “well placed” to meet market expectations - which were raised in November - for the year to 31 March 2023.

Vaping remains resilient; lighting recovery continues

At the Interim, **Vaping** revenue was particularly strong - comprising 49% of total revenue and 69% of gross contribution. Supreme reports that this growth trajectory has been maintained, including the acquired operations Liberty Flights, Cuts Ice and Flavour Core which are “trading well”; the Group’s extensive retail distribution network and consumer presence means that it is well-placed to continue to benefit from the strength of demand for vaping products. The **Lighting** division (9.5% of Interim revenue) is reported to continue to recover following the temporary lull in demand due to retail overstocking, whilst performance in the **Battery** division (24% of Interim revenue) has maintained its customary consistency. The remainder of the Group (Branded Household Consumer Goods and Sports Nutrition & Wellness) is reported to be “profitable and resilient”.

UK retail: unexpected signs of a strong Christmas

A range of leading high street retailers reported unexpectedly positive performance up to Christmas¹ against the backdrop of inflationary pressure and rising household costs. The ‘value’ supermarket Aldi reported its “best ever Christmas” with revenue 8.1% above 2019 levels (Kantar); Next reported full price sales +4.8%YoY (9 weeks to 31 December) despite a forecast 2%YoY decline; Boots saw a 4.3%YoY increase, with footfall up 8%; Greggs added 18.2%YoY in the quarter; and Supreme client B&M raised its outlook with revenue +12.3%YoY to £1.56bn in the 13 weeks to 24 December.

Update underpins our raised outlook

Following strong Interim results (ED report 29th November 2022 *H1 23 results buoyed by strong performance from Vaping*) we raised our FY23 revenue outlook by 7% from £129.5m to £138.3m, and raised our FY23 EBITDA (adj.) outlook by 6% to £18.5m. As the Trading Update indicates, **Supreme has maintained the momentum of H1 performance** adding confidence to our raised estimates for the current year; for FY24, we maintain the revenue forecast which was raised by 6% from £142.2m to £150.5m at the Interim.

Our Fair Value remains 190p/share.

Financial outlook to 31 March 2024

Yr to March 31 (£m)	2020	2021	2022	2023E	2024E
Revenue	92.3	122.3	130.8	138.3	150.5
EBITDA (adj)	16.0	19.3	21.1	18.5	22.2
EPS (adj, p)	9.7	11.8	11.5	9.6	11.3
DPS (p)	10.0	2.7	2.2	4.7	2.6
Net debt / (cash)	21.3	7.6	4.0	6.8	(1.9)
EV/EBITDA	6.8x	5.6x	5.2x	5.9x	4.9x
P/E	10.2x	8.4x	8.6x	10.3x	8.8x

Source: Company data, Equity Development estimates. ¹ <https://news.sky.com/story/next-christmas-sales-figures-far-exceed-expectations-12780212>

Company Data

EPIC	SUP
Price (last close)	101.5p
52 weeks Hi/Lo	245/70p
Market cap	£118m
ED Fair Value	190p
Net debt (cash) £m	6.8

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 Goods.

The customer base includes leading brands such as, B&M, Home Bargains, The Range, Sports Direct, Londis, SPAR, Costcutter, Asda, Halfords, and Iceland, 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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Summary P&L

Summary P&L outlook to FY24 E

Yr to March 31 (£m)	FY20	FY21	FY22	FY23E	FY24E
Revenue	92.3	122.3	130.8	138.3	150.5
Gross Sum	25.9	31.9	36.9	39.2	44.2
<i>Mrg</i>	28.0%	26.1%	28.2%	28.4%	29.3%
COGS	(66.5)	(90.3)	(93.9)	(99.1)	(106.3)
Forex	0.7	1.1	1.6	1.3	1.0
Gross inc forex	26.6	33.0	38.5	40.5	45.2
<i>Mrg</i>	28.8%	27.0%	29.4%	29.3%	30.0%
Sum Op-ex	(12.6)	(19.4)	(21.5)	(27.6)	(28.1)
One-off costs	(0.4)	(3.4)	(1.1)	(2.0)	(1.5)
EBIT Reported	14.0	13.6	17.0	12.9	17.1
EBIT Adjusted	14.4	17.0	18.1	14.9	18.6
<i>Mrg</i>	15.6%	13.9%	13.8%	10.7%	12.3%
Depreciation	(1.5)	(2.0)	(2.6)	(2.6)	(2.6)
Amortisation	(0.0)	(0.2)	(0.4)	(1.0)	(1.0)
EBITDA Reported	15.6	15.8	20.0	16.5	20.7
EBITDA Adjusted	16.0	19.3	21.1	18.5	22.2
<i>Mrg</i>	17%	16%	16%	13%	15%
Financial income	0.0	0.0	0.0	0.0	0.0
Financial expense	(0.8)	(0.7)	(0.7)	(0.8)	(0.8)
PBT Reported	13.2	13.0	16.3	12.1	16.3
PBT Adjusted	13.6	16.4	17.4	14.1	17.8
Tax	(2.3)	(3.1)	(2.6)	(2.4)	(4.1)
Reported tax rate	17.5%	24.1%	15.8%	20.0%	25.0%
<i>Tax rate adjusted</i>	17.0%	19.0%	14.8%	17.2%	22.9%
PAT Reported	10.9	9.8	13.7	9.7	12.2
PAT Adjusted	11.3	13.3	14.8	11.7	13.7
Amortisation & tax items	(0.1)	0.1	0.1	0.0	0.0
PAT Adjusted	10.8	13.4	13.9	9.7	12.2
Basic wtd. av. shares (m)	110.0	111.1	116.6	116.6	116.6
Diluted wtd. av. shares (m)	111.3	113.2	121.1	121.1	121.1
EPS rptd basic (p)	9.9	8.9	11.8	8.3	10.5
EPS rptd dil (p)	9.8	8.7	11.4	8.0	10.1
EPS adj basic (p)	9.8	12.0	11.9	10.0	11.7
EPS adj dil (p)	9.7	11.8	11.5	9.6	11.3

Source: Company data, Equity Development estimates.

Summary Cashflow

Summary cashflow, outlook to FY24 E					
Yr to March 31 (£m)	FY20	FY21	FY22	FY23E	FY24E
PAT Reported	10.9	9.8	13.7	9.7	12.2
One-off items	0.4	3.4	1.1	2.0	1.5
Depreciation	1.5	2.0	2.6	2.6	2.6
Amortisation	0.0	0.2	0.4	1.0	1.0
Tax	2.3	3.1	2.8	2.4	4.1
Finance/other	0.6	(1.7)	0.0	0.0	0.0
Operating Cash Flow	15.8	16.9	20.6	17.7	21.4
(Increase)/Decrease inventories	2.5	(5.3)	(4.9)	(2.5)	(1.3)
(Increase)/Decrease in receivables	(0.9)	1.0	(2.2)	(1.1)	(1.8)
Increase/(Decrease) in payables	1.4	2.7	2.5	1.0	1.6
Movement in working capital	3.0	(1.6)	(4.7)	(2.6)	(1.4)
Cash generated by operations	18.7	15.3	15.9	15.0	19.9
Tax (paid)/received	(1.7)	(3.0)	(4.2)	(2.4)	(4.1)
Net cash from operations	17.0	12.3	11.8	12.6	15.9
Investing activities	0.0	0.0	0.0	0.0	0.0
Interest received	0.0	0.0	0.0	0.0	0.0
Intangibles	(0.0)	(0.1)	(1.5)	(7.8)	(4.0)
PPE	(1.7)	(1.7)	(1.3)	(1.0)	(1.3)
Acquisition	(3.5)	(1.0)	(1.0)	0.0	0.0
Sale of PPE	0.0	0.9	0.4	0.0	1.3
Net cash used in investing	(5.2)	(1.9)	(3.4)	(8.8)	(4.0)
Net OpFCF	11.8	10.4	8.4	3.9	11.9
Borrowings	5.7	(13.0)	(8.1)	12.5	4.0
Share issue	0.0	7.5	0.0	0.0	0.0
Interest paid	(0.7)	(0.6)	(0.3)	(0.2)	0.0
Leases	(0.6)	(0.6)	(1.0)	(1.0)	0.0
Dividend	(11.0)	(3.0)	(2.6)	(5.5)	(3.1)
Net cash from financing	(6.6)	(9.6)	(11.9)	5.8	0.9
Net increase in cash / equivalents	5.2	0.8	(3.5)	9.7	12.8
Cash start	1.5	6.7	7.5	3.9	13.6
Forex	(0.0)	0.0	(0.0)	0.0	0.0
Cash end	6.7	7.5	3.9	13.6	26.4
Net debt / (cash)	21.3	7.6	4.0	6.8	(1.9)

Source: Company data, Equity Development estimates.

Summary Balance sheet

Summary balance sheet, outlook to FY24 E

Yr to March 31 (£m)	FY20	FY21	FY22	FY23E	FY24E
Intangible assets	1.8	2.6	3.7	13.6	16.6
PPE net	3.5	2.8	2.6	5.0	3.7
RoU	1.5	1.5	2.1	2.1	2.1
Investments	0.0	0.0	1.3	1.3	1.3
Sum Fixed Assets	6.7	6.9	9.7	22.0	23.7
Inventories	14.5	19.9	25.9	28.4	29.7
Trade receivables	16.7	16.1	19.0	20.1	21.9
Tax assets	0.0	0.0	0.0	0.0	0.0
Financial insts	0.2	0.0	0.5	0.5	0.5
Cash, Equivalents	6.7	7.5	3.9	13.6	26.4
Sum Current Assets	38.1	43.4	49.3	62.6	78.5
Total Assets	44.9	50.3	59.0	84.6	102.2
Trade payables	(10.3)	(13.3)	(17.3)	(18.3)	(19.9)
Borrowings	(10.6)	(10.5)	(6.7)	(6.7)	(6.7)
Tax, Other	(2.3)	(2.9)	(1.3)	(1.3)	(1.3)
Sum Current Liabilities	(23.2)	(26.7)	(25.3)	(26.3)	(27.9)
Total Assets less Current Liabilities	21.7	23.6	33.8	58.4	74.3
Borrowings	(17.4)	(4.7)	(1.3)	(13.8)	(17.8)
Tax	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)
Sum Long-term liabilities	(17.6)	(4.8)	(1.5)	(14.0)	(18.0)
Total liabilities	(40.8)	(31.5)	(26.7)	(40.2)	(45.8)
Net Assets	4.1	18.8	32.3	44.4	56.4
Share Capital	11.0	11.7	11.7	11.7	11.7
Share Premium	0.0	7.2	7.2	12.1	11.8
Capital Reserve	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)
Retained earnings	15.1	21.9	33.1	42.7	54.9
Equity	4.1	18.8	32.3	44.4	56.4
Net debt / (cash)	21.3	7.6	4.0	6.8	(1.9)

Source: Company data, Equity Development estimates.



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