

Disposal of T-Juice intellectual property

15th March 2023

Supreme reports that it has entered into an agreement with an associated company of La Vape Professionnelle Distribution (LVP), a leading French wholesaler of e-cigarettes and e-liquids, for the disposal of the intellectual property (IP) of T-Juice, inclusive of the *Red Astaire* brand.

Supreme receives €4.5m upfront

Under the terms of the agreement, Supreme will receive an upfront payment of €4.5m (£3.97m) in respect of T-Juice brand IP, with the addition of income from consultancy services. T-Juice was acquired as part of the acquisition of the assets of Cuts Ice in August 2022, with intangible assets valued at £1.4m. The agreement ushers in a new strategic partnership in which Supreme will have exclusive manufacturing rights for T-Juice brands. We estimate that this will amount to at least €15.0m (£13.3m) in revenue over the coming five years, although the terms of the partnership – involving wholesale pricing arrangements – mean that our earnings outlook for the Group is unchanged.

Strategic rationale and benefits

Under the terms of the agreement with LVP (see <https://www.lvp-distribution>):

- Supreme retains responsibility for flavour development and manufacturing, thus maintaining opportunities for supply chain synergies and improved margins.
- Enjoys simplified access to European distribution and expansion, at reduced cost, with LVP as the single point of reference.
- Has further cross-selling opportunities from the Supreme product portfolio.

Outlook maintained

We raised our outlook on the basis of strong Interim results ([ED report 29th November 2022 H1 23 results buoyed by strong performance from Vaping](#)): FY23 revenue outlook was raised by 7% to £138.3m, and FY23 EBITDA (adj.) by 6% to £18.5m. The subsequent Trading Update added evidence of continuing positive momentum ([ED report 10th January 2023 Positive trading update – strong busiest quarter](#)) supporting our outlook and our **Fair Value of 190p** indicative of a FY24 EV/EBITDA of 9.0x.

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	6.6x	5.5x	5.0x	5.7x	4.7x
P/E	9.9x	8.1x	8.4x	10.0x	8.5x

Source: Company data, Equity Development estimates.

Company Data

EPIC	SUP
Price (last close)	96p
52 weeks Hi/Lo	197/70p
Market cap	£112m
ED Fair Value/share	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, Lonsis, 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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