

17th July 2023

Debt reduction confirms financial strength

UPGS announced a significantly better-than-expected improvement in its debt position today. Net FY2023 year-end bank borrowings are expected to be in the region of £15m compared with current market expectations of closer to £21m. In our view, the financial benefits of lower net debt in the current climate of rising interest rates are clear. UPGS's cash generation capabilities not only underpin its generous dividend policy (50% of net profits) but also enhance strategic flexibility. We reiterate our 250p fair value for the shares.

UPGS's ability to announce better-than-expected FY2023 net debt guidance in today's statement is consistent with effective working capital management and overall trading health of the business, notably the second half of FY2023's sales revenue. A £15m net debt figure represents a sharp reduction from £24m at the end of FY2022. A lower net debt outcome clearly reduces potential interest costs for the group where overall financial risk was already reduced by UPGS's prudent hedging strategy – i.e. through its use of interest rate caps and swaps.

Strong cash generation and debt reduction puts UPGS in a robust position both in terms of financial strategy and business opportunities. The company is not only able to weigh up the relative benefits of increased pay-outs to shareholders (e.g. a higher dividend pay-out ratio or share buybacks) but also to take advantage of potential acquisition targets on offer, like the successful acquisition of the Salter brand outright in its core markets and with Petra in Germany.

Today's announcement reinforces confidence in both our own and consensus FY2023 forecasts being achieved. Our 29th March 2023 report ([Well placed for sales growth acceleration in H2](#)) commented that a £163m full year revenue figure would require double-digit growth in the second half. Given that UPGS expects its end-year FY2023 net debt:EBITDA to be 0.7x compared with 1.3x a year earlier, we infer that the company itself shares our confidence. Second half sales growth clearly accelerated sharply.

Significant potential upside to our 250p fair value

We argue that a combination of strong sales growth and associated financial strength is central to the investment case for UPGS's shares as the company strives to deliver affordable "feel good" branded products for every home. UPGS's ongoing upskilling as a brand manager was discussed in our 14th June 2023 report ([Innovating for growth](#)) in the aftermath of its Salter re-brand presentation at the Exclusively trade fair in London. As a result, we reinforce our view that fair value for UPGS's shares is 250p. This valuation implies 1.4x EV/sales and 11.7x EV/EBITDA using an improved £15m end-FY2023 net debt estimate.

Key Financials					
Year to 31st July	2020A	2021A	2022A	2023E	2024E
Revenue (£'000)	115,684	136,367	154,191	163,442	173,249
Revenue growth	-6.1%	17.9%	13.1%	6.0%	6.0%
EBITDA adjusted (£'000)	9,915	13,291	18,750	20,176	21,680
EPS adjusted (p)	8.3	11.1	14.7	15.1	15.4
DPS (p)	4.0	5.0	7.1	7.5	7.7
EV/EBITDA (x)	12.4	9.3	6.6	6.1	5.7
P/E ratio (x)	14.7	11.0	8.3	8.1	7.9
Yield	3.2%	4.1%	5.8%	6.2%	6.3%

Source: Equity Development estimates, Company historic data

Company Data

EPIC	UPGS
Price (last close)	122p
52 weeks Hi/Lo	174p/90p
Market cap	£109m
ED Fair Value / share	250p

Share Price, p



Source: ADVFN

Description

UP Global Sourcing Holdings plc (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 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.

Chris Wickham (Analyst)

0207 065 2690
chris@equitydevelopment.co.uk

Hannah Crowe

0207 065 2692
hannah@equitydevelopment.co.uk



Contacts

Andy Edmond

Direct: 020 7065 2691

Tel: 020 7065 2690

andy@equitydevelopment.co.uk

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

Equity Development Limited is regulated by the Financial Conduct Authority

Disclaimer

Equity Development Limited ('ED') is retained to act as financial adviser for its corporate clients, some or all of whom may now or in the future have an interest in the contents of this document. ED produces and distributes research for these corporate clients to persons who are not clients of ED. In the preparation of this report ED has taken professional efforts to ensure that the facts stated herein are clear, fair and not misleading, but makes no guarantee as to the accuracy or completeness of the information or opinions contained herein.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom ('FSMA'). Any reader of this research should not act or rely on this document or any of its contents. This report is being provided by ED to provide background information about the subject of the research to relevant persons, as defined by the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005. This document does not constitute, nor form part of, and should not be construed as, any offer for sale or purchase of (or solicitation of, or invitation to make any offer to buy or sell) any Securities (which may rise and fall in value). Nor shall it, or any part of it, form the basis of, or be relied on in connection with, any contract or commitment whatsoever.

Research produced and distributed by ED on its client companies is normally commissioned and paid for by those companies themselves ('issuer financed research') and as such is not deemed to be independent as defined by the FCA but is 'objective' in that the authors are stating their own opinions. This document is prepared for clients under UK law. In the UK, companies quoted on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies.

ED may in the future provide, or may have in the past provided, investment banking services to the subject of this report. ED, its Directors or persons connected may at some time in the future have, or have had in the past, a material investment in the Company. ED, its affiliates, officers, directors and employees, will not be liable for any loss or damage arising from any use of this document to the maximum extent that the law permits.

More information is available on our website www.equitydevelopment.co.uk

Equity Development, 2nd Floor, Park House, 16-18 Finsbury Circus, London EC2M 7EB

Contact: info@equitydevelopment.co.uk | 020 7065 2690