

Second half 15% sales growth beats expectations

15 August 2023

UPGS comfortably beat full year FY2023 expectations for sales revenue in a trading update released today, as H2 sales accelerated sharply to show 15% growth compared with 2% in the first half of the year. Profits were in line with expectations. Online revenues were notably strong and increased by 64% in FY2023. With robust finances and a clear message that the UPGS brands are delivering brisk sales growth, we reiterate our 250p fair value for the shares.

The salient feature of today's trading update was the sharp increase in second half sales, which helped drive an 8% full year FY2023 uplift, exceeding our assumed 6% underlying pace of expansion for the group. Importantly, this growth was achieved despite no overall price inflation as the group sought to sell its branded homeware products at prices that would be affordable to consumers. In our view, the ability of a consumer goods company to generate sales volume growth in the relatively mature economies of the UK and Continental Europe should be valued highly.

Key profit measures were in line with expectations. Adjusted EBITDA matched our own £21.2m forecast, which was slightly ahead of consensus and increased in line with sales by 8%. Despite an upward adjustment to our sales forecasts, our profit estimates remain unchanged. Current trading for FY2024 is described as in line with expectations.

UPGS's financial strength was highlighted in the July news release. We noted in our 17th July report ([Debt reduction confirms financial strength](#)) that the ability to pay down debt is important at a time of rising interest rates, as well as widening the range of financial and strategic options available to UPGS. The company's achievement of a large reduction in net bank debt from £24.3m to £14.8m resulted in a significant improvement in the net debt/EBITDA ratio from 1.3x to 0.7x.

UPGS's brands remain central to the investment case. Salter, Beldray, Petra and non-electrical Russell Hobbs products appear to be delivering industry beating growth and increasing shareholder value as part of the company's commitment to drive the business through effective brand management. While there is significant fresh activity behind the brands, they deliver a consistent message of beautiful and affordable products which are positioned to appeal to every home.

Significant potential upside to our 250p fair value

We continue to place a current fair value of 250p for UPGS's shares, which in our view is a reasonable level given that it implies 1.3x sales and 11x EV/EBITDA based on our FY2024 forecasts. Investors should also note that the company's two most recent updates included better than expected outcomes on net debt and sales growth.

Key Financials					
Year to 31st July	2020A	2021A	2022A	2023E	2024E
Revenue (£'000)	115,684	136,367	154,191	166,300	176,278
Revenue growth	-6.1%	17.9%	13.1%	7.9%	6.0%
EBITDA adjusted (£'000)	9,915	13,291	18,750	20,200	21,711
EPS adjusted (p)	8.3	11.1	14.7	15.2	15.4
DPS (p)	4.0	5.0	7.1	7.6	7.7
EV/EBITDA (x)	12.7	9.5	6.7	6.2	5.8
P/E ratio (x)	15.1	11.2	8.4	8.1	8.1
Yield	3.2%	4.0%	5.7%	6.1%	6.2%

Source: Equity Development estimates, Company historic data

Company Data

EPIC	UPGS
Price (last close)	124p
52 weeks Hi/Lo	174p/90p
Market cap	£107m
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.

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Second half 15% sales growth beats expectations

UPGS's second half sales growth beat both our own and market expectations. Moreover, the second half performance occurred before the full impact of the Salter re-brand – i.e. the reinforced proposition of the company's largest range of homeware products by sales value.

Importantly, UPGS has delivered better than expected results in its two most recent communications with investors. In July, as mentioned on the front page of this report, net debt was revealed to be materially lower than expectations. Today's release beat on sales growth.

UPGS in our view demonstrates the importance of having a secure, consistent strategy which delivers against key messages – i.e., affordable beautiful products for every home – and constant improvement. Examples of the latter include overall brand management, commitment to driving free cash flow and improved use of robotics.

Key features of today's release are shown in Figure 1. This report also includes an updated relative valuation as well as our revised forecasts for FY2023 and FY2024. Full year results are due to be published on 31st October 2023. **Current trading is in line with expectations.**

FY2023 highlights

Highlights of the FY2023 trading update are shown below. The central messages from the company's statement are that **sales growth accelerated sharply between the first and second halves of the year to record 2% and 15% advances respectively**. A sizable 64% increase in online sales contributed significantly to the full year outcome.

Online is important because it is a useful barometer of the efficacy of UPGS's skill overall as a brand manager. Moreover, this upskilling in brand management is a key driver of change and growth within the company. Investors should note that in FY2022 close to 80% of the company's sales were driven by its premier brands – Salter, Beldray, Russell Hobbs (licensed), Progress and Kleeneze.

Figure 1 - UPGS trading update highlights

	FY2022	FY2023	Change	
All figures in £m				
Sales revenue	154.2	166.3	8%	
EBITDA (underlying)	18.8	20.2	8%	
PBT (underlying)	15.4	16.8	9%	
Net debt	24.3	14.8	-£9.5m	improvement
Net debt/EBITDA	1.3x	0.7x	-0.6x	improvement

Source: Company data

That said, it is possible to infer from the overall gain in online sales for the full year and what we know about the retail and online strategic pillars in the first half of FY2023 – covered in our 29th March report [Well placed for sales growth acceleration in H2](#) – that retail growth swung from being in negative territory in the first half to a healthy high single digit gain in the second half. Full details should be available when the company **intends to publish FY2023 results on 31st October 2023**.

Having announced acquisition of the Salter brand outright in its key trading territories in June 2021, the Company's Brand Director Tracy Carroll – appointed in FY2023 – detailed strategic revisions for the brand at the Exclusively Homewares exhibition in London on 14th June 2023. Key features of her presentation about was described as a re-brand were discussed in our report [Innovating for growth](#).

Valuation and financials

Relative valuation

Figure 2 summarises our relative valuation for UPGS against what we believe to be the company's relevant peers. Important features of our analysis include the company's below average EV/sales and P/E ratios which both represent discounts to its peer group, and the company's (comfortably) best in class dividend yield relative to the same group.

The P/E ratio appears anomalous. Typically, when a company's sales volume is almost fully branded and has established routes to market which tend to confirm the strength of these brands, it would be rewarded with a high P/E ratio. However, the UPGS discount to its peers on this valuation measure is substantial.

Figure 2 - Relative valuation

	Share price (p)	Mkt cap (£m)	Net debt (£m)	EV (£m)	Sales 2023 (£m)	EV/sales (x)	EBITDA 2023 (£m)	EV/EBITDA (x)	EPS 2023 (p)	P/E (x)	DPS 2023 (p)	Yield (%)
Accrol (ACRL)	34	109	70	179	238	0.8	15.5	11.5	2.0	17.6	0.0	0.0
Gear4Music (G4M)*	99	21	23	44	161	0.3	9.9	4.4	3.8	26.3		
Luceco (LUCE)	127	200	29	229	206	1.1	28.8	8.0	9.5	13.4	4.4	3.5
Portmeirion (PMP)	299	42	16	58	101	0.6	9.2	6.3	16.7	17.9	6.1	2.0
Procook (PROC)*	21	23	32	55	67	0.8	5.9	9.3	2.8	7.7	0.8	3.6
UPGS (UPGS)	124	110	15	125	166	0.8	20.2	6.2	15.2	8.1	7.6	6.1
Warpaint (W7L)	307	236	0	236	32	7.4	16.7	14.1	14.4	21.3	9.2	3.0
Average						1.7		8.6		16.0		3.7

* Refers to FY2024 data

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

Financial forecasts

Upgrades to our FY2023 sales forecast following today's statement and to our FY2024 estimates (as we retain our 6% underlying sales assumption for the group) are the only material changes to our forecasts included in this report. We had already updated our net debt assumption after the 17th July announcement mentioned earlier in this report.

Overall, we think investors should note the opportunity to invest in a business which benefits from demonstrable sales growth despite being in mature economy markets, earns consistent margins and has substantial free cash flow generation in prospect for FY2024 after a significant net debt reduction in FY2023. Our forecasts are summarised in Figures 3, 4 and 5.

Figure 3 - Income statement

All figures in £'000s	2021A	2022A	2023E	2024E
31st July year end				
Revenue	136,367	154,191	166,300	176,278
% increase in revenue	17.9%	13.1%	7.9%	6.0%
Gross profit	30,231	38,354	41,352	44,201
Gross margin (%)	22.2%	24.9%	25.0%	25.1%
EBITDA - adjusted	13,291	18,750	20,200	21,711
EBITDA margin - adjusted	9.7%	12.2%	12.1%	12.3%
Net financial expense	-518	-841	-1,267	-1,100
Pre-tax profit - adjusted	11,150	15,843	16,684	18,259
Taxation	-2,423	-3,120	-3,666	-4,976
Tax rate (%) - adjusted	21.7%	19.7%	21.8%	27.3%
EPS - basic adjusted (p)	11.1	14.7	15.2	15.4
Dividend per share (pence)	5.0	7.1	7.6	7.7

Source: ED estimates, Company historic data

Figure 4 - Balance sheet

All figures in £'000s	2021A	2022A	2023E	2024E
31st July year end				
<u>Assets</u>				
Intangible assets	36,929	37,025	37,025	37,025
Property, plant and equipment	5,719	6,369	6,192	6,041
Deferred tax	-	-	-	-
Total non-current assets	42,648	43,394	43,217	42,880
Inventories	21,674	29,162	27,152	28,781
Trade and other receivables	26,544	32,194	30,722	31,066
Derivatives	384			
Current tax	62			
Cash and cash equivalents	133	182	182	182
Total current assets	48,797	65,680	58,056	60,029
Total assets	91,445	109,074	101,273	102,909
<u>Liabilities</u>				
Trade and other payables	29,451	29,644	30,072	29,976
Derivative financial instruments	220			
Current tax				
Borrowings	7,951	16,294	6,777	2,154
Lease liabilities	771			
Deferred consideration	990	987		
Total current liabilities	39,383	47,912	37,666	32,947
Borrowings (negative => cash)	10,847	8,144	8,144	8,144
Deferred tax	6,147	7,585	6,000	6,000
Deferred consideration	983			
Lease liabilities	2,030	1,940	1,190	440
Total non-current liabilities	20,007	17,669	15,334	14,584
Share capital	223	223	223	223
Share premium account	14,334	14,334	14,334	14,334
Employee benefit trust reserve	-2,152	-1,571	-1,571	-1,571
Share-based payment reserve	1,024	1,166	1,569	1,972
Hedging reserve and other reserves	-162	3,239	1,040	1,101
Retained earnings	18,788	26,102	32,677	39,319
Total equity	32,055	43,493	48,273	55,378
Total equity and liabilities	91,445	109,074	101,273	102,909

Source: ED estimates, Company historic data

Figure 5 - Free cash flow

All figures in £'000s	2021A	2022A	2023E	2024E
31st July year-end				
Profit for the period	7,313	12,370	13,151	13,283
Adjustments for:				
Finance costs (net)	518	842	1,267	1,100
Income tax expense	2,423	3,120	3,666	4,976
Depreciation and impairment	1,607	2,044	2,094	2,330
Amortisation	16	22	16	16
Loss on disposal of a current asset				
Derivative financial instruments	-678			
Share based payments	228	403	403	403
Income taxes paid	-2,566	-2,345	-3,836	-4,976
Working capital adjustments				
(Increase)/decrease in inventories	-368	-7,721	2,010	-1,629
Decrease/(increase) in receivables	-8,091	-5,649	1,472	-343
(Decrease)/increase in payables	9,031	112	428	-96
Cash generated from operations	9,433	3,472	20,670	15,064
Cash flows used in investing activities				
Acquisition of a business	-30,578	-851	-1,000	
Purchase of intangible assets				
PP&E	-2,263	-1,843	-1,917	-1,993
Proceeds from P, P & E disposals	3			
Finance income				
Repayment of lease liabilities			-750	-750
Total	-32,949	-2,694	-3,667	-2,743
Free cash flow before financing	-23,516	778	17,003	12,321
Interest paid	-335	-850	-1,267	-1,100
Free cash flow before dividends etc	-9,501	-72	15,736	11,221
Dividends paid	-4,409	-4,830	-6,220	-6,597
Sale of own shares				
Free cash flow after dividends etc	-13,908	-4,529	9,517	4,624

Source: ED estimates, company historic data



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