# Ultimate Products plc

3 February 2025

## European growth offset by UK sluggishness

**Ultimate Products' FY2025 H1 half sales decreased by 6% to £79.4m as lower UK sales offset a useful 12% advance in International (mainly European) business. The profit margin impact of these weaker than expected sales and high shipping costs prompt us to cut our full year FY2025 EBITDA forecasts from £21m to £15m. While a disappointing reduction, investors can take some comfort from increased orders and robust European momentum.**

**UP released a trading statement today, ahead of schedule.** The central messages were the FY2025 H1 fall in sales revenue, a negative hit on group margins and the necessity to guide down expectations of full year profitability at the EBITDA level. The group incurred an incremental £2m in shipping costs in the period which implies H1 EBITDA of around £7m compared with £11m a year earlier. Weak consumer confidence appears to have been a key issue for the UK operations.

**However, UP's order book position is stronger, which augurs positively going into the second half of the financial year despite some end-period moderation.** Orders increased by 13% with a useful 20% gain from international customers and a much slower 7% rise in the UK. The company continues to experience caution within their customer base, with the expectation that full year sales revenue will be broadly flat. We reduce our FY2025 sales forecast from £172m to £156m.

**Europe remains an important source of future growth for UP.** The company has significant scope to increase market share in the region, as well as benefiting from the re-location of its showroom to Paris. The potential to raise consumer recognition for the two largest brands within the group – Salter and Beldray – plus their profile within key retailer accounts, are central to the region's outlook. We highlighted scope for European expansion in our 29 October 2024 report European growth prospects rise in importance.

**UP's capital allocation policy remains intact with the company committed to further share buy backs because of its focus on efficient working capital management and cash.** In today's statement UP reiterated its commitment to a 1.0x net debt to adjusted EBITDA ratio. Productivity through continuous improvement remains a focus which is helpful for margins. Additionally, the company expects investment in robotic process automation and AI to mitigate headwinds associated with employers' National Insurance contributions and Extended Producer Responsibility legislation.

**We reduce our fair value for the shares from 200p to 165p**. That level is still well above the current share price. Central to our assessment of fair value is an implied EV/sales ratio of 1.1x at that share price. UP's dividend yield should remain superior to its peer group even with a likely FY2025 cut.

### Financial summary

| Year to 31st July | 2022A | 2023A | 2024A | 2025E | 2026E |
|---|---|---|---|---|---|
| **Revenue (£m)** | **154.2** | **166.3** | **155.5** | **155.5** | **164.9** |
| Revenue growth | 13.1% | 7.9% | -6.5% | 0.0% | 6.0% |
| EBITDA (£m) (adj) | 18.8 | 20.2 | 18.0 | 15.0 | 18.0 |
| **EPS adjusted (p)** | **14.7** | **15.4** | **12.3** | **9.6** | **11.7** |
| DPS (p) | 7.1 | 7.4 | 7.4 | 4.9 | 5.9 |
| EV/EBITDA (x) | 5.8 | 5.4 | 6.0 | 7.2 | 6.0 |
| **P/E ratio (x)** | **6.9** | **6.6** | **8.2** | **10.5** | **8.6** |
| Yield | 7.0% | 7.3% | 7.3% | 4.9% | 5.8% |

*Source: Company data and Equity Development forecasts*

### Company Data

| | |
|---|---|
| EPIC | ULTP.L |
| Price (last close) | 101p |
| 52 weeks Hi/Lo | 179p/101p |
| Market cap | £87m |
| ED Fair Value/share | 165p |

### Share Price, p


*Source: investing.com*

### Description

Ultimate Products plc (UP) develops new, innovative concepts and brings professional, sought-after products to the mass market. The group aims to provide "beautiful products" for every home.

ULTP's 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.

### Next event

FY2025 H1 results 25 March 2025


**Chris Wickham (Analyst)**
0207 065 2690
chris@equitydevelopment.co.uk

**Hannah Crowe**
0207 065 2692
hannah@equitydevelopment.co.uk

## Trading statement highlights

**A combination of disappointing UK sales and higher shipping costs in H1 prompts us to reduce our full year sales and profit forecasts for UP in FY2025.** However, there was clear and encouraging momentum within the company's international business, which benefits from the scope vastly to increase the company's market share. Moreover, margins are expected to recover in FY2025 H2.

**UP's commitment to deliver for shareholders was re-emphasized in today's release.** The company remains committed to share buybacks with a capital allocation policy which targets net debt: adjusted EBITDA of 1x as well as a dividend pay-out ratio of 50% of after-tax profits.

In this report we summarise today's statement, show the impact of the release on our forecasts, highlight key FY2025 H1 developments, examine further prospective European potential and emphasise the company's commitment to improved operational efficiencies in more detail. We conclude with a relative valuation and a financial forecasts summary.

While sales revenue growth was in negative territory in the first half and expected to be flat for the year, it is worth noting that not only was the international business in firm positive territory but also that the company's order books increased, with overseas orders outperforming domestic. Hence a flat sales outcome for the full year should be attainable. We summarise key trading statement numbers in Figure 1.

**Figure 1 - Trading statement highlights**

| | £m | change |
|---|---|---|
| Sales revenue - total | 79 | -6% |
| Sales revenue - international | 29 | 12% |
| | | |
| FY2025 H2 order book - total | | 13% |
| UK | | 7% |
| International | | 20% |

*Source: Company data*

The central negative impact on sales revenue in FY2025 H1 appears to have been negative UK consumer sentiment and associated subdued demand for general merchandise – i.e. soft market conditions.

More specifically, UP faced tough comparisons in the period as sales continued to lap a period of peak demand for air fryers. Sales in this category fell by 46% to £5.2m in the first 3 months of the period. As a result, Q1 sales revenue fell by 9.3%. However, there was a marked recovery in Q2 with sales down by a more moderate 2.2%.

## Impact of today's release on financial forecasts

Our forecast revisions for UP's sales revenue and adjusted EBITDA in FY2025 are summarised in Figure 2 which also includes data for adjusted EPS and dividend per share.

In addition to soft UK consumer confidence and the £2m of incremental shipping costs, there may also be an adverse impact on the corporation tax rate as a larger portion of sales and profits fall within higher business tax jurisdictions.

**Figure 2 – UP: changes to ED FY2025 forecasts**

| £m | Old | New | Change |
|---|---|---|---|
| **Sales revenue** | 172.0 | 155.5 | -9.6% |
| **EBITDA - adjusted** | 20.6 | 15.0 | -27.2% |
| **EPS - adjusted (pence)** | 14.4 | 9.6 | -33.2% |
| **DPS - adjusted (pence)** | 7.4 | 4.9 | -33.7% |

*Source: Equity Development estimates*

## UK in more detail

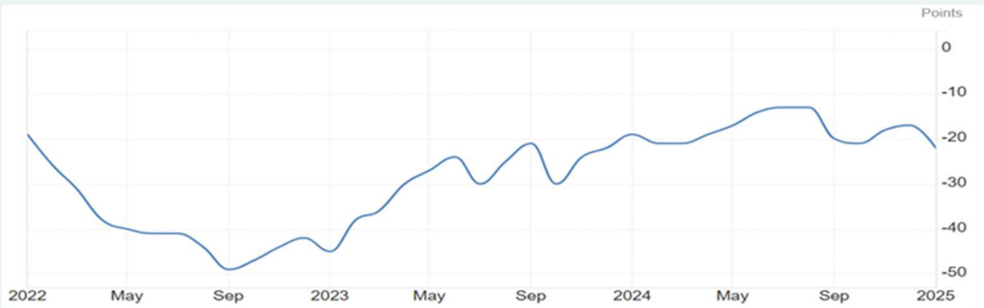
### Consumer and business confidence running low domestically

The UK's GfK Consumer Confidence Index slipped to -22 in January 2025 from -17 in December 2024 having stabilized at -13 in July and August last year. Moreover, recent weakness in consumer confidence is mirrored by the Confederation of British Industry's measurement of Business Confidence.

Neither source presents a positive outlook for UK consumer facing businesses. In FY2024 UP generated 65.1% of its sales revenue in this region.

Despite a relatively gloomy backdrop, three points are, in our view, worthy of mention. First, even post-pandemic, both UK consumer and business confidence have seen lower levels, with UP performing well in terms of domestic growth during these times. Second, the company reports ongoing strength with the major UK supermarket retailers. Third, there are already signs of online returning to growth.

**Figure 3 – UK consumer confidence trends**




*Source: GfK and www.tradingeconomics.com*

Salter and Beldray, which in FY2024 were 36% and 22% of group sales respectively, have both been subject to significant re-branding strategies. We highlighted the potential benefits of the Salter re-brand in our 14th June 2023 report Innovating for growth and ran a similar exercise for Beldray a year later in our 13th June 2024 report Beldray re-brand - Ultimate Products has got this.

The negative impact of economic headwinds for UK businesses' growth prospects is clear. However, what is equally important for investors to note is that the critical core equity of UP brands remains on a positive pathway. The ability of Salter and Beldray to deliver clear and positive "feelgood" messages to the end-consumer remains paramount and continues to be rewarded in terms of activity within supermarkets and online, the channels in which brand strength matters most.

### Underlying operational improvements

The negative impact on margins from reduced scale and the £2m adverse shipping costs should be partially offset by UP's commitment to improving operational efficiency. A maintained focus on productivity through continuous improvements have helped keep operating expenses flat.

Specific areas mentioned included investment in robotic process automation and Artificial Intelligence. These are expected to mitigate cost impacts associated with increases in employers National Insurance contributions - £0.1m in FY2025 and £0.3m in FY2206 – and the impact of Extended Producer Responsibility (EPR) legislation – between £0.3m and £0.5m in a full year.

## Europe primed for further growth

A comparatively lower market share, a significantly larger addressable market and demonstrable expertise are all reasons to view UP's European exposure positively. The region, which dominates the company's international business, already made positive strides, growing its contribution to group numbers and relocating its showroom from Cologne to a more optimal location close to Paris.

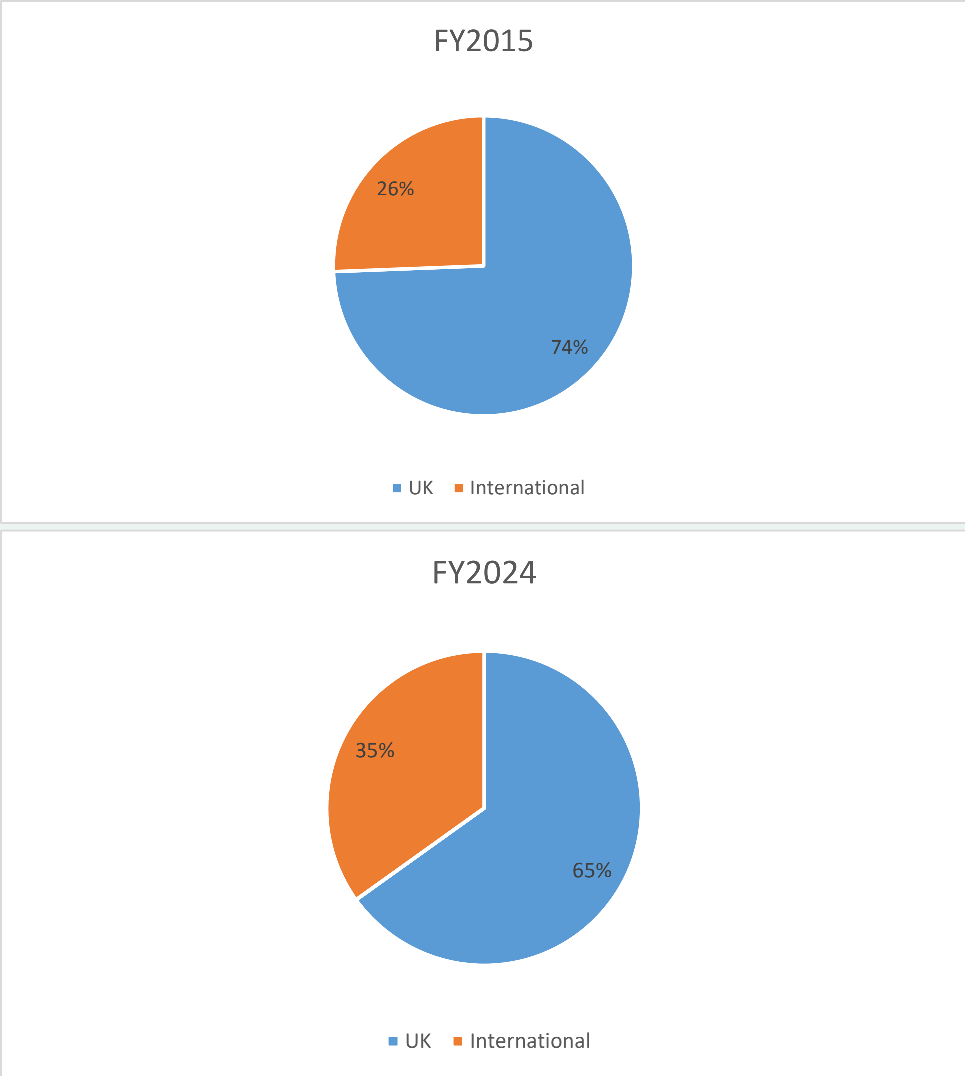
The scale of UP's European opportunity was commented on in some detail in our aforementioned 29th October 2024 report European growth prospects rise in importance. Currently the company sells around £1.46 of product per UK resident vs £0.18 per person in France and £0.13 in Germany. Clearly, there is a huge opportunity to grow within the two large economies as well as other important EU nations more similar in terms of per capita sales to the UK.

Confidence in that objective being achieved should grow when reflecting on the progress already made.

As Figure 4 illustrates, **international has moved in the past decade from being around one quarter of the group to more than a third in terms of sales revenue.**

With a more focused brand portfolio, greater entrenchment of retailer relationships and an enhanced showroom facility, investors should expect continued strong performances outside of the UK.

**Figure 4 – UP sales split between UK and international**




*Source: Company data*

# Valuation and financials

## Relative valuation

We include a relative valuation in Figure 5, which reflects the changes to forecasts discussed earlier in this report. Important points to note when making comparisons include the relatively tight focus of the UP brands' portfolio which is spearheaded by Salter and Beldray (around half of sales when combined), the increased role of the international business and the financial strength of the company.

Financial strength enhances UP's dividend paying capability and we note that UP remains committed to a 50% pay-out ratio, or 2x dividend cover. Even with lower earnings in prospect, we observe that the company's current prospective yield is superior to its peer group. Moreover, the company remains committed to share buybacks which may boost EPS as the outstanding share count shrinks.

EV/sales is a central measure to our assessment of fair value for UP. We based this on a 1.1x EV/sales ratio in our most recent report (24th October 2024). Applying a similar metric to our FY2025 sales revenue forecast implies a fair value of 165p / share, down from 200p.

**Figure 5 – Relative valuation**

| | Share price | Mkt cap £m | Net debt £m | EV £m | Sales 2025 (£m) | EV/sales (x) | EBITDA 2025 (£m) | EV/EBITDA (x) | EPS 2025 (p) | P/E (x) | DPS 2025 (p) | YLD (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gear4Music (G4M) | 150 | 32 | 23 | 55 | 155 | 0.4 | 11.7 | 4.7 | 9.4 | 16.0 | | |
| Luceco (LUCE) * | 157 | 245 | 46 | 291 | 234 | 1.2 | 34.1 | 8.5 | 11.4 | 13.8 | 4.8 | 3.0% |
| Portmeirion (PMP) * | 175 | 24 | 21 | 45 | 90 | 0.5 | 7.2 | 6.3 | 5.4 | 32.6 | 6.5 | 3.7% |
| Procook (PROC) | 32 | 37 | 23 | 61 | 68 | 0.9 | 9.6 | 6.3 | 1.7 | 19.2 | | |
| **Ultimate Products (ULTP)** | **101** | **87** | **21** | **108** | **156** | **0.7** | **15.0** | **7.2** | **9.6** | **10.5** | **4.9** | **4.9%** |
| Warpaint (W7L) | 510 | 393 | -1 | 392 | 106 | 3.7 | 26.5 | 14.8 | 23.5 | 21.7 | 11.5 | 2.3% |
| Average | | | | | | 1.2 | | 8.0 | | 19.0 | | 3.5% |

Share prices are at 31 January 2025 close

*Source: www.investing.com, www.stockopedia.com, www.marketscreener.com and Equity Development estimates*

## Financial forecasts

Our revised financial forecasts are shown in Figures 6 to 8. After a flat year in FY2025 we apply our normal underlying 6% sales growth in FY2026. We assume some margin expansion in FY2026 at both gross and EBITDA level.

**Figure 6 – Income statement**

| **All figures in £'000s** | **2023A** | **2024A** | **2025E** | **2026E** |
|---|---|---|---|---|
| 31st July year end | | | | |
| **Revenue** | **166,315** | **155,497** | **155,500** | **164,858** |
| % increase in revenue | 7.9% | -6.5% | 0.0% | 6.0% |
| | | | | |
| Cost of sales | -123,568 | -115,043 | -117,700 | -122,819 |
| | | | | |
| **Gross profit** | **42,747** | **40,454** | **37,800** | **42,039** |
| Gross margin (%) | 25.7% | 26.0% | 24.3% | 25.5% |
| | | | | |
| Administrative expenses | -22,534 | -22,432 | -22,800 | -24,039 |
| **EBITDA - adjusted** | **20,213** | **18,022** | **15,000** | **18,000** |
| EBITDA margin - adjusted (%) | 12.2% | 11.6% | 9.6% | 10.9% |
| | | | | |
| Depreciation & amortisation - total | -2,260 | -2,191 | -2,222 | -2,222 |
| | | | | |
| EBIT - adjusted | 17,953 | 15,831 | 12,778 | 15,778 |
| EBIT margin - adjusted | 10.8% | 10.2% | 8.2% | 9.6% |
| | | | | |
| Net financial expense | -1,132 | -1,381 | -1,476 | -1,983 |
| | | | | |
| **Pre-tax profit - adjusted** | **16,821** | **14,450** | **11,302** | **13,795** |
| | | | | |
| Taxation | -3,560 | -3,820 | -2,995 | -3,656 |
| Tax rate (%) - adjusted | 21.2% | 26.4% | 26.5% | 26.5% |
| | | | | |
| After tax income - adjusted | 13,261 | 10,630 | 8,307 | 10,139 |
| | | | | |
| Share based payment charges | -837 | -137 | -137 | -137 |
| | | | | |
| Statutory profit after tax (attributable) | 12,586 | 10,527 | 8,370 | 10,202 |
| | | | | |
| **EPS - basic adjusted (p)** | **15.4** | **12.3** | **9.6** | **11.7** |
| Dividend per share (pence) | 7.4 | 7.4 | 4.9 | 5.9 |

*Source: ED estimates, Company historic data*

## Figure 7 – Balance sheet

| All figures in £'000s | 2023A | 2024A | 2025E | 2026E |
|---|---|---|---|---|
| 31st July year end | | | | |
| | | | | |
| **Assets** | | | | |
| Intangible assets | 37,003 | 36,981 | 36,981 | 36,981 |
| Property, plant and equipment | 8,443 | 7,574 | 6,726 | 5,932 |
| **Total non-current assets** | **45,446** | **44,555** | **43,707** | **42,913** |
| Inventories | 28,071 | 36,578 | 44,579 | 47,261 |
| Trade and other receivables | 29,890 | 29,710 | 28,211 | 28,408 |
| Cash and cash equivalents | 5,086 | 4,733 | 4,733 | 4,733 |
| **Total current assets** | **64,280** | **71,688** | **77,522** | **80,403** |
| | | | | |
| **Total assets** | **109,726** | **116,243** | **121,229** | **123,316** |
| | | | | |
| **Liabilities** | | | | |
| Trade and other payables | 30,005 | 39,084 | 39,085 | 41,437 |
| Derivative financial instruments | 1,806 | | | |
| Current tax | | | | |
| Borrowings | 15,891 | 15,151 | 26,066 | 27,951 |
| Lease liabilities | 836 | 811 | 811 | 811 |
| Deferred consideration | | | | |
| **Total current liabilities** | **48,538** | **56,147** | **65,962** | **70,199** |
| Borrowings (negative => cash) | 3,990 | - | - | - |
| Deferred tax | 6,797 | 6,898 | 6,000 | 6,000 |
| Lease liabilities | 4,262 | 3,436 | 2,686 | 1,936 |
| **Total non-current liabilities** | **15,049** | **10,334** | **8,686** | **7,936** |
| | | | | |
| **Equity** | | | | |
| Share capital | 223 | 221 | 221 | 221 |
| Share premium account | 14,334 | 14,334 | 14,334 | 14,334 |
| Employee benefit trust reserve | -1,989 | -1,946 | -1,946 | -1,946 |
| Share-based payment reserve | 1,817 | 1,431 | 1,568 | 1,705 |
| Hedging reserve and other reserves | -660 | -286 | -10,094 | -19,123 |
| Retained earnings | 32,414 | 36,006 | 42,499 | 49,990 |
| **Total equity** | **46,139** | **49,762** | **46,581** | **45,181** |
| | | | | |
| **Total equity and liabilities** | **109,726** | **116,243** | **121,229** | **123,316** |
| | | | | |
| **Closing net debt** | **14,795** | **10,418** | **21,333** | **23,218** |

*Source: ED estimates, Company historic data*

## Figure 8 – Free cash flow

| All figures in £'000s | 2023A | 2024A | 2025E | 2026E |
|---|---|---|---|---|
| 31st July year-end | | | | |
| **Profit for the period** | 12,586 | 10,527 | 8,370 | 10,202 |
| **Adjustments for:** | | | | |
| Finance costs (net) | 1,132 | 1,382 | 1,476 | 1,983 |
| Income tax expense | 3,399 | 3,786 | 2,995 | 3,656 |
| Depreciation and impairment | 2,218 | 2,165 | 2,200 | 2,200 |
| Amortisation | 22 | 22 | 22 | 22 |
| Loss on disposal of a current asset | | | | |
| Derivative financial instruments | | | | |
| Share based payments | 837 | 136 | 137 | 137 |
| Income taxes paid | -3,957 | -3,176 | -3,100 | -3,656 |
| **Working capital adjustments** | | | | |
| (Increase)/decrease in inventories | 1,090 | -8,507 | -8,001 | -2,683 |
| Decrease/(increase) in receivables | 2,691 | -207 | 1,499 | -198 |
| (Decrease)/increase in payables | 559 | 9,048 | 1 | 2,352 |
| **Cash generated from operations** | **20,399** | **15,370** | **5,600** | **14,016** |
| **Cash flows used in investing activities** | | | | |
| Acquisition of a business | -987 | | | |
| Purchase of intangible assets | | | | |
| PP&E | -999 | -1,300 | -1,352 | -1,406 |
| Proceeds from P, P & E disposals | | | | |
| Finance income | | | | |
| Repayment of lease liabilities | | | | |
| **Total** | **-1,986** | **-1,300** | **-1,352** | **-1,406** |
| **Free cash flow before financing** | **18,413** | **14,070** | **4,248** | **12,610** |
| Interest paid | -1,147 | -1,186 | -1,476 | -1,983 |
| **Free cash flow before dividends etc** | **16,734** | **12,740** | **2,772** | **10,627** |
| Dividends paid | -6,255 | -6,411 | -5,687 | -4,512 |
| Purchase of shares for cancellation | | | -8,000 | -8,000 |
| Principal paid on lease obligations | -840 | | | |
| Debt issue costs paid | -94 | | | |
| **Free cash flow after dividends etc** | **9,545** | **4,354** | **-10,915** | **-1,885** |

*Source: ED estimates, Company historic data*

## 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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