

# DISTIL BEVERAGES

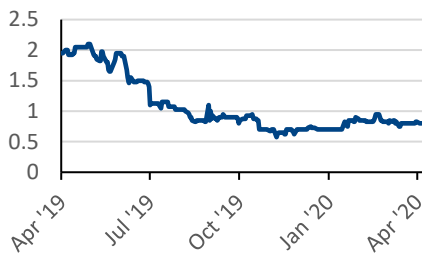
9 April 2020

**DIS.L**

0.8p

Market Cap: £4m

## SHARE PRICE (p)



12m high/low 2.1p/0.6p

Source: LSE Data

## KEY DATA

Net (Debt)/Cash	£1.1m
Enterprise value	£2.9m
Index/market	AIM
Next news	Prelims - June '20
Shares in Issue (m)	499.8
Executive Chairman	Don Goulding
Finance Director	Shaun Claydon

## COMPANY DESCRIPTION

Distil develops and markets internationally drinks brands, including RedLeg Spiced Rum and Blackwoods Vintage Gins.

[www.distil.uk.com](http://www.distil.uk.com)

DISTIL IS A RESEARCH CLIENT OF PROGRESSIVE

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## A strong final quarter....

### ....with revenues up 97%

Distil has published its Q4 trading update, confirming a strong finish to FY20E and outperforming the wider UK alcohol market. Against a weak Brexit-driven performance in Q4 last year, Distil delivered a volume increase of 80%, with revenues almost doubling with a 97% increase. Demand was strong from off-trade (retail) customers, looking to bolster stocks in response to the COVID-19 outbreak and subsequent higher levels of end-consumer demand. Management has confirmed FY20E performance to be in line with current market expectations, as outlined in its February update.

- Significant Q4 growth:** Distil performed strongly in Q4, with volumes up 80% and revenues up 97%. This was aided by a judicious decision to advance production timing to ensure availability of stock, and with prompt channel management, facilitating the switching of stock from the on-trade (pubs, hotels and restaurants) channel to meet increased demand from the off-trade (retail/grocery) channel. Distil delivered a 50% year-on-year increase in sales revenues for its brands in March, more than double the 22% increase indicated in recent press reports for the UK alcohol market.
- NPD and marketing remain key:** Looking to the future, the company will continue to emphasise new product development to meet consumer needs, supported by investment in brand marketing. To that end, the appointment of Sarah Kingsbury as Distil Marketing Manager is an indicator of the company's intent and ambition. She has over 10 years' experience in the drinks industry in journalism and PR for both global and challenger brands and is a regular presenter of Channel 4's Sunday Brunch drinks segment.
- Forecasts:** Management revised FY20E PBT guidance down in February on the announcement of the proposed joint venture and collaboration agreement with British Honey Company (BHC), which was subsequently terminated in the wake of the COVID-19 outbreak on 31 March. The Q4 trading update confirms FY20E performance to be in line with these expectations. We have therefore formally revised our FY20E PBT forecast down to £181K, although this still reflects an increase of 13% over FY19's £160K figure. In light of ongoing uncertainty against the current market backdrop, we are withdrawing our forecasts for FY21E and FY22E until the market returns to some greater semblance of normality.

FYE MAR (£M)	2018	2019	2020E
Revenue	2.01	2.40	2.44
Adj EBITDA	0.16	0.17	0.25
Fully Adj PBT	0.16	0.16	0.18
Fully Adj EPS (p)	0.03	0.03	0.04
EV/Sales (x)	1.5x	1.2x	1.2x
EV/EBITDA (x)	17.9x	17.3x	11.9x
PER (x)	25.4x	25.0x	22.1x

Source: Company Information and Progressive Equity Research estimates

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Please refer to important disclosures at the end of the document.

## Forecast revisions

We have formally revised our forecasts in line with the guidance provided on 19 February in the announcement on the joint venture and collaboration agreement with British Honey Company Limited (BHC). This pointed to FY20E profits being ahead of FY19 but marginally below the prevailing expectations at that time. This was partly due to additional costs to be incurred from initial new brand development work within the joint venture. With the advent of COVID-19 and its unprecedented impact on both commerce and consumers, the joint venture was terminated at the end of March, so that both parties could focus on their individual priorities and opportunities. The rationale behind and key reasons for the proposed joint venture remain unchanged, particularly in so far as new product development will remain a key focus for the group, alongside the continued nurturing and growth of its existing brands.

While relatively little cost had been incurred by the time the joint venture was terminated, there have however been other incremental cost pressures within supply chains as a result of government measures to delay the spread of COVID-19 through its social distancing and then lockdown measures. These have more than offset the stronger than anticipated sales performance of Q4.

Our forecast revisions are summarised in the following table. The key assumptions driving our lower PBT forecast are a reduction in H2 gross margin from our previous forecast build, an increased level of brand investment, as indicated in the Q4 trading update, and an increase in other administrative and operating costs. This sees a 14% reduction in our PBT forecast, but still represents a 13% year-on-year increase compared with FY19.

### Summary of FY20 forecast revisions

£m unless stated	FY20E		
	Old	New	Change (%)
Revenue	2.200	2.445	11%
Adj EBITDA	0.276	0.247	-11%
Reported PBT	0.210	0.181	-14%
Fully adj PBT	0.210	0.181	-14%
Reported EPS (p)	0.042	0.036	-14%
Fully adj EPS (p)	0.042	0.036	-14%
Net cash	1.061	0.952	-10%

Source: Progressive Equity Research

As stated above, in light of the ongoing uncertainty against the current market backdrop, we are withdrawing our forecasts for FY21E and FY22E until the market returns to some greater semblance of normality.

## Next newsflow

The next company newsflow will be the preliminary results, due to be published in June.

**Financial Summary: Distil**

Year end: March (£m unless shown)

	2018	2019	2020E
<b>PROFIT &amp; LOSS</b>			
Revenue	2.01	2.40	2.44
Adj EBITDA	0.16	0.17	0.25
Adj EBIT	0.16	0.16	0.18
Reported PBT	0.16	0.16	0.18
Fully Adj PBT	0.16	0.16	0.18
NOPAT	0.16	0.16	0.18
Reported EPS (p)	0.03	0.03	0.04
Fully Adj EPS (p)	0.03	0.03	0.04
Dividend per share (p)	0.00	0.00	0.00
<b>CASH FLOW &amp; BALANCE SHEET</b>			
Operating cash flow	0.17	0.09	(0.10)
Free Cash flow	0.13	0.04	(0.12)
FCF per share (p)	0.03	0.01	(0.02)
Acquisitions	(0.02)	(0.01)	0.00
Disposals	0.00	0.00	0.00
Shares issued	0.01	0.00	0.00
Net cash flow	0.12	0.04	(0.12)
Overdrafts / borrowings	0.00	0.00	0.00
Cash & equivalents	1.03	1.07	0.95
Net (Debt)/Cash	1.03	1.07	0.95
<b>NAV AND RETURNS</b>			
Net asset value	3.01	3.17	3.35
NAV/share (p)	0.60	0.64	0.67
Net Tangible Asset Value	1.46	1.62	1.80
NTAV/share (p)	0.29	0.32	0.36
Average equity	2.91	3.09	3.26
Post-tax ROE (%)	5.4%	5.2%	5.5%
<b>METRICS</b>			
Revenue growth	22.6%	19.2%	1.8%
Adj EBITDA growth	1097.6%	3.4%	45.9%
Adj EBIT growth	1531.8%	1.6%	15.3%
Adj PBT growth	1531.8%	1.6%	12.8%
Adj EPS growth	1531.8%	1.6%	12.8%
Dividend growth	N/A	N/A	N/A
Adj EBIT margins	7.8%	6.7%	7.5%
<b>VALUATION</b>			
EV/Sales (x)	1.5	1.2	1.2
EV/EBITDA (x)	17.9	17.3	11.9
EV/NOPAT (x)	18.6	18.3	15.9
PER (x)	25.4	25.0	22.1
Dividend yield	N/A	N/A	N/A
FCF yield	3.2%	1.1%	(2.9%)

Source: Company information and Progressive Equity Research estimates

**Disclaimers and Disclosures**

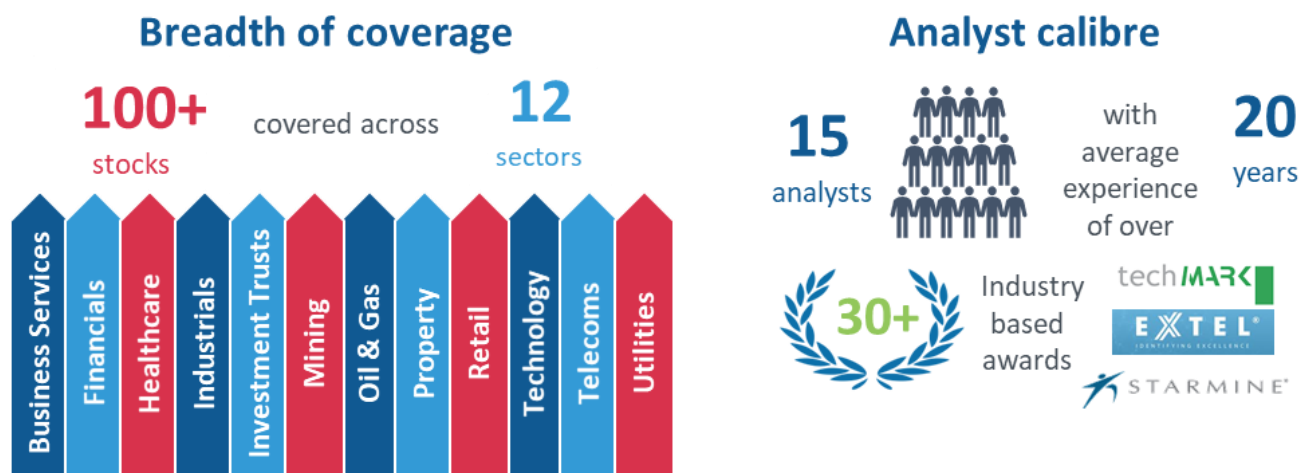
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