

DISTIL BEVERAGES

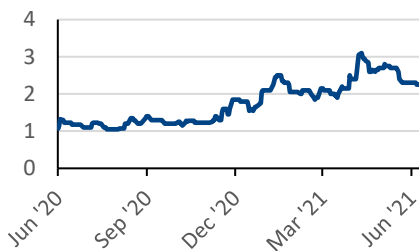
14 June 2021

DIS.L

2.25p

Market Cap: £11.3m

SHARE PRICE (p)



12m high/low 3.1p/1.1p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	£1.1m (at 31/03/21)
Enterprise value	£10.2m
Index/market	AIM
Next news	Q1 update, July '21
Shares in Issue (m)	502.0
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

DISTIL IS A RESEARCH CLIENT OF PROGRESSIVE

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Delivering strong growth....

....in the face of adversity

Distil has delivered a strong set of results in FY21 despite the unprecedented challenges thrown up by the Covid pandemic. It rose admirably to the significant challenges and disruptions of channel shift within the drinks industry, disjointed supply chains and new working practices. Distil delivered a 34% increase in profit before tax to £243K (from £182K) and a 24% increase in net cash to just under £1.1m, as well as successfully launching a new brand, TRØVE, into a new market segment and adding range extensions for its leading RedLeg Spiced Rum brand.

- FY21 prelims:** The full year outturn was in line with the April trading update. Turnover rose 48% to £3.6m, with operating profit increasing 38% to £254K, despite a Covid-led decline in gross margin and a higher level of brand investment. A net cash flow of just over £200K saw year-end cash increase by 24% to £1,062K, underpinning future growth initiatives.
- Sales performance:** Distil continues to grow faster than the broader spirits market, with overall volumes up by 30%. Growth continued to be led by RedLeg Spiced Rum and Blackwoods Vintage Gin, with each growing revenues by 50% across the year. Export sales of existing brands saw substantial growth of 85%, including market entry into Austria, Hungary, Slovakia and Africa.
- The fruits of NPD:** New product development (NPD) remains a key driver of growth, both through brand extensions and the launch of new brands. FY21 delivered strongly on this front with two new flavour variants added to the RedLeg Spiced Rum brand, along with a further ready-to-drink (RTD) product. In addition, Distil launched a new medal-winning botanical vodka range, with three flavour variants under the TRØVE brand. Launched in Q4, these will deliver revenue benefits from FY22 onwards.
- Outlook and forecasts:** With the resumption of unfettered activity in the hospitality, entertainment and travel sectors still uncertain in both the UK and other export markets, forecasting with any degree of confidence remains challenging. For this reason, the company believes it is too early to provide market guidance at this stage, but has stated it will do so once it is more confident of a more stable consumer environment and of trade channels remaining open and trading freely.

FYE MAR (£M)	2018	2019	2020	2021
Revenue	2.01	2.40	2.44	3.62
Adj EBITDA	0.16	0.17	0.25	0.27
Fully Adj PBT	0.16	0.16	0.18	0.24
Fully Adj EPS (p)	0.03	0.03	0.05	0.07
EV/Sales (x)	5.1x	4.3x	4.2x	2.8x
EV/EBITDA (x)	62.6x	60.5x	41.6x	38.0x
PER (x)	71.3x	70.2x	43.8x	32.9x

Source: Company Information and Progressive Equity Research estimates.

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

Growth in the face of adversity

Distil has proven itself to be swift and nimble in reacting to the many challenges thrown up by the global pandemic and adapting its business model to what became the new normal. This entailed significant channel shift as the entertainment, hospitality and travel industries suffered long periods of real and effective shutdowns. Fortunately, the grocery sector, both bricks and mortar and e-commerce, remained open for business, enabling the continued sales of spirits and alcoholic beverages. In addition, the pandemic necessitated remote working for the Distil team. Distil managed not only to navigate these changes but also to successfully and profitably grow its global business against this challenging backdrop.

This growth included entry into new country markets, helping to underpin a higher growth rate in Export markets than its domestic UK market, alongside range extensions to existing brands, principally RedLeg Spiced Rum, and the launch of a new brand, TRØVE, into a new market segment.

It is unsurprising to learn firstly that examining how the team worked resulted in the simplification, streamlining and improvement of many processes and secondly that these will remain in place going forward.

While much uncertainty remains in the short-term, Distil has shown it can cope with these difficulties and challenges. Over the medium- and longer-term, the portfolio developments of recent years will continue to bear fruit. It should be remembered that the range extensions and new brand launch were very much back-end weighted, with development costs incurred in FY21 but with very little revenue benefit to offset these. Revenues will start to flow through from FY22. The Mardi Gras brand has yet to materialise in liquid form, so to speak, and Distil will continue to invest in existing brands, packaging and NPD to meet evolving consumer needs.

FY21 prelims

Financials

The following table summarises the FY21 results, alongside those of last year for comparison purposes. Both years are reported under IFRS 16 accounting standards with regard to the treatment of leasehold properties. This resulted in one-off IFRS 16 amortisation and finance expense charges in FY20, with no such charges repeated in FY21. It should also be noted that we have included a £34K non-cash share-based payment charge within the FY21 "Other administrative costs" line (with no charge incurred in FY20). It should be noted that our reported adjusted figures **include** these charges. Adjusting for these items, Distil has calculated that EBITDA rose 55% to £303K (from £195K in FY20).

Turnover rose strongly in FY21, rising by 48% over the year. This was weighted heavily to H1, with our analysis showing a revenue increase of around 7% in H2, following the substantial 128% growth achieved in H1. Against a particularly strong Q4 last year, where revenues rose by around 100%, we estimate revenues fell by around 15% in Q4, though it is important to note that this is around 70% higher than Q4 in FY19.

The gross margin fell back 360bps to 55.6% (from 59.2%), primarily reflecting incremental production and logistics costs arising from the impacts of Covid. Management anticipates a gradual recovery in gross margin over time as Covid restrictions are relaxed and production constraints lifted.

Distil FY21 – profit and loss account summary

(£'000 unless otherwise stated)	FY20	FY21	Change	% change
Turnover	2,441	3,616	1,175	48%
Gross profit	1,446	2,010	564	39%
<i>Gross margin (%)</i>	<i>59.2%</i>	<i>55.6%</i>		
Advertising and promotion	-665	-1,071	-406	-61%
Contribution	781	939	158	20%
<i>Contribution margin (%)</i>	<i>32.0%</i>	<i>26.0%</i>		
Other administrative costs	-535	-670	-135	-25%
Depreciation and amortisation	-62	-15	47	76%
Total operating costs	-1,262	-1,756	-494	-39%
Operating profit	184	254	70	38%
Finance charge	-2	-11	-9	n.c.
Pre-exceptional profit before tax	182	243	61	34%
Exceptional charge	0	0	0	n.c.
Reported profit before tax	182	243	61	34%

Source: Distil, Progressive Equity Research

Distil continued to invest heavily in its brands and new product development. Marketing investment increased by 61% to £1.1m in FY21, rising as a percentage of sales to 29.6% (from 27.2%), as can be seen from the contribution analysis below. The combined impact of reduced gross margin and increased marketing as a percentage of sales resulted in a 600bps decrease in the contribution margin (gross profit minus marketing costs) to 26.0%.

However, the company's continued and relentless focus on and careful management of other administrative costs successfully and substantially mitigated much of this reduction in contribution margin at the operating margin level. The operating margin reduced by just over 50 bps to 7.0% from 7.5% last year. Excluding the share-based payment charge of £34K, other operating costs (including all depreciation and amortisation) rose by just 9% over the year, with some increased headcount.

Following a tax credit of £100K (last year a £76K credit), reported profit after tax increased by 33% to £343K (from £258K). Basic and diluted EPS rose from 0.05p to 0.07p.

Distil – summary of sales and contribution evolution FY15 – FY21

(£'000 unless otherwise stated)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	Change	% change	5-yr CAGR
Turnover	666	1,169	1,642	2,014	2,401	2,441	3,616	1,175	48%	25.3%
Gross profit	406	681	950	1,172	1,429	1,446	2,010	564	39%	24.2%
Gross margin (%)	61.0%	58.3%	57.9%	58.2%	59.5%	59.2%	55.6%			
Advertising and promotion	-148	-280	-384	-465	-688	-665	-1,071	-406	-61%	30.8%
Advertising as % of sales	22.2%	24.0%	23.4%	23.1%	28.7%	27.2%	29.6%			
Contribution	258	401	566	707	741	781	939	158	20%	18.6%
Contribution margin (%)	38.7%	34.3%	34.5%	35.1%	30.9%	32.0%	26.0%			

Source: Distil, Progressive Equity Research

Cash flows improved not only on the basis of higher profits but were supported by a much reduced working capital outflow of £49K compared with last year's £345K outflow. Total capex, including licences and trademarks, came in at £50K compared with £58K in FY20. The net increase of £204K in cash and cash equivalents brought the year end figure to £1.062m, effectively reversing last year's reduction of £210K. Net assets rose to £3.81m (from £3.43m).

Trading and brands

Distil continues to grow faster than the broader spirits market. This was led by RedLeg Spiced Rum and Blackwoods Vintage Gin, with each growing revenues by 50% across the year. The latter goes some way to reversing the impact of the 57% decline in sales of Blackwoods Vintage Gin last year, primarily due to a range reduction at one UK retailer.

Conversely, with Travel Retail adversely impacted by travel restrictions, Blavod Vodka recorded a sales decline of 65%, with total vodka sales down by 45%.

In terms of product launches, RedLeg extended its range in terms of both flavour (Banana and Tropical) and format variants to its range. The latter comprised an RTD can of RedLeg Pineapple and Ginger Ale in partnership with Franklin & Sons. These capitalise on the growing trend for flavoured spirits, as does the January 2021 launch of a new botanical vodka brand, TRØVE.

TRØVE launched with three flavour variants - Valencian Orange with Lime Leaf, Green Apple with Ginger and Raspberry with Lemongrass and Mint. Developed in partnership with the Master Distiller, Sion Edwards, TRØVE also targets the emerging consumer lifestyle trend to lower ABV (alcohol by volume) spirits with 30% ABV, compared with the 40% norm, yet delivering the same fullness and complexity of flavour as a full-strength vodka. These were awarded one silver and two gold medals at the Low & No Masters 2021 event organised by The Spirits Business trade magazine, which should bode well for their commercial prospects from FY22 onwards.

Export markets enjoyed substantial growth of 85% to £395K (from £214K), including market entry into Austria, Hungary, Slovakia and Africa. This compares to UK growth of 45%, albeit from a substantially higher base to £3.221m (from £2.227m).

Distil has provided a geographical split of both sales and gross profit for the UK and Export markets, which we summarise below. No analysis is provided below the gross profit level, due to the complexity of attributing costs between these markets, with all trade undertaken and assets held in just one location, namely the UK.

Distil – UK and Export sales and gross margin performance

	FY20			FY21			Growth/change (%)		
	UK	Export	Total	UK	Export	Total	UK	Export	Total
Sales	2,227	214	2,441	3,221	395	3,616	45%	85%	48%
Gross profit	1,310	136	1,446	1,810	200	2,010	38%	47%	39%
Gross margin (%)	58.8%	63.6%	59.2%	56.2%	50.6%	55.6%	-2.6%	-12.9%	-3.7%
Sales mix (%)	91.2%	8.8%	100.0%	89.1%	10.9%	100.0%	-2.2%	2.2%	n.a.

Source: Distil, Progressive Equity Research

We have calculated the implied gross margin, sales mix and growth/change rates from the base data provided by the company. The data show the higher growth rate (from a lower base) and rising sales mix achieved by the Export channel.

Outlook and forecasts

In light of the initial lockdown and the unknown economic consequences, we formally withdrew our FY21E and FY22E forecasts following the Q4 and year-end trading update in April 2020, awaiting a return to some greater semblance of normality.

While no longer under such stringent lockdown conditions in the UK, it is still too early to say that we have reached this greater semblance of normality. Consumer confidence has far to go before fully embracing the entertainment, hospitality and travel sectors, where restrictions still prevail to greater or lesser degrees. This situation pertains not only in the UK but also in many of Distil's export markets.

In light of this ongoing uncertainty, the company believes it would be inappropriate to provide market guidance at this stage, given the high level of ongoing risks to trading and therefore by extension to financial performance. With a low level of confidence currently in the accuracy of forecasts, it is more prudent to refrain from providing market guidance at this stage. In recognition of the importance of such guidance to investors and markets, Distil has stated it will release guidance as soon as it is more confident of stability in the consumer and trade environments.

Board changes

In January 2021, the company announced changes to its board structure. Roland Grain was appointed to the board as a Non-executive Director (NED), replacing Mark Quinn, who had been a NED since 2010. Over the past 10 years, Roland Grain has built up a substantial international spirits investment portfolio, which includes a holding in Distil. Kate O'Connell, Marketing and Operations Director, who has been with Distil for 10 ten years, was also appointed to the Board in recognition of her contribution to the business.

Financial Summary: Distil

Year end: March (£m unless shown)

	2018	2019	2020	2021
PROFIT & LOSS				
Revenue	2.01	2.40	2.44	3.62
Adj EBITDA	0.16	0.17	0.25	0.27
Adj EBIT	0.16	0.16	0.18	0.25
Reported PBT	0.16	0.16	0.18	0.24
Fully Adj PBT	0.16	0.16	0.18	0.24
NOPAT	0.16	0.16	0.26	0.36
Reported EPS (p)	0.03	0.03	0.05	0.07
Fully Adj EPS (p)	0.03	0.03	0.05	0.07
Dividend per share (p)	0.00	0.00	0.00	0.00
CASH FLOW & BALANCE SHEET				
Operating cash flow	0.17	0.09	(0.10)	0.25
Free Cash flow	0.13	0.04	(0.14)	0.22
FCF per share (p)	0.03	0.01	(0.03)	0.04
Acquisitions	(0.02)	(0.01)	(0.02)	(0.02)
Disposals	0.00	0.00	0.00	0.00
Shares issued	0.01	0.00	0.00	0.00
Net cash flow	0.12	0.04	(0.21)	0.20
Overdrafts / borrowings	0.00	0.00	0.00	0.00
Cash & equivalents	1.03	1.07	0.86	1.06
Net (Debt)/Cash	1.03	1.07	0.86	1.06
NAV AND RETURNS				
Net asset value	3.01	3.17	3.43	3.81
NAV/share (p)	0.60	0.64	0.68	0.76
Net Tangible Asset Value	1.46	1.62	1.85	2.21
NTAV/share (p)	0.29	0.32	0.37	0.44
Average equity	2.91	3.09	3.30	3.62
Post-tax ROE (%)	5.4%	5.2%	7.8%	9.5%
METRICS				
Revenue growth	22.6%	19.2%	1.7%	48.1%
Adj EBITDA growth	1097.6%	3.4%	45.6%	9.3%
Adj EBIT growth	1531.8%	1.6%	15.0%	38.0%
Adj PBT growth	1531.8%	1.6%	13.7%	33.5%
Adj EPS growth	1531.8%	1.6%	60.4%	32.9%
Dividend growth	N/A	N/A	N/A	N/A
Adj EBIT margins	7.8%	6.7%	7.5%	7.0%
VALUATION				
EV/Sales (x)	5.1	4.3	4.2	2.8
EV/EBITDA (x)	62.6	60.5	41.6	38.0
EV/NOPAT (x)	65.0	64.0	39.2	28.5
PER (x)	71.3	70.2	43.8	32.9
Dividend yield	N/A	N/A	N/A	N/A
FCF yield	1.2%	0.4%	(1.2%)	2.0%

Source: Company information and Progressive Equity Research estimates

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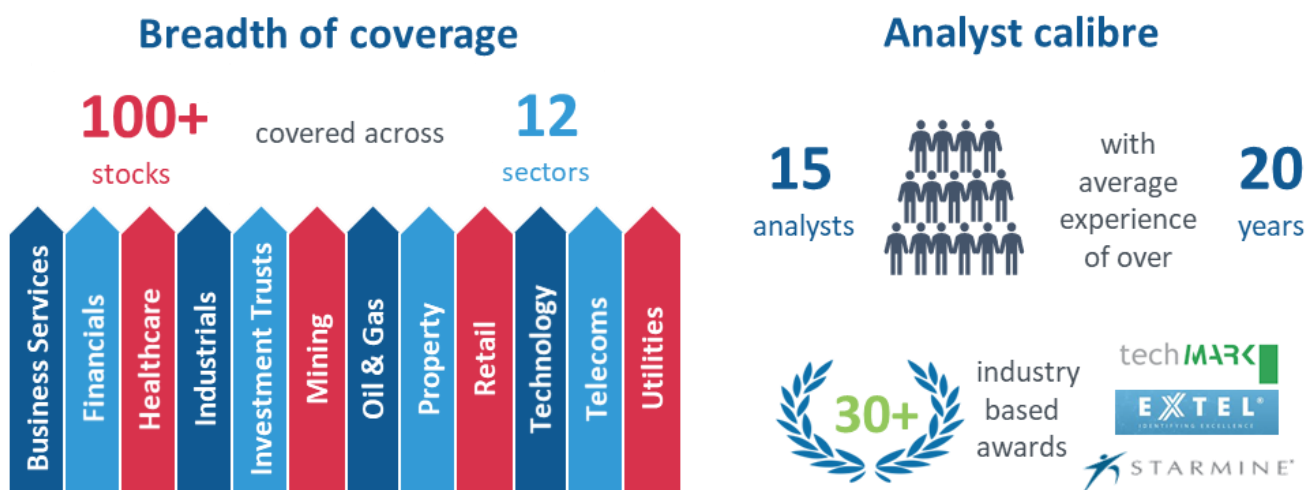
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