

DISTIL BEVERAGES

13 July 2022

DIS.L

1.35p

Market Cap: £9.2m

SHARE PRICE (p)



12m high/low

2.6p/1.2p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£1.6m (at 31/03/22)
Enterprise value	£7.7m
Index/market	AIM
Next news	Interims - Oct '22
Shares in Issue (m)	684.4
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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Q1 reflects re-modelling for a stronger future

Distil's Q1 trading update reflects the recently announced changes to the company's business model, with the group assuming direct control of servicing its major UK customers, and employing a third-party distributor for the rest, from October onwards. In the interim, Distil and the outgoing UK distributor, Hi-Spirits, are running down their inventory of Distil brands. The company anticipates a one-off £580K adverse sales impact affecting H1 of the current year, with future years benefiting from taking direct control back in house and through better management of costs and brand promotional activities.

- Q1 trading update – revenues down 81%.** Distil has reported a Q1 revenue decline of 81% to £120K from £624K, with volumes down 79%, reflecting the changes to its business model outlined above. Inventory is being managed down and out of the distributor supply chain, with Distil not booking replenishment orders. Product flow to Distil's customers is unaffected, with no impact therefore on sales at consumer level in what remains a challenging market. On-trade revenues were robust, reflecting consumers returning to hospitality venues. Marketing investment increased by 67% in the quarter, reflecting Distil's first TV advertising campaign for RedLeg, with positive consumer reaction for the brand. Distil also raised its front-line retail prices for its brands. This was the first such increase since 2017, with a view to managing and protecting margins in an inflationary market, while still maintaining the brands' strong value credentials for consumers.
- Export sales – up by 84% year-on-year.** Q1 has seen a very encouraging performance from Distil's export markets, with revenues up 84%. This can be attributed to Distil's international markets bouncing back more quickly from Covid restrictions and a focus on seeking new market opportunities. Distil gained an additional listing for RedLeg Tropical in Australia, with new distribution contracts signed for Germany and The Baltics.
- Re-initiating forecasts – a year of transition.** We are re-initiating forecasts, notwithstanding ongoing market uncertainties, in light of the change to the business model. FY23E will be a year of transition and as such will bear the short-term brunt of the turnover shortfall and will be reflected in a trading loss. The benefits of bringing the distributor margin in-house and re-investing this in more vigorous revenue (and profit) growth will come through thereafter in FY24E and beyond.

FYE MAR (£M)	2020	2021	2022	2023E	2024E
Revenue	2.44	3.62	2.94	2.30	3.65
Adj EBITDA	0.25	0.27	(0.12)	(0.58)	(0.03)
Fully Adj PBT	0.18	0.24	(0.09)	(0.45)	0.10
Fully Adj EPS (p)	0.05	0.07	0.03	(0.07)	0.01
EV/Sales (x)	3.1x	2.1x	2.6x	3.3x	2.1x
EV/EBITDA (x)	31.2x	28.5x	-65.7x	-13.2x	-256.0x
PER (x)	26.3x	19.8x	52.6x	N/A	91.4x

Source: Company Information and Progressive Equity Research estimates.

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

Stepping back ...before striding out

On 6 July, Distil announced the appointment of a Commercial Director, Alex Baker, and the appointment of a new distributor, Marussia Beverages UK. This follows Distil's decision to part ways with its long-serving distributor, Hi-Spirits. It is noteworthy that Alex Baker has previously held a position at Hi-Spirits, where he was responsible for delivering off-trade (retail) sales for a broad portfolio, including Distil brands. He therefore has a good knowledge of both the brands and their major UK retailer customers. He will take on the role of dealing directly with the UK major retailer customers, with Distil supplying these directly rather than through Hi-Spirits. Marussia Beverages UK will be primarily responsible for servicing on-trade (hospitality) customers.

This shift in the business model will bring longer-term rewards, albeit with some adverse impacts to FY23E financials, covering this transition. From H2FY23E, Distil should be operating under its new model, but unlikely to be able to recover the £580K revenue shortfall indicated by Distil for H1 FY23E. The new model will enable Distil to:

- Take direct control of serving and servicing its major customers
- Plan, co-ordinate and deliver promotional activity more efficiently
- Better manage market fluctuations and the challenges of an inflationary price environment
- Develop brand-building plans in conjunction with key customers, while simultaneously reducing costs
- Re-invest the historic distributor margin (net of the new Commercial Director's costs) into driving brand recognition, new product development and robust revenue growth

From an investor perspective, the last point is noteworthy in our view, as revenue growth and sales momentum are key indicators of the development and health of a brand incubator and its brands. In essence, the full attention and drive of a dedicated in-house Commercial Director, should deliver stronger results than the more diversified view of a distributor with a large portfolio of brands.

Re-initiating forecasts

The change in business model will have an impact on the operating and financial dynamics of the company. We assume gross margins should be maintained at around 55% and there should be operating efficiencies available in various areas, including working capital, since distributors operate with significant buffer stocks to ensure continuity of supply. Distil is therefore in the early stages of taking out around two to three months of stock from the distributor channel. In future, Distil will hold stock at its production unit and supply directly to customers from these stocks.

We assume a sales decrease in FY23E of around 22% or £642K, primarily therefore driven by the H1 revenue impact of the move away from the Hi-Spirits distribution contract. This will be followed by a significant sales recovery in FY24E of almost 60% to £3.65m, marginally ahead of the record FY21 year. We forecast an EBITDA loss of £580K in FY23E recovery broadly to almost EBITDA breakeven in FY24E. The PBT figures benefit from loan agreement income relating to the Ardgowan project of around £150K per annum. While net cash balances are forecast to decline, our FY24E projection shows Distil with a net cash balance of £0.9m.

Financial Summary: Distil

Year end: March (£m unless shown)

	2020	2021	2022	2023E	2024E
PROFIT & LOSS					
Revenue	2.44	3.62	2.94	2.30	3.65
Adj EBITDA	0.25	0.27	(0.12)	(0.58)	(0.03)
Adj EBIT	0.18	0.25	(0.13)	(0.59)	(0.05)
Reported PBT	0.18	0.24	(0.09)	(0.45)	0.10
Fully Adj PBT	0.18	0.24	(0.09)	(0.45)	0.10
NOPAT	0.26	0.36	0.24	(0.59)	(0.05)
Reported EPS (p)	0.05	0.07	(0.01)	(0.07)	0.01
Fully Adj EPS (p)	0.05	0.07	0.03	(0.07)	0.01
Dividend per share (p)	0.00	0.00	0.00	0.00	0.00
CASH FLOW & BALANCE SHEET					
Operating cash flow	(0.10)	0.25	(0.15)	(0.57)	(0.11)
Free Cash flow	(0.14)	0.22	(0.17)	(0.59)	(0.13)
FCF per share (p)	(0.03)	0.04	(0.03)	(0.10)	(0.02)
Acquisitions	(0.02)	(0.02)	0.00	0.00	0.00
Disposals	0.00	0.00	0.00	0.00	0.00
Shares issued	0.00	0.00	3.49	0.00	0.00
Net cash flow	(0.21)	0.20	0.50	(0.56)	(0.10)
Overdrafts / borrowings	0.00	0.00	0.00	0.00	0.00
Cash & equivalents	0.86	1.06	1.56	1.00	0.90
Net (Debt)/Cash	0.86	1.06	1.56	1.00	0.90
NAV AND RETURNS					
Net asset value	3.43	3.81	7.55	7.10	7.20
NAV/share (p)	0.68	0.76	1.10	1.04	1.05
Net Tangible Asset Value	1.85	2.21	5.94	5.48	5.58
NTAV/share (p)	0.37	0.44	0.87	0.80	0.81
Average equity	3.30	3.62	5.68	7.32	7.15
Post-tax ROE (%)	7.8%	9.5%	(1.7%)	(6.1%)	1.4%
METRICS					
Revenue growth	N/A	48.1%	(18.6%)	(21.8%)	58.7%
Adj EBITDA growth	N/A	9.3%	(143.4%)	396.4%	(94.8%)
Adj EBIT growth	N/A	38.0%	(151.9%)	351.3%	(92.4%)
Adj PBT growth	N/A	33.5%	(139.0%)	374.5%	(122.2%)
Adj EPS growth	N/A	32.9%	(62.4%)	(359.1%)	(122.2%)
Dividend growth	N/A	N/A	N/A	N/A	N/A
Adj EBIT margins	7.5%	7.0%	(4.5%)	(25.9%)	(1.2%)
VALUATION					
EV/Sales (x)	3.1	2.1	2.6	3.3	2.1
EV/EBITDA (x)	31.2	28.5	-65.7	-13.2	-256.0
EV/NOPAT (x)	29.4	21.4	31.8	-12.9	-170.7
PER (x)	26.3	19.8	52.6	N/A	91.4
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(2.0%)	3.3%	(2.1%)	(7.1%)	(1.6%)

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

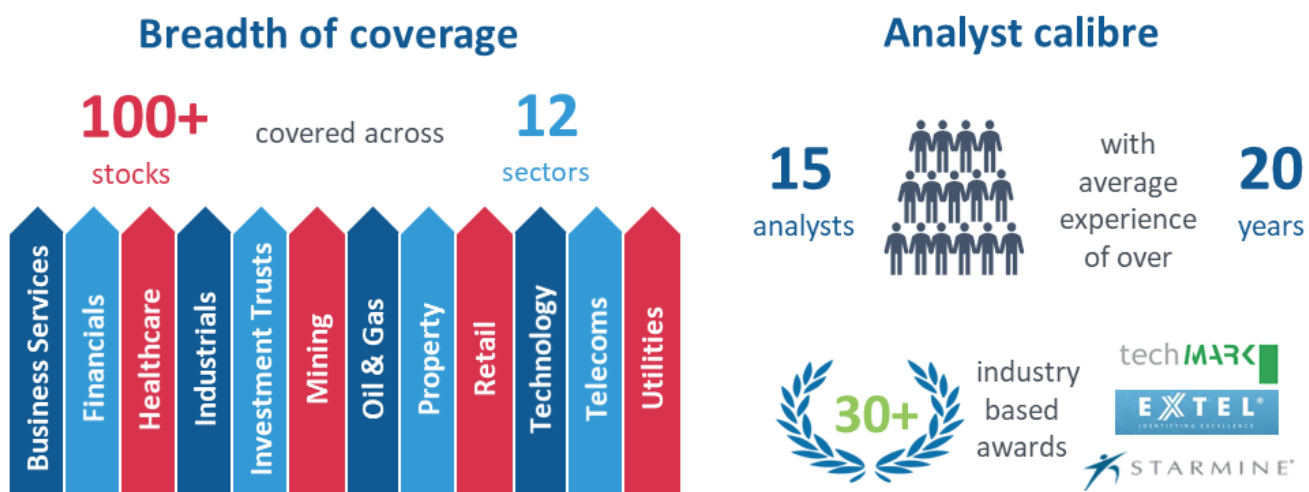
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