

DISTIL BEVERAGES

13 October 2022

DIS.L

1.05p

Market Cap: £7.2m

SHARE PRICE (p)



12m high/low

2.1p/1.1p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£1.0m (at 30/09/22)
Enterprise value	£6.2m
Index/market	AIM
Next news	Q3 update - Jan '23
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

ANALYSTS

David Jeary

+44 (0) 20 7781 5306

djeary@progressive-research.com



www.progressive-research.com

Interim results reflect business model shift

Distil's interim results to 30 September reflect financial consequences of the strategic change to its business model, with the group assuming direct control of servicing its major UK customers and employing a third-party distributor for the rest of its business (primarily hospitality, wholesale and export). The reversal to a £602K adjusted operating loss should be seen in this light. To that point, we are making no changes to the re-initiated forecasts published after the Q1 trading update on 13 July. Net cash reserves stood at £0.95m as at 30 September (vs £1.56m at 31 March).

- Interim results – reflect shift to new hybrid model.** We outlined the impacts of the shift to the hybrid model, with Distil moving to take direct control of supplying its major UK retail companies in our July note. The 68% turnover decrease reflected the one-off impact of moving inventory out of the distributor supply chain, with £0.67m inventory depletions and £0.3m reduced promotional activity in the period. Volumes were 72% lower, though average year-on-year cost increases were kept to single digit figures on a per case basis, despite inflationary, supply chain and energy pricing pressures.
- Commercial developments – Ardgowan on track for Spring 2023 opening.** RedLeg Spiced Rum launched its first TV advertising campaign in the period, and RedLeg Tropical has achieved a major listing with a leading pub group. The Blackwoods Gin & Vodka distillery and visitor centre at the Ardgowan site is on track to open in Spring 2023, with the team working on the option to invest a further £2m into the Ardgowan distillery project.
- New appointments – supporting new model and strengthening team.** A key appointment was that of Alex Baker as Commercial Director. He joins from Distil's previous distributor, and therefore has good knowledge of Distil's brands and trade customers. Distil has also appointed a new Marketing Director and a Head of Finance & Operations.
- Outlook – no changes to forecasts.** With the new model now fully operational and with H2 the traditionally stronger trading period for the company, Distil is looking to return to sales growth and to continue strongly into FY24E. The rum category continues to show growth, overtaking whisky sales in H1, which bodes well for RedLeg Spiced Rum. Value will come to the fore in Christmas trading, with Distil's brands well positioned on that score, backed by a strong promotional package.

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)	2.6x	1.7x	2.1x	2.7x	1.7x
EV/EBITDA (x)	25.4x	23.2x	-53.4x	-10.8x	-207.9x
PER (x)	20.4x	15.4x	40.9x	N/A	71.1x

Source: Company Information and Progressive Equity Research estimates.

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Interim results – further details

The transition to a direct sales model in the UK for major retail customers was completed at the end of September, with Distil anticipating no further significant impact on sales in H2 attributable to this transition from a distributor model to a direct sales model. While the trading and consumer confidence back drop remains challenging, it should be remembered that sales of spirits have historically performed strongly in these conditions, with consumers regarding them as affordable treats, with more socialising done in the home. To date this year, this is borne out by continued growth in the overall spirits market (of 14% vs three years ago, according to data from the WSTA), with the rum sector outperforming the growth of the wider market.

This bodes well for the key RedLeg Spiced Rum brand and its variants. Distil believes that the first regional TV advertising campaign (and nationally across ITV video-on-demand services), which was valued at more than £500K, has already begun to have positive effects for the brand. The news of further export markets being opened in Scandinavia from October is also positive news.

The following two tables show an overview of the interim results, together with a summary of the contribution and margin performance. We limit our commentary on these, given the transitional period these represent as Distil refines its business model with a view to driving stronger future revenue growth and profitability. Other costs reflect share based payments in the table below. We have also separated out the depreciation charge which Distil reports within Other administrative costs. The adjusted operating profit/(loss) is adjusted for share based payments in both periods, together with a FY22 adjustment for one-off transactions costs associated with the Ardgowan investment of £72K. The latter are included within the Other administrative costs line.

FY22 Interim results summary – P&L summary

(£'000 unless stated)	H1 FY22	H1 FY23	Change	% change
Turnover	1,435	460	-975	-68%
Gross profit	794	210	-584	-74%
<i>Gross margin (%)</i>	<i>55.3%</i>	<i>45.7%</i>	<i>-9.7%</i>	
Advertising and promotion	-398	-376	22	-6%
Other administrative costs	-402	-428	-26	6%
Depreciation and amortisation	-8	-8	0	0%
Other costs	-30	-30	0	n.a.
Total operating costs	-838	-842	-4	0%
Operating profit/(loss)	-44	-632	-588	
Finance charge	-1	77	78	
Pre-exceptional profit/(loss) before tax	-45	-555	-510	
Exceptional charge	0	0	0	
Reported loss before tax	-45	-555	-510	
<i>Operating costs to sales ratio</i>	<i>-58.4%</i>	<i>-183.0%</i>	<i>-124.6%</i>	
<i>Operating margin (%)</i>	<i>-3.1%</i>	<i>-137.4%</i>	<i>-134.3%</i>	
Adjusted operating profit/(loss)	58	-602	-660	
Adjusted operating margin (%)	4.0%	-130.9%	-134.9%	

Source: Distil, Progressive Equity Research

Despite the optics of these figures, they should be viewed as reflecting the one-off costs of transitioning the business model. This should become clearer on the revenue front when Distil publishes its Q3 trading update covering the peak Christmas period.

Contribution and margin performance – H1 FY23 vs H1 FY22

(£'000 unless otherwise stated)	H1 FY22	H1 FY23	Change	% change
Turnover	1,435	460	-975	-68%
Gross profit	794	210	-584	-74%
<i>Gross margin (%)</i>	<i>55.3%</i>	<i>45.7%</i>	<i>-9.7%</i>	
Advertising and promotion	-398	-376	22	-6%
Contribution	396	-166	-562	-142%
<i>Contribution margin (%)</i>	<i>27.6%</i>	<i>-36.1%</i>	<i>-63.7%</i>	
<i>Advertising to sales ratio (%)</i>	<i>-27.7%</i>	<i>-81.7%</i>	<i>-54.0%</i>	

Source: Distil, Progressive Equity Research

A fuller P&L impact will not be manifest until the publication of the full-year results next year. Within these, the H2 performance in particular will merit closer attention, giving more detailed insight into the initial financial dynamics of the new hybrid model. These will develop further as the business scales up with greater volumes in FY24E.

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)	2.6	1.7	2.1	2.7	1.7
EV/EBITDA (x)	25.4	23.2	-53.4	-10.8	-207.9
EV/NOPAT (x)	23.9	17.4	25.8	-10.5	-138.6
PER (x)	20.4	15.4	40.9	N/A	71.1
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	(2.6%)	4.3%	(2.7%)	(9.2%)	(2.0%)

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

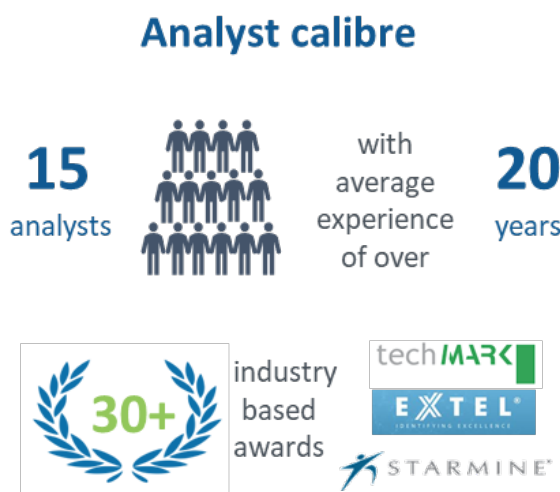
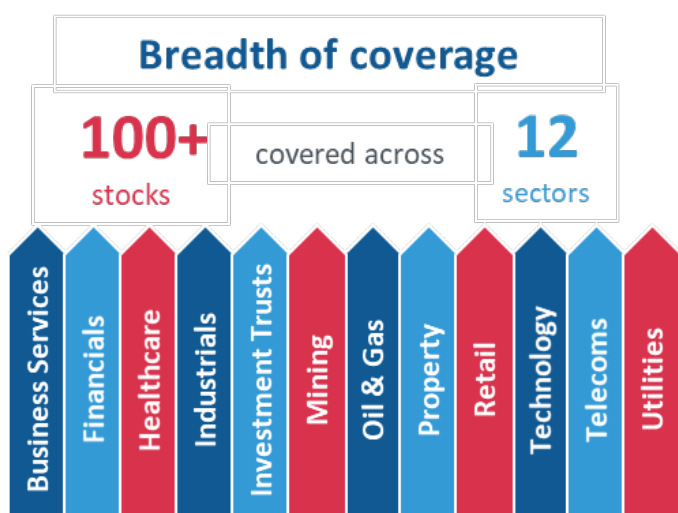
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To arrange a meeting with the management team, or for further information about Progressive, please contact us at:
+44 (0) 20 7781 5300
info@progressive-research.com