

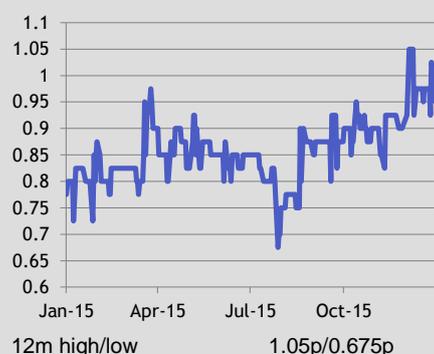
# DISTIL BEVERAGES

**DIS.L**

0.95p

Market Cap: £4.1m

## SHARE PRICE (p)



Source: LSE Data

## KEY INFORMATION

Enterprise value	£3.6m
Index/market	FTSE AIM
Next news	Finals, Jun 16
Gearing	N/A
Interest cover	N/A

 DISTIL IS A RESEARCH CLIENT OF  
 PROGRESSIVE

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## Happy Christmas Trading

### Laying firm foundations

Distil has enjoyed strong Christmas trading over the important Q3 period to end December, with revenues increasing 71% year-on-year. This was driven by very good performances from the RedLeg spiced rum brand and the group's Blackwoods gin range, which more than offset weaker sales of Blavod Black Vodka in Eastern Europe. Distil has expressed its confidence on Q4 trading prospects and that full year performance will be "in line with the Board's expectations".

- Shift in sales mix:** The shape of the P&L in Q3, with revenue growth of 71% outstripping volume growth of 31%, reflects a shift in the sales mix, away from lower-margin "licensed" sales, mostly in Eastern Europe, to sales through its own channels, where it captures a higher proportion of the value chain. As the product portfolio looks to build up its brand and customer franchises, this requires investment in brand marketing, with these support costs rising by 96% in the quarter.
- Brand and market performance:** RedLeg spiced rum was listed and widely available across two of the Big Four grocery chains in the UK, a major fillip for the brand, alongside its presence in other retail outlets and the on-trade channel. RedLeg also performed well in Australia and Distil is pushing on with gaining TTB approval for RedLeg in the important US market, where its US distributor has been successfully building on-trade presence for its Blackwoods Small Batch Gin. Distil continues to benefit from the rising popularity of the gin market, especially the premium segment, with double-digit growth (in volume and value terms) reported for both Blackwoods Vintage and Blackwoods Limited Edition. Having re-entered the US market, Blavod is performing well, with repeat orders being placed in both consumer and trade channels.
- Shape of forecasts revised:** We have adjusted the shape of our forecasts to reflect the continued strength of top line revenues. The impact on the bottom line is however less marked at this stage, given the accompanying increase in brand marketing costs to support this welcome top line growth, wider geographic and channel coverage and greater brand recognition. The virtuous circle of increasing brand recognition and extending product availability remains key to driving long-term shareholder value.

FYE MAR	2014	2015	2016E	2017E	2018E
Revenue	2.4	0.7	1.2	1.4	1.7
Adjusted EBITDA	-0.4	-0.3	-0.1	0.1	0.2
Adjusted PBT	-0.4	-0.3	-0.1	0.1	0.2
Adjusted EPS (p)	-0.1	-0.1	0.0	0.0	0.0
EV/Sales (x)	1.5x	5.5x	3.1x	2.6x	2.2x
EV/ Adj. EBITDA (x)	n.a.	n.a.	n.a.	56.3x	22.5x
P/E (x)	n.a.	n.a.	n.a.	66.7x	26.0x

Source: Company Information and Progressive Equity Research estimates

## Forecast revisions

We have made some forecast revisions to reflect both the stronger turnover growth and the increased investment in brand marketing in the current year. The net result of this sees in effect no change in our forecast for a small PBT loss of £0.10m. We have raised the projected turnover growth for FY16 from 50% to 75%, given the continuation of sales momentum reported in Q3.

In light of this momentum, and with some brands re-listed in the US, as well as the extended coverage within the UK supermarket sector, we have increased the projected rate of turnover growth for Distil from 15% to 20% in both FY17 and FY18. We believe that marketing costs will continue to rise in support of brand development and obtaining new listings.

There should however be a small degree of operational leverage with regard to other operating costs, such that operating margins and PBT levels do show some increase from our previous forecasts. Our last published Fully Adjusted PBT forecasts move across our three-year forecast horizon from (£0.10m), £0.03m and £0.07m to (£0.10m), £0.06m and £0.16m for FY16, FY17 and FY18 respectively.

Our new forecasts, along with some key operating metrics, are shown in the following table of Summary Financial Information.

## SUMMARY FINANCIALS

Year ended March	FY-14A	FY-15A	FY-16E	FY-17E	FY-18E
<b>£m unless stated</b>					
<b>Profit &amp; Loss</b>					
<b>Revenue</b>	<b>2.41</b>	<b>0.67</b>	<b>1.17</b>	<b>1.40</b>	<b>1.68</b>
Adj EBITDA	-0.36	-0.28	-0.10	0.06	0.16
<b>Adj EBIT</b>	<b>-0.37</b>	<b>-0.29</b>	<b>-0.10</b>	<b>0.06</b>	<b>0.16</b>
Reported PBT	-0.39	-0.29	-0.10	0.06	0.16
PBT before exceptionals and AAG	-0.39	-0.29	-0.10	0.06	0.16
<b>Fully adj PBT</b>	<b>-0.39</b>	<b>-0.29</b>	<b>-0.10</b>	<b>0.06</b>	<b>0.16</b>
NOPAT	-0.37	-0.29	-0.10	0.06	0.16
Reported EPS (p)	-0.12	-0.08	-0.02	0.01	0.04
EPS before exceptionals and AAG (p)	-0.12	-0.08	-0.02	0.01	0.04
<b>Fully adj EPS (p)</b>	<b>-0.12</b>	<b>-0.08</b>	<b>-0.02</b>	<b>0.01</b>	<b>0.04</b>
Dividend per share (p)	0.00	0.00	0.00	0.00	0.00
<b>Cash flow &amp; Balance sheet</b>					
Operating cash flow	0.09	-0.37	-0.16	0.01	0.13
Free Cash flow £m	0.07	-0.38	-0.16	0.01	0.13
FCF per share p	0.02	-0.10	-0.04	0.00	0.03
Acquisitions	-0.08	-0.02	0.00	0.00	0.00
Disposals	0.00	0.00	0.00	0.00	0.00
Shares issued	0.55	0.56	0.00	0.00	0.00
<b>Net cash flow</b>	<b>0.54</b>	<b>0.17</b>	<b>-0.16</b>	<b>0.01</b>	<b>0.13</b>
Overdrafts / borrowings	0.00	0.00	0.00	0.00	0.00
<b>Cash &amp; equivalents</b>	<b>0.34</b>	<b>0.51</b>	<b>0.35</b>	<b>0.36</b>	<b>0.49</b>
<b>Net (Debt)/Cash</b>	<b>0.34</b>	<b>0.51</b>	<b>0.35</b>	<b>0.36</b>	<b>0.49</b>
<b>NAV and returns</b>					
Net asset value	1.96	2.23	2.13	2.19	2.35
<b>NAV/share (p)</b>	<b>0.54</b>	<b>0.51</b>	<b>0.49</b>	<b>0.50</b>	<b>0.54</b>
Net Tangible Asset Value	0.46	0.72	0.62	0.68	0.84
<b>NTAV/share (p)</b>	<b>0.13</b>	<b>0.16</b>	<b>0.14</b>	<b>0.16</b>	<b>0.19</b>
Average equity	1.88	2.09	2.18	2.16	2.27
<b>Post-tax ROE (%)</b>	<b>-20.9%</b>	<b>-13.8%</b>	<b>-4.6%</b>	<b>2.9%</b>	<b>7.0%</b>
<b>Metrics</b>					
<b>FY-14A</b>	<b>FY-15A</b>	<b>FY-16E</b>	<b>FY-17E</b>	<b>FY-18E</b>	
Revenue growth	-36.5%	-72.3%	75.0%	20.0%	20.0%
Adj EBITDA growth	-15.8%	21.7%	65.3%	166.1%	149.8%
Adj EBIT growth	-14.7%	22.0%	64.4%	159.3%	160.2%
Adj PBT growth	46.9%	26.2%	65.5%	162.3%	156.2%
Adj EPS growth	46.9%	26.2%	65.5%	162.3%	156.2%
Adj EBIT margins	-15.3%	-43.0%	-8.7%	4.3%	9.4%
<b>Valuation</b>					
<b>FY-14A</b>	<b>FY-15A</b>	<b>FY-16E</b>	<b>FY-17E</b>	<b>FY-18E</b>	
EV/Sales	1.5	5.5	3.1	2.6	2.2
EV/EBITDA	(10.1)	(12.9)	(37.2)	56.3	22.5
EV/NOPAT	(9.9)	(12.7)	(35.7)	60.2	23.1
PER	n.a.	n.a.	n.a.	66.7	26.0
FCF yield	2.1%	-10.6%	-3.8%	0.2%	3.1%

Source: Company information, Progressive Equity Research estimates

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