

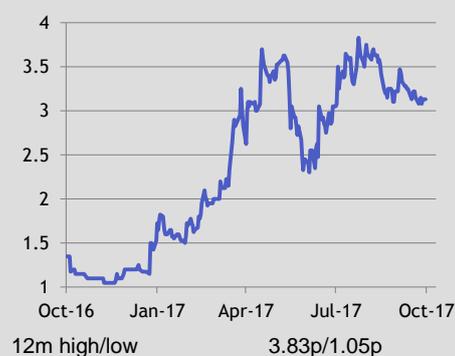
DISTIL BEVERAGES

DIS.L

3.125p

Market Cap: £15.6m

SHARE PRICE (p)



Source: LSE Data

KEY INFORMATION

Enterprise value	£14.7m
Index/market	FTSE AIM
Next news	Trading update – Jan 18
Gearing	N/A
Interest cover	N/A

 DISTIL IS A RESEARCH CLIENT OF
 PROGRESSIVE

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Strong first half results.....

.....with operating loss cut almost 70% to £21K

Distil has delivered a strong set of results against last year's pipeline fill from winning new listing contracts with major retailers. This effect was most marked in Q2, with Q1 also benefiting this year from the later timing of Easter. Top line revenues increased by 23% to £818K, with gross margin held broadly flat. The operating loss was cut by 68% to £21K (vs £66K last year), with the corresponding operating loss margin improving to 2.6% from 9.9% last year. The key RedLeg and Blackwoods Gin brands continue to deliver value and volume growth, outperforming their respective categories, underlining their brand strengths and underpinned by continuing brand investment.

- Interim results:** Revenues rose by 22.8% in the period, with volumes increasing by 41%. The gap between these reflects product sales mix changes and a welcome improvement in the licensed sales of Blavod in Eastern Europe and Duty Free. The latter generates a licence fee recorded within turnover. Brand marketing investment outpaced top line growth, rising by 36% to support future growth. The tight management of other overheads saw these held flat and contributing significantly, along with strong brand performance, to the much reduced operating loss. Period end cash came in at £690K, compared with £910K at the year end. We would expect the cash balance to re-build across H2.
- Brand marketing investment continues apace:** As well as ongoing support for key brands through traditional channels, this period has seen increased rates of investment in two areas. Spending was doubled in the festivals/consumer events channel, as this is an important way to introduce consumers to the brands and encourage product trial. Distil has also invested in new packaging, including a **proprietary bottle**, to coincide with the development of a new Blackwoods gin vintage. This will be available to consumers from Q4 of the current fiscal year.
- Outlook:** As ever, the full year outturn will depend on the all-important fiscal Q3 trading period. Distil is planning a greater level of promotional activities compared with last year, which should support further progress. Despite some consumer uncertainty arising from Brexit and the re-emergence of real wage deflation, Distil "expect to remain on plan for the full year". Our forecasts therefore remain unchanged at this stage and will be reviewed in light of the post-Christmas trading update.

FYE MAR	2016	2017	2018E	2019E	2020E
Revenue	1.2	1.6	2.1	2.5	3.0
Adjusted EBITDA	-0.1	0.0	0.2	0.4	0.5
Adjusted PBT	-0.1	0.0	0.2	0.4	0.5
Adjusted EPS (p)	0.0	0.0	0.0	0.1	0.1
EV/sales (x)	12.6x	8.9x	7.1x	5.9x	4.9x
EV/Adj.EBITDA (x)	n.a.	1076.5x	93.5x	41.2x	31.5x
PE (x)	n.a.	1617.0x	103.9x	44.6x	33.9x

Source: Company Information and Progressive Equity Research estimates

Onwards and upwards

Investing for the future

Distil's interim results show another strong performance with all key brands outperforming their respective product categories. This performance benefits from the past investment in brand marketing, which has seen the key brands gain important client wins and listings within both the on-trade (pubs, hotels, restaurants etc) and off-trade (retail/supermarkets) channels.

It also points to the importance of continued investment in the brands to underpin and deliver future sales growth and market share gains, which was reflected in the 36% increase in brand marketing and promotional costs. This was ahead of the rate of top line growth (23%), although this time included the associated one-off costs for the new packaging and proprietary bottle design for Blackwoods (for both gin and vodka products).

Despite this percentage increase in marketing investment relative to turnover and broadly flat gross margin, the operating loss ratio fell by over 700bps. This was driven by what has become another innate characteristic of the business, namely tight cost control of overheads. By holding Other administrative costs flat in absolute terms, these fell by around 750bps as a percentage of turnover. This was therefore a key contributor, along with sales growth, to the reduction of the operating loss to not far short from breakeven at the interim stage.

Interim results analysis

The following table summarises the P&L performance in H1 compared with that delivered last year.

FY18 interim results P&L account

(£'000 unless stated)	H1 FY17	H1 FY18	Change	% change
Turnover	666	818	152	23%
Gross profit	376	459	83	22%
Gross margin (%)	56.5%	56.1%	-0.3%	
Advertising and promotion	-146	-199	-53	-36%
Other administrative costs	-266	-267	-1	0%
Depreciation and amortisation	-1	-3	-2	-200%
Other costs	-29	-11	18	62%
Total operating costs	-442	-480	-38	-9%
Operating loss	-66	-21	45	68%
Finance charge	0	0	0	n.c.
Pre-exceptional loss before tax	-66	-21	45	68%
Exceptional charge	0	0	0	n.c.
Reported loss before tax	-66	-21	45	68%
Operating costs to sales ratio	-66.4%	-58.7%	7.7%	
Operating margin (%)	-9.9%	-2.6%	7.3%	

Source: Distil, Progressive Equity Research

We have already highlighted several of the key aspects of the P&L performance above and on the front page. In addition to holding Other administrative costs flat, there was a reduction of £18K in the share based payment expense to £11K, which appears as Other costs in the P&L above. Including this benefit, the total operating cost ratio reduced by 7.7% - from 66.4% last year to 58.7% in this year's interim figures.

Contribution and margin performance – H1 FY18

(£'000 unless otherwise stated)	H1 FY17	H1 FY18	Change	% change
Turnover	666	818	152	23%
Gross profit	376	459	83	22%
Gross margin (%)	56.5%	56.1%		
Advertising and promotion	-146	-199	-53	-36%
Contribution	230	260	30	13%
Contribution margin (%)	35%	32%	-2.7%	
Advertising to sales ratio (%)	-21.9%	-24.3%	-2.4%	

Source: Distil: Progressive Equity Research

We also show above the contribution delivered after advertising and promotional costs. The increase in the latter held back the rise in contribution to 13%, with almost a 3% decrease in the contribution margin to 32%. The advertising to sales ratio increased by 2.4% to 24.3%. This number does fluctuate slightly from year to year, but we remain relaxed on this front as it falls within the range of recent years and was largely due to the one-off costs of the Blackwoods packaging and bottle redesign.

Blackwoods bottle and packaging redesign

The rising popularity of gin and especially more premium craft gins in recent years has not only resulted in a proliferation of new gin brands being launched, but also increased the importance of a differentiated appearance to stand out from competing products in both the on- and off-trade channels. At the time of its launch, the (shortly to be updated and replaced) bottle design of Blackwoods delivered strongly in terms of both visual merchandising and differentiation. This was not however a proprietary bottle design, with Distil therefore neither owning intellectual property rights to it nor having legal protection from so-called "me too" products.

With a number of competing brands now using similar bottle designs, and to coincide with the launch of its new Blackwoods vintage, Distil has invested in the development of a new bottle design and packaging. This will not only make Blackwoods a more stand-out brand in terms of visual merchandising, but also has the substantial benefits of being proprietary to Blackwoods. This has entailed a change of glass manufacturer to a British-based supplier, whereas the earlier bottle design was produced in Europe.

This new design will be launched in Q4 of the fiscal year, so will not impact on Christmas trading this year. Ahead of this, Distil is planning an updated website, scheduled for December, which will act as a showcase for the new design.

Unchanged forecasts

We leave our forecasts unchanged ahead of the key fiscal Q3 trading period, with a view to reviewing them in light of Distil's delivered performance upon publication of its Q3/Christmas trading update in January. For reference the following page shows our current forecasts.

DISTIL - SUMMARY FINANCIALS

Year ended March	FY-16A	FY-17A	FY-18E	FY-19E	FY-20E
£m unless stated					
Profit & Loss					
Revenue	1.17	1.64	2.06	2.48	3.00
Adj EBITDA	-0.09	0.01	0.16	0.36	0.47
Adj EBIT	-0.10	0.01	0.15	0.35	0.46
Reported PBT	-0.10	0.01	0.15	0.35	0.46
PBT before exceptionals and AAG	-0.10	0.01	0.15	0.35	0.46
Fully adj PBT	-0.10	0.01	0.15	0.35	0.46
NOPAT	-0.10	0.01	0.15	0.35	0.46
Reported EPS (p)	-0.02	0.00	0.03	0.07	0.09
EPS before exceptionals and AAG (p)	-0.02	0.00	0.03	0.07	0.09
Fully adj EPS (p)	-0.02	0.00	0.03	0.07	0.09
Dividend per share (p)	0.00	0.00	0.00	0.00	0.00
Cash flow & Balance sheet					
Operating cash flow	-0.11	0.00	0.05	0.27	0.36
Free Cash flow £m	-0.12	-0.07	0.05	0.28	0.36
FCF per share p	-0.03	-0.01	0.01	0.06	0.07
Acquisitions	-0.02	-0.01	0.00	0.00	0.00
Disposals	0.00	0.00	0.00	0.00	0.00
Shares issued	0.60	0.01	0.00	0.00	0.00
Net cash flow	0.47	-0.07	0.05	0.28	0.36
Overdrafts / borrowings	0.00	0.00	0.00	0.00	0.00
Cash & equivalents	0.98	0.91	0.96	1.23	1.60
Net (Debt)/Cash	0.98	0.91	0.96	1.23	1.60
NAV and returns					
Net asset value	2.76	2.81	2.96	3.31	3.77
NAV/share (p)	0.55	0.56	0.59	0.66	0.76
Net Tangible Asset Value	1.24	1.27	1.44	1.79	2.25
NTAV/share (p)	0.25	0.26	0.29	0.36	0.45
Average equity	2.50	2.79	2.88	3.14	3.54
Post-tax ROE (%)	-3.9%	0.3%	5.2%	11.2%	13.0%
Metrics					
Revenue growth	75.6%	40.4%	25.6%	20.0%	21.3%
Adj EBITDA growth	66.8%	114.6%	1050.7%	127.1%	30.7%
Adj EBIT growth	66.2%	110.0%	1431.3%	135.0%	31.5%
Adj PBT growth	66.2%	109.9%	1455.5%	133.2%	31.5%
Adj EPS growth	66.2%	109.9%	1455.5%	133.2%	31.5%
Adj EBIT margins	-8.3%	0.6%	7.2%	14.0%	15.2%
Valuation					
EV/Sales	12.6	8.9	7.1	5.9	4.9
EV/EBITDA	n.a.	1,076.5	93.5	41.2	31.5
EV/NOPAT	n.a.	1,522.7	99.4	42.3	32.2
PER	n.a.	1,617.0	103.9	44.6	33.9
FCF yield	-0.8%	-0.4%	0.3%	1.8%	2.3%

Source: Company information; Progressive Equity Research estimates

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