Progressive EQUITY RESEARCH

DISTIL
BEVERAGES

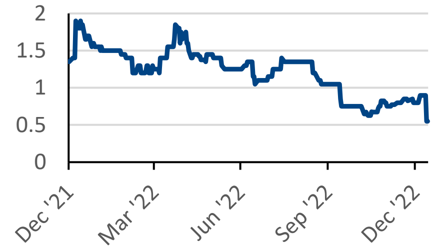
16 January 2023

DIS.L

0.55p

Market Cap: £3.8m

SHARE PRICE (p)



12m high/low	1.9p/0.6p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	£0.3m *(at 31/12/22)*
Enterprise value	£3.5m
Index/market	AIM
Next news	FY update - Apr '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

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One-off factors adversely impact Q3 trading

A number of primarily one-off factors has resulted in a 48% decrease in revenue to £411k in Distil's peak Q3 trading period (to end December). The principal reasons behind this were: the continuing effects of the one-off reduction in UK market stock cover arising from the change in business model and removal of the UK distributor; a softer-than-expected UK spirits market; and systems issues within a major customer, resulting in sub-optimal replenishment. Distil has indicated that FY23 revenue will be significantly below market expectations. The expected full-year EBITDA loss of £0.6m is, however, unchanged from previous market guidance.

- **Trading update – further details.** A joint solution has been found for the systems issues at a major retailer, mentioned above, which disrupted replenishment of strong underlying RedLeg Spiced Rum sales in Q3. RedLeg continued to perform well across all other major retailers, with Q3 sales at a consumer level delivering an average 38% year-on-year sales growth in December. A medium-sized retailer customer has delisted Blackwoods 40% Gin following a review and subsequent rationalisation of its gin range. This will have a significant impact on Blackwoods, with the consequent brand rebuilding to focus on its Scottish home territory. Cash reserves stood at £277k at the end of Q3.

- **Ardgowan – decision not to invest further £2m.** Distil has decided not to exercise the option to invest a further £2m in the Ardgowan Distillery project, favouring a focus of cash resources on its core business. Progress on the whisky distillery was delayed by resubmission of plans for a larger, more ambitious project, which have now been approved. The building for the Blackwoods gin distillery has, however, been externally renovated, with distillation equipment to be installed over the coming months.

- **Outlook – forecast revisions; FY24E guidance alongside full-year results.** While good progress has been made on several fronts, including UK on-trade sales and new export markets, the consumer outlook remains challenging in the current economic environment. While Distil believes the one-off issues adversely impacting FY23 will not roll over into FY24, the company remains understandably cautious given the challenging economic backdrop. Distil will give longer-term guidance reflecting its new operating model alongside publication of its FY23 full-year results. Accordingly, we feel it appropriate to withdraw our FY24E estimates until then. Our revised headline FY23E forecasts are shown below.

FYE MAR (£M)	2020	2021	2022	2023E
Revenue	2.44	3.62	2.94	1.50
Adj EBITDA	0.25	0.27	(0.12)	(0.58)
Fully Adj PBT	0.18	0.24	(0.09)	(0.45)
Fully Adj EPS (p)	0.05	0.07	0.03	(0.07)
EV/Sales (x)	1.4x	1.0x	1.2x	2.3x
EV/EBITDA (x)	14.2x	13.0x	-29.8x	-6.0x
PER (x)	10.7x	8.0x	21.4x	N/A

Source: Company Information and Progressive Equity Research estimates.

Forecast revisions

The impact of the one-off reduction in stock cover associated with the removal of the previous UK distributor has been outlined in our previous notes, with Distil now moving to supply its major UK retailer customers directly. The adverse impact appears to have extended into Q3, the company's peak shopping period. This was unfortunately compounded by systems issues within a major retailer customer, resulting in sub-optimal replenishment, erratic promotional activity and stock outs at individual store level. These issues will have been a major contributor to the performance in Q3, compounded by the weaker consumer backdrop and softening of the wider spirits market.

The performance of RedLeg Spiced Rum across the other major retailers (+38% year-on-year increase in December) is very encouraging, in our view. However, this positive aspect, along with success in opening new export markets, will have been swept aside by the headline decrease in Q3 sales and the company pointing to full-year revenue being materially below market expectations.

We have cut our full-year revenue forecast by 35%, from £2.3m to £1.5m. Turnover after the first nine months of trading stood at around £870k, an estimated 60% lower than at the equivalent stage last year. The £378k year-on-year fall in Q3 revenue compounds the £1m decline seen in H1, due to the change from a distributor model to a direct supply model. With the problems now resolved at the major retailer, we expect a more robust sales performance in Q4. Our new turnover forecast implies revenue delivery of around £630k. This equates to a year-on-year Q4 decline of around 12%, easily the smallest quarterly fall of FY23E and pointing to a more solid revenue performance in FY24E.

Notwithstanding a material reduction in full-year revenue, the FY23E adjusted EBITDA loss is unchanged from previous market expectations. This clearly points to reduced levels of overall operating costs, including marketing, in reaction to the softer level of top-line revenue. The quantum and sources of cost reduction are unclear at this stage, but in round terms, compared with the shape of our previous forecasts, the loss of gross profit from the lower full-year revenue forecast is offset by operating cost reductions, primarily in variable and discretionary areas. With the H1 and full-year operating losses being broadly similar, the implied performance for H2 is one of breakeven at the operating profit level.

We were previously forecasting year-end cash of around £1m. With cash reserves of £277k at the end of December 2022, our year-end cash forecast has been amended to now stand at £436k. The move to direct distribution gives rise to higher working capital requirements than previously, most notably in respect of trade debtors, and to a lesser extent inventory.

Given the many moving parts associated with the change in distribution model, compounded by ongoing pressure on consumers in an inflationary environment, we have withdrawn our FY24E forecasts. We believe this is prudent while awaiting more insight from Distil on its new operational model, which the company has said it will deliver alongside its FY23 full-year financial results, due to be published in June 2023.

Financial Summary: Distil

Year end: March (£m unless shown)

PROFIT & LOSS	**2020**	**2021**	**2022**	**2023E**
Revenue	2.44	3.62	2.94	1.50
Adj EBITDA	0.25	0.27	(0.12)	(0.58)
Adj EBIT	0.18	0.25	(0.13)	(0.60)
Reported PBT	0.18	0.24	(0.09)	(0.45)
Fully Adj PBT	0.18	0.24	(0.09)	(0.45)
NOPAT	0.26	0.36	0.24	(0.60)
Reported EPS (p)	0.05	0.07	(0.01)	(0.07)
Fully Adj EPS (p)	0.05	0.07	0.03	(0.07)
Dividend per share (p)	0.00	0.00	0.00	0.00
CASH FLOW & BALANCE SHEET	**2020**	**2021**	**2022**	**2023E**
Operating cash flow	(0.10)	0.25	(0.15)	(1.13)
Free Cash flow	(0.14)	0.22	(0.17)	(1.16)
FCF per share (p)	(0.03)	0.04	(0.03)	(0.19)
Acquisitions	(0.02)	(0.02)	0.00	0.00
Disposals	0.00	0.00	0.00	0.00
Shares issued	0.00	0.00	3.49	0.00
Net cash flow	(0.21)	0.20	0.50	(1.13)
Overdrafts / borrowings	0.00	0.00	0.00	0.00
Cash & equivalents	0.86	1.06	1.56	0.44
Net (Debt)/Cash	0.86	1.06	1.56	0.44
NAV AND RETURNS	**2020**	**2021**	**2022**	**2023E**
Net asset value	3.43	3.81	7.55	7.10
NAV/share (p)	0.68	0.76	1.10	1.04
Net Tangible Asset Value	1.85	2.21	5.94	5.48
NTAV/share (p)	0.37	0.44	0.87	0.80
Average equity	3.30	3.62	5.68	7.32
Post-tax ROE (%)	7.8%	9.5%	(1.7%)	(6.1%)
METRICS	**2020**	**2021**	**2022**	**2023E**
Revenue growth	N/A	48.1%	(18.6%)	(49.0%)
Adj EBITDA growth	N/A	9.3%	(143.4%)	(396.6%)
Adj EBIT growth	N/A	38.0%	(151.9%)	(351.5%)
Adj PBT growth	N/A	33.5%	(139.0%)	(374.7%)
Adj EPS growth	N/A	32.9%	(62.4%)	(359.2%)
Dividend growth	N/A	N/A	N/A	N/A
Adj EBIT margins	7.5%	7.0%	(4.5%)	(39.7%)
VALUATION	**2020**	**2021**	**2022**	**2023E**
EV/Sales (x)	1.4	1.0	1.2	2.3
EV/EBITDA (x)	14.2	13.0	(29.8)	(6.0)
EV/NOPAT (x)	13.4	9.7	14.4	(5.9)
PER (x)	10.7	8.0	21.4	N/A
Dividend yield	N/A	N/A	N/A	N/A
FCF yield	(4.9%)	8.1%	(5.1%)	(34.2%)

Source: Company information and Progressive Equity Research estimates

16 January 2023

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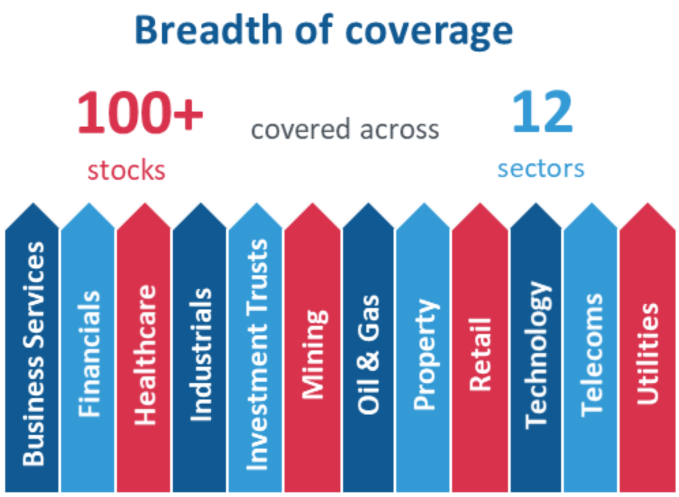

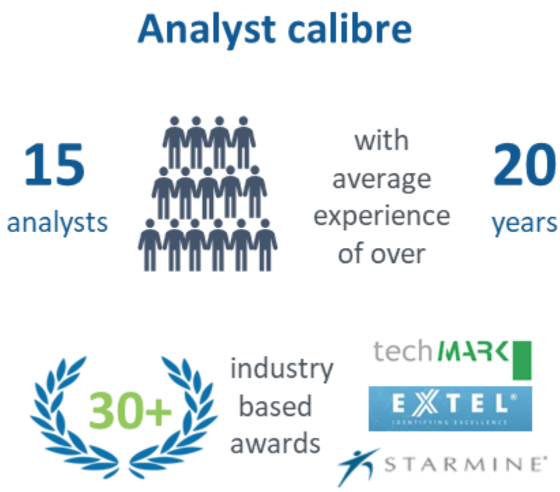

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