

# UP Global Sourcing Holdings plc



## Execution strength fuels growth

5th November 2019

**Excellent execution underpinned a strong recovery year for UPGS in FY2019, which augurs well for future growth. Headline results confirm the company's 9<sup>th</sup> September trading statement. Detailed sales data reflect the company's ability to enhance core domestic growth with strong progress in both international and online. In our view, growth should remain positive in FY2020.**

UPGS's sales revenue increased by 40.8% in the year to 31<sup>st</sup> July 2019 while underlying EBITDA rose by 53.4% to £9.9m and underlying profit before tax by 50.5% to £8.5m, as per the trading statement. Underlying EPS increased by 51.9% to 8.2p, which was very slightly above our expectations. The company proposes a 50.2% higher 4.1p full year dividend. Net debt rose £1.6m to £14.4m – i.e. a very acceptable 1.5x EBITDA.

Furthermore, the company re-confirmed its confidence about further advances in FY2020, helped significantly it appears by UPGS maintaining high levels of service and operational excellence. Arguably, the quality of execution is factored into its customers' expectations and drive loyalty relative to the company's competitors. Current trading is in line with expectations and the FY2020 order book is moderately ahead of last year.

These preliminary results include detailed analysis of sales by geographic region, brand product category and strategic pillar (distribution channel). Salient positive moves across the year included the advance of international business from 27% of the total to 39% and the achievement of record sales for both the Beldray and Salter brands, which are now 26% and 17% of group sales respectively. In the second half of FY2019 alone, UK sales revenue increased by 42% while Germany advanced again strongly by 107%.

Excellence in execution is visible in the key areas in which UPGS continues to grow at a rapid pace. The **online** unit advanced a brisk 63.2% in FY2019 and is now 9.2% of group sales revenue having been only 3.5% in FY2016. Equally, **supermarkets** rose in importance to 16.3% of total sales from 6.7% in the same period. **Discount retailers** remain the largest channel at 52.4% having grown by 41.2% last year.

UPGS's preliminary results lap last year's announcement that was the start of the company consistently reporting much better newsflow. While we maintain our FY2020 forecasts from our 9<sup>th</sup> September update, investors should in our view note both the quality of earnings and the clear path to growth. As a result, we continue to argue for a 100p share price, which would imply 9.6x FY2020 EV/EBITDA and an 11.8x P/E ratio.

### Company Data

EPIC	UPGS
Price (last close)	77p
52 week Hi/Lo	37p-90p
Market cap	£63m

### Share Price, p



Source: ADVFN

### Description

UP Global Sourcing Holding (UPGS) develops new, innovative concepts and brings professional, sought-after products to the mass market. Their offices span two continents, with headquarters in the UK, offices plus a showroom in Guangzhou, and a showroom in Germany.

### Key Financials

	2017A	2018A	2019A	2020E	2021E
<b>Revenue (£'000)</b>	<b>109,953</b>	<b>87,571</b>	<b>123,257</b>	<b>129,420</b>	<b>135,891</b>
Revenue growth (%)	39.1%	-20.4%	40.8%	5.0%	5.0%
EBITDA (adj)	11,512	6,472	9,928	10,231	10,786
<b>EPS basic adj (p)</b>	<b>10.9</b>	<b>5.4</b>	<b>8.2</b>	<b>8.5</b>	<b>8.9</b>
DPS (p)	5.1	2.7	4.1	4.3	4.5
EV/EBITDA (x)	6.9	12.2	8.0	7.7	7.3
<b>P/E ratio (x)</b>	<b>7.1</b>	<b>14.1</b>	<b>9.4</b>	<b>9.1</b>	<b>8.6</b>
Yield (%)	6.6%	3.5%	5.3%	5.6%	5.8%

Source: Company Historic Data, ED estimates

### Chris Wickham (Analyst)

0207 065 2690  
[chris@equitydevelopment.co.uk](mailto:chris@equitydevelopment.co.uk)

### Hannah Crowe

0207 065 2692  
[hannah@equitydevelopment.co.uk](mailto:hannah@equitydevelopment.co.uk)

## UPGS - Execution strength fuels growth

### Overview

UPGS's FY2019 preliminary results tend to confirm that the company is very much back on track after the setbacks which befell it in the first half of the previous fiscal year. Moreover, the company not only generated a very useful 40.8% full year sales' growth rate but also saw its second half accelerate sharply as H2 sales increased by 46.7% compared with a 36.0% advance in H1.

Moreover, the shape of growth looks consistent with good execution and sustainable growth. In particular, International (notably Germany) has good momentum and the online strategic pillar is repeatedly enjoying very rapid growth. Online rose at a 50% - 65% rate in each of the past three years. Similarly, UPGS's two largest offered brands (Beldray and Salter) both experienced record sales in FY2019. The right brands performing well in the right channels augurs well.

A strong year of sales revenue and profit growth was reflected in a robust financial position as total indebtedness rose at a much slower pace than profits, either in percentage or cash terms. As a result, the key **net debt:EBITDA measure shrank from 2.0x to 1.5x** as EBITDA increased by £3.4m (+53.4%) to £9.9m while net debt increased by a much slower £1.6m to £14.4m. We note that the company maintains substantial headroom in terms of facilities.

### FY2019 Results Highlights

Key features of UPGS's preliminary FY2019 results are summarised in Figure 1. Importantly, the company delivered in line with recent market expectations and the final outcome was significantly ahead of where we envisaged results to be a year ago. For example, when *Equity Development* published revised forecasts after the FY2018 preliminary results announcement on 6<sup>th</sup> November 2019 we looked for £97.0m sales revenue and £7.1m EBITDA. UPGS beat these forecasts by £26.3m and £2.8m respectively.

These "beats" should be taken into account when assessing the outlook for FY2020. At this stage, we leave our forecasts unchanged from when we commented on the company's pre-close trading statement that was released on 9<sup>th</sup> September 2019. However, the sales growth rate that we currently factor in is markedly slower than in FY2020 while a number of the engines for expansion remain in place.

**Figure 1 – UPGS F019 Preliminary Results Highlights**

	FY2018	FY2019	Change
Revenue (£m)	87.6	123.3	40.8%
Gross margin	22.4%	22.1%	-0.30 bps
Underlying EBITDA (£m)	6.5	9.9	52.3%
Underlying EBITDA margin	7.4%	8.1%	60 bps
Underlying pre-tax profit (£m)	5.4	8.5	50.5%
Underlying EPS (p)	5.4	8.2	51.9%
Dividend (p)	2.7	4.1	50.2%
Net debt/underlying EBITDA (x)	2.0	1.5	-0.5 x

Source: Company data

## Key Growth Drivers

An optimistic view about the current year is in our opinion consistent with the company's statement that the FY2020 order book is "moderately ahead of this time last year" and UPGS's overall confidence appears high. Sales growth by key detail is shown in Figure 2.

**Figure 2 – UPGS FY2019 Sales**

	2015	2016	2017	2018	2019
<b>Sales revenue growth by location</b>					
United Kingdom	9.3%	22.7%	35.9%	-20.1%	14.0%
Germany				161.8%	200.0%
Rest of Europe	154.6%	62.9%	50.2%	-28.5%	95.0%
USA	75.6%	-88.1%	28.3%	1.5%	7.0%
Rest of World	-73.4%	401.3%	-	-51.8%	23.0%
			11.7%		
Total	21.4%	23.3%	39.1%	-20.4%	40.8%
<b>Sales revenue growth by key brand</b>					
Beldray	30.2%	33.4%	61.1%	-30.2%	50.5%
Salter	189.9%	165.3%	32.8%	-13.7%	50.8%
Intempo	81.2%	114.7%	72.1%	-15.9%	-2.5%
Russell Hobbs	10.7%	31.3%	26.2%	-18.5%	35.5%
Progress				445.9%	27.6%
<b>Sales revenue growth by major product</b>					
Small domestic appliances	6.9%	57.3%	18.3%	-13.1%	59.1%
Audio	192.7%	52.0%	81.7%	-36.6%	81.6%
Housewares	1.3%	34.8%	42.1%	-6.5%	28.9%
Laundry	671.5%	85.6%	97.6%	-31.9%	4.4%
Heating and cooling	-1.9%	-39.1%	66.8%	-31.5%	72.5%
Luggage	-2.6%	2.4%	13.1%	-27.9%	37.5%
Other	8.6%	-14.2%	-12%	-2%	-7.2%
<b>Sales revenue growth by strategic pillar</b>					
Discount retailers			64.6%	-28.2%	41.2%
Supermarkets			95.0%	-6.5%	108.1%
Online channels			63.6%	52.3%	63.2%
Total			68.0%	-20.7%	54.0%
Other			-2.9%	-47.8%	194.0%

Source: Company data

Moreover as we emphasised in our overview, the company's key segmental growth drivers bode well looking forward. In terms of products, the two leading brands performed well. Geographically, international was strong with Germany showing good momentum.

Within strategic pillars, both supermarkets and online grew at a brisk pace with the latter well on track to hit the company's target of it being 20% of group sales. Supermarkets experienced particularly strong progress for both Beldray and Salter.

The inferred second half moves in all of the UK, Germany and Rest of Europe were encouraging. UK sales accelerated from 2.1% to 42.1% while Germany remained strong at 107.3% higher and Rest of Europe advanced at a 48.6% clip. Importantly, domestic conditions were stronger. The UK's growth led to overall group sales growth acceleration from 36.0% in the first half of FY2019 to 46.7% in H2.

Overall, UPGS looks well placed to maintain brisk growth in FY2020. The company benefits from selling attractively priced, well-sourced products which benefit from the support of an eclectic choice of "feel good factor" brand names - notably Beldray, Salter and Russell Hobbs.

Furthermore, the company has done well in selecting distribution channels which enjoy positive growth prospects and in being able to meet these channels' service and product quality demands. In our view, both these results and the comments on outlook statement should generate investor confidence.

## Valuation and Financial Forecasts

### Valuation

Despite the share price recovery in the past year, UPGS continues to look attractive on valuation. In our view a company which is capable of generating organic sales revenue growth in mature markets on a profitable basis and which boasts a robust financial structure should be capable of trading on an EV/sales multiple of 1.0x or more.

Additionally, there is scope for the company's P/E to be comfortably double-digit and for the yield to drop beneath its current level. We include a relative valuation in Figure 3. Given UPGS's unusual execution focused business model, which combines sourcing, brand management and distribution, it is hard to find direct UK listed comparisons. However, a 100p price target which implies 0.7x EV/sales, 9.4x FY2020 EV/EBITDA, an 11.9x P/E ratio and around 4.5% dividend yield seems reasonable in our view.

Figure 3 - UPGS – Relative Valuation

	Share price	Shares	Mkt cap	Net debt	EV	Sales	EV/sales	EPS	EPS	P/E	P/E	DPS	Yield
	(pence)	(m)	(£m)	(£m)	(£m)	2020 (£m)	(x)	2020 (p)	2021 (p)	2020 (x)	2021 (x)	2020 (p)	(%)
EveSleep	2	139	3	-0.5	3	34.8	0.1			nmf	nmf		
Gear4Music	212	21	44	7.5	52	137.8	0.4	5.7	12.7	37.3	16.7		
Luceco	101	161	162	78.2	240	163.9	1.5	0.9	0.9	112.0	112.0		
UPGS	77	82	63	14.4	79	129.4	0.6	8.5	8.9	9.1	8.6	4.3	5.6%
Warpaint	81	77	62	5.0	67	48.5	1.4	12.6	14.7	6.4	5.5	6.6	8.2%
Average							0.8			41.2	35.7		6.9%

Source: ADVFN and ED

## Financial Forecasts

Today's preliminary FY2019 reconfirmed the 9<sup>th</sup> September 2019 pre-close trading statement. As a result, we make no changes at this stage to our headline revenue and EPS forecasts for FY2020 and FY2021. Any adjustments and changes elsewhere should prove immaterial.

However, we highlight that the 5% sales growth forecast which we make for FY2020 is substantially slower than FY2019 and that in FY2019 itself UPGS comfortably beat expectations at the start of that financial year.

We include income statement, balance sheet and free cash flow forecasts in Figures 4 to 6. The central message from our forecasts is that UPGS is a company with good underlying growth prospects, a strong balance sheet and positive free cash flow potential going forward.

**Figure 4 – Income statement**

All figures in £'000s	2017A	2018A	2019A	2020E	2021E
Revenue	109,953	87,571	123,257	129,420	135,891
% increase in revenue	39.1%	-20.4%	40.8%	5.0%	5.0%
Gross profit	24,567	19,592	27,244	28,606	30,172
Gross margin (%)	22.3%	22.4%	22.1%	22.1%	22.2%
EBITDA - adjusted	11,512	6,472	9,928	10,231	10,786
EBITDA margin - adjusted	10.5%	7.4%	8.1%	7.9%	7.9%
Net financial income	-464	-330	-686	-739	-732
Pre-tax profit - reported	7,427	5,423	8,195	8,668	9,300
Taxation	-1,852	-1,141	-1,733	-1,815	-1,962
Tax rate (%) - reported	24.9%	21.0%	21.1%	20.9%	21.1%
Net income - adjusted	8,406	4,474	6,719	6,953	7,337
<b>EPS – basic adjusted (pence)</b>	<b>10.9</b>	<b>5.4</b>	<b>8.2</b>	<b>8.5</b>	<b>8.9</b>
Dividend per share (pence)	5.1	2.7	4.1	4.3	4.4

Source: ED estimates, Company historic data

**Figure 5 – Balance sheet**

All figures in £'000s	2017A	2018A	2019A	2020E	2021E
<b>Assets</b>					
Intangible assets	0	100	98	98	98
Property, plant and equipment	1,715	2,018	1,950	2,845	3,541
Deferred tax	162	107	73	73	73
Total non-current assets	1,877	2,225	2,121	3,016	3,712
Inventories	11,064	16,466	20,399	21,419	22,490
Trade and other receivables	11,728	14,791	18,724	19,660	20,643
Derivatives	17	985	1,335	0	0
Current tax	481				
Cash and cash equivalents	91	95	122	122	122
Total current assets	23,381	32,337	40,580	41,201	43,255
Total assets	25,258	34,562	42,701	44,217	46,967
<b>Liabilities</b>					
Share capital	205	205	205	205	205
Share premium account	2	2	2	2	2
Share-based payment reserve		272	529	629	0
Reserves	-193	846	1,278	-1,652	677
Retained earnings	6,779	7,423	11,469	14,901	18,652
Total equity	6,793	8,748	11,834	14,085	19,536
Trade and other payables	12,316	12,531	15,434	14,306	13,121
Derivative financial instruments	200				
Current tax		427	812	0	0
Short term borrowings	1,518	10,992	14,567	14,127	12,610
Total current liabilities	14,034	23,950	30,867	28,433	25,731
Long term borrowings	4,431	1,864	0	1700	1700
Total non-current liabilities	4,431	1,864	0	1700	1700
Total liabilities	25,258	34,562	42,701	44,217	46,967

Source: ED estimates, Company historic data

**Figure 6 – Free Cash Flow**

All figures in £'000s	2017A	2018A	2019A	2020E	2021E
Profit for the period	5,575	4,282	6,462	6,853	7,337
Adjustments for:					
Finance costs (net)	464	330	686	739	732
Gain on disposal of non-current assets	-5				
Income tax expense	1852	1141	1733	1815	1962
Depreciation and impairment	394	525	779	725	754
Amortisation		2			
Derivative financial instruments		-99			
Share based payments	80	192	257		
Income taxes paid	-678	-178	-1314	-2627	-1962
Adjustment for other non-cash items	-	-	-		
<b>Total</b>	<b>7682</b>	<b>6134</b>	<b>8680</b>	<b>7604</b>	<b>8823</b>
Working capital adjustments					
(Increase)/decrease in inventories	-519	-5402	-3932	-1020	-1071
Decrease/(increase) in receivables	4049	-3063	-3933	-936	-983
(Decrease)/increase in payables	-1790	215	2907	-1128	-1185
<b>Total</b>	<b>1740</b>	<b>-8250</b>	<b>-4958</b>	<b>-3084</b>	<b>-3239</b>
<b>Net cash from operations</b>	<b>9422</b>	<b>-2116</b>	<b>3722</b>	<b>4520</b>	<b>5585</b>
Cash flows used in investing activities					
Purchase of intangible assets		-102			
PP&E	-1162	-829	-711	-1620	-1450
Proceeds from P, P & E disposals	28				
Finance income		53			
<b>Total</b>	<b>-1134</b>	<b>-878</b>	<b>-714</b>	<b>-1620</b>	<b>-1450</b>
<b>Free cash flow before financing</b>	<b>8288</b>	<b>-2994</b>	<b>3008</b>	<b>2900</b>	<b>4135</b>
Interest paid	-451	-355	-615	-739	-732
<b>Free cash flow before dividends etc</b>	<b>7837</b>	<b>-3349</b>	<b>2393</b>	<b>2161</b>	<b>3403</b>
Dividends	-3780	-3554	-2428	-3421	-3586
Share issues	21				
Purchase of own shares (EBT)			-1649		
<b>Free cash flow after dividends etc</b>	<b>4078</b>	<b>-6903</b>	<b>-1684</b>	<b>-1260</b>	<b>-184</b>

Source: ED estimates, Company historic data





## Investor Access

**Hannah Crowe**

Direct: 0207 065 2692

Tel: 0207 065 2690

[hannah@equitydevelopment.co.uk](mailto:hannah@equitydevelopment.co.uk)

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Equity Development, 15 Eldon Street, London, EC2M 7LD. Contact: [info@equitydevelopment.co.uk](mailto:info@equitydevelopment.co.uk) 0207 065 2690