

Sales and membership growth drives momentum

24th January 2023

Sustained growth in both sales revenue and membership numbers drove overall momentum for the Artisanal Spirits Company (ASC) in FY2022. The company appears well placed to deliver results in line with expectations and achieve further growth in FY2023, under the new leadership of Andrew Dane as CEO, announced today. In our view, ASC's valuation continues to look attractive, especially considering the amount of owned maturing whisky stock – i.e. £445m at nominal value. We reiterate our 150p Fair Value for the shares.

Sales revenue for the year ended 31st December 2022 increased by approximately 20% from £18.2m in FY2021 and is expected to be slightly ahead of our £21.6m forecast when the full audited numbers are announced in March 2023. A 12% increase in global membership numbers to around 37,000 drove the business forward. While we leave FY2022 forecasts unchanged at this stage, our confidence in these numbers is enhanced by today's announcement.

ASC announced that Andrew Dane, previously the company's Executive Finance Director, will become CEO with immediate effect. He replaces David Ridley who had been Managing Director for six years. In our view, his appointment should be seen as endorsing the group's growth strategy both for the Scotch Malt Whisky Society and ASC's ambitions elsewhere in distilled spirits – e.g. J G Thomson & Co. An update regarding the Company's American whiskey proposition will be made with full-year results.

The Masterton Bond Facility was the standout operational news in FY2022. It will provide production, cask storage, fulfilment and distribution of ASC's whisky and other spirit stock, and is expected to add around 200 basis points to group operating margins, probably as early as in FY2023. It became operational on time and on budget in FY2022 Q4. Other international expansion moves included an inaugural franchise agreement in South Korea and a new partnership with Drinks Alliance in Malaysia.

Assessment of fair value at 150p per share

We base our 150p fair value/share for the Artisanal Spirits Company, which implies a 5.4x EV/sales ratio, largely on a relative valuation when compared with leading listed distilled spirits companies and luxury goods providers.

ASC is simultaneously exposed to both these categories given its emphasis on ultra premium and above Scotch malt whiskies. Furthermore, the £445m notional value of the company's maturing whisky stocks currently stands at around 7 times today's market capitalisation.

Key financials

Yr to 31 Dec	2020A	2021A	2022E	2023E	2024E	2025E
Revenue (£m)	15.0	18.2	21.6	24.8	28.6	32.7
Revenue growth (%)	2.6	20.2	19.4	15.1	15.3	14.2
EV/sales (x)	4.8	4.0	3.4	2.9	2.5	2.2

Source: ED estimates, company historic data

Company Data

EPIC	ART
Price (last close)	87p
52 weeks Hi/Lo	97p/52p
Market cap	£60m
ED Fair Value/share	150p

Share Price, p



Source: ADVFN

Description

SMWS is focused on providing premium single cask spirits. With an average whisky cask yielding around 250 bottles each time, each release is by its very nature a limited edition with exclusive characteristics.

The Group's objective is to bring together spirits from some of the world's best spirits producers, add value by managing the maturation process and provide exclusive access to a vast and unique range of outstanding single cask Scotch malt whisky and other spirits to The Scotch Malt Whisky Society's global membership.

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Sales and membership growth drives momentum

Double digit increases in both sales revenue and membership were the main trading features of today's update released by the Artisanal Spirits Company, as the company sustained the strong momentum that we highlighted in our 14th September 2022 interim results report: [Successfully following a clear route to growth](#).

Meanwhile, Andrew Dane – formerly Executive Finance Director – will succeed David Ridley as Chief Executive Officer, effective immediately. David had been in place as Managing Director for six years.

Trading update highlights

Figure 1 includes the global sales revenue and membership numbers released in today's FY2022 trading update. Sales are expected to be slightly above both consensus and our current £21.6m forecast, when audited full year numbers are released in March 2023.

Whilst we make no changes to forecasts at this stage, our comfort factor in these numbers being achieved is clearly enhanced. Moreover, in his comments Chairman Mark Hunter stated that the group remains on track to **achieve its target of doubling revenue to £30m between 2020 and 2024** – i.e. faster than we currently project.

Membership growth remains an important driver of overall revenue growth for the Scotch Malt Whisky Society. Not only was the FY2022 increase % comfortably double digit, but also retention remained broadly consistent with last year's level at 77%, which confirms the attractiveness of the SMWS offering.

Domestically, there was a continued recovery in activity associated with UK member venues and events as sales enjoyed more normal, post-pandemic trading conditions and December posted a record.

In our view, the ultra-premium and above positioning of the SMWS's whisky should continue, in common with other luxury franchises, to enable the group to resist some of the current economic headwinds associated with consumer goods – notably the UK cost of living crisis and international geo-political uncertainties.

Figure 1 - Trading update highlights

31 st Dec year-end	FY2021	FY2022	% Change
Global sales	£18.2m	>£21.6m	c.20%
Global members	33,000	c.37,000	c.12%

Source: Company data

Investing for branded sales growth outside SMWS

No fresh update was made regarding ASC's J. G. Thomson brand, which offers both blended Scotch whisky heritage and a platform for expansion into other premium branded spirits. However, at the time of half-year results on 14th September 2022 it was clear that progress was being made through inaugural export sales in France to Maison du Whisky and Masters of Malt.

As mentioned above, there will be an announcement in relation to American whiskey at the time of full year results. Financially, growth should benefit from the two-year extension of the company's revolving credit facility, which was increased to £21.5m.

Operational highlights

An update regarding progress at the Masterton Bond Facility was announced on 15th November 2022 and commented on in our note [New supply chain facility progressing as planned](#). The multi-purpose facility became operational and on budget in the fourth quarter of FY2022. The facility has commenced bottling operations with around 20,000 bottles produced, hundreds of casks delivered, and the first pallets dispatched from the site ahead of year-end.

Elsewhere, international expansion moves included an inaugural franchise agreement in South Korea and a new partnership with Drinks Alliance in Malaysia.

Leadership team evolution

Today's announcement of a new CEO reflects the company's stability, in our view. Outgoing MD David Ridley served for six years and delivered significant revenue growth as well as a successful IPO of the business on the London Stock Exchange.

His replacement by Andrew Dane (39 years old) formerly ASC Executive Finance Director should ensure **continuity of the company's growth strategy**. The decision arguably puts in place someone with the ability to power the next phase of this growth strategy with the benefit of internal knowledge and a proven track record. His finance role will be filled on an interim basis by Group Financial Controller, Billy McCarter (ex Diageo).

Investment case remains strong

Today's trading update is consistent with the overall long term investment case for The Artisanal Spirits Company. Through ownership of the Scotch Malt Whisky Society, the company is well placed to benefit from the important alcoholic beverage trend of **drinking "less but better."**

We reiterate our view that ASC's growth should continue to be fuelled by three important metrics: growth in membership numbers, increases in average spend per member and the potential to expand gross margins significantly. Moreover, operating margins are expected to benefit to the tune of 200 basis points once the Masterton Bond Facility is fully operational.

Within the core ASC asset of the SMWS, membership growth is driven not only by the company's effective marketing, but also by an observable desire for distilled spirits drinkers to substitute volume consumption with higher quality – i.e. '**premiumisation**'.

Furthermore, despite the age and tradition of Scotch whisky, ASC is a modern business with a heavy online focus. The company's members receive their communication updates, including the SMWS monthly magazine, virtually and order via the company's website.

Financials and Valuation

Relative valuation

We retain our long-held fair value of 150p per share for ASC. This is based on an Enterprise Value to Sales ratio relative to the company's two peer groups, both of which comprise publicly listed companies. These are **distilled spirits** and **luxury goods** with valuations as shown in Figures 2 and 3 respectively.

In our view, ASC boasts many positive qualities relative to its distilled spirits peers which should support valuation. The company is predominantly a direct-to-consumer based business which sells its products online into a growing membership base. Its focus is on the ultra-premium and above distilled spirits categories which are arguably less economically sensitive than products at other price points. As a result, it seems appropriate to include luxury goods companies in our relative valuation comparisons.

In addition, a key component of ASC's intrinsic value is the amount of maturing whisky stock which the company owns outright. As stated earlier, the notional retail value of this stock was estimated to be £455m which, as Figures 2 and 3 show, is more than **7 times** the current market capitalisation of the company.

Were ASC to achieve our fair value of 150p, the EV/sales ratio for FY2022 would be 5.4x at most, which would still be beneath the average for either group despite ASC's ultra-premium price positioning, lack of supply chain threats and a membership headcount driven revenue model.

Figure 2 - Relative valuation - distilled spirits

	Share price	Shares	Mkt cap	Net debt	EV	Sales	EV/sales
All figures in local currency units	(local)	(m)	(m)	(m)		2022	(x)
Artisanal Spirits Company (ART)	87	69.6	60	13	73	22	3.4
Brown Forman (BF.B)*	66.64	479.2	31,931	919	32,850	4,080	8.1
Campari (CPR)	9.99	1,120.0	11,188	1,042	12,230	2,687	4.6
Diageo (DGE)*	3,705	2,264.8	83,918	14,488	98,406	17,091	5.8
Remy Cointreau (RCO)*	178.3	50.4	8,995	386	9,381	1,565	6.0
Average							5.5

*Share prices are as at 23 January 2023 UK close and 1700GMT for Brown Forman * FY2023*

Source: MarketScreener, ADVFN and Equity Development estimates

Figure 3 - Relative valuation - luxury goods

	Share price	Shares	Mkt cap	Net debt	EV	Sales	EV/sales
All figures in local currency units	(local)	(m)	(m)	(m)		2022	(x)
Artisanal Spirits Company (ART)	87	69.6	60	13	73	22	3.4
Hermes (RMS)	1,643	104.5	171,753	-8,022	163,731	11,462	14.3
LVMH (MC)	788	501.1	394,919	20,138	415,057	78,797	5.3
Average							7.6

Share prices are as at 23 January 2023 UK close

Source: MarketScreener, ADVFN and Equity Development estimates

Financial forecasts

As highlighted previously, despite our increased comfort in ASC matching (indeed, slightly beating) our expectation for FY2022, we make no changes to our forecasts at this stage. However, we note the potential for sales revenue in FY2022 to be “slightly ahead of” the £21.6m shown in Figure 4.

Figure 4 - Income statement

£'000s Dec y/e	2020A	2021A	2022F	2023F	2024F	2025F
Revenue	15,026	18,237	21,566	24,828	28,620	32,679
increase in revenue	2.6%	21.4%	18.3%	15.1%	15.3%	14.2%
Gross profit	8,804	11,211	13,491	15,904	18,618	21,422
Gross margin (%)	58.6%	61.5%	62.6%	64.1%	65.1%	65.6%
Selling & distribution expenses	-2,979	-4,046	-4,800	-5,526	-6,370	-7,273
Administrative expenses (exc D&A)	-6,055	-8,848	-8,436	-9,027	-9,297	-9,576
EBITDA - adjusted	572	-626	255	1,351	2,951	4,573
Depreciation	-600	-575	-793	-914	-1,053	-1,202
Amortisation of intangible assets	-283	-271	-271	-271	-271	-271
EBIT - adjusted	-311	-1,472	-809	166	1,627	3,100
Exceptional items	-392	-897	-600			
EBIT – reported	-703	-2,369	-1,409	166	1,627	3,100
Finance costs	-499	-348	-354	-551	-586	-563
Pre-tax profits - adjusted	-1,202	-2,717	-1,763	-385	1,041	2,537
Taxation	-418	-631	-300	-300	-168	-467
After tax profits - reported	-1,620	-3,348	-2,063	-884	673	1,869
Basic EPS (pence) - reported	-3.0	-5.9	-3.4	-1.5	0.7	2.5

Note – after tax profit includes adjustments for non-controlling interests

Source: Company historic data and Equity Development estimates

Figure 5 - Balance sheet

£'000s Dec y/e	2020A	2021A	2022F
Assets			
Non-current assets			
Investment property	391	391	391
Property, plant & equipment	5,785	8,377	12,913
Intangible assets	2,599	2,420	2,149
Total non-current assets	8,775	11,188	15,453
Current assets			
Cask goods & bottled stock	21,651	23,719	26,519
Trade & other receivables	1,956	2,968	3,213
Forward currency contracts	83		
Cash & cash equivalents	2,176	2,012	2,012
Total current assets	25,866	28,699	31,744
Total assets	34,641	39,887	47,197
Liabilities			
Current liabilities			
Trade and other payables	3,157	3,949	4,067
Forward currency contracts			
Current tax liabilities	332	277	277
Borrowings	14,963		
Lease debt	139	259	259
Convertible loan notes			
Total current liabilities	18,591	4,908	4,995
Non-current liabilities			
Borrowings	901	6,796	15,458
Lease liability	1,428	3,332	3,332
Deferred tax liabilities	324		
Provisions	404		
Total non-current liabilities	3,057	11,098	19,853
Total liabilities	21,648	16,006	24,848
Called up share capital	135	174	174
Share premium account	99	14,938	14,938
Translation reserve	-15		
Retained earnings	12,544	8,505	6,242
Hedging reserve	67		
Other reserves			691
Shareholders' funds	12,830	23,577	22,045
Minority interest	163	304	304
Total	34,641	39,887	47,197

Sources: Company historic data and Equity Development estimates

Figure 6 - Cash flow statement

£'000s Dec y/e	2020A	2021A	2022F
Cash flow from operations	-607	-4,855	-3,472
Income taxes paid	-327		-300
Interest paid	-477		
Net cash flow from operating activities	-1,411	-5,562	-4,126
Cash flow from investing activities			
Purchase of intangible assets	-437	-92	
Purchase of property, plant & equipment	-660	-1,101	-4,536
Proceeds received on sale of fixed assets	1		
Interest receivable	19		
Net cash used in investing activities	-1,077	-1,188	-4,536
Free cash flow before dividends etc	-2,488	-6,750	-8,662

Sources: Company historic data and Equity Development estimates



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