CORPORATE

Share price **2.4p**

Ticker	EISB
Index	LSE FTSE
Sector	Beverages
Market cap	£7.9m
Shares in issue	338m
NAV	1.1p

Performance	**All-Share**	**Sector**
1 month:	0.9%	3.3%
3 months:	(24.8)%	(10.2)%
12 months:	(83.4)%	(33.6)%
High/Low	14.5p / 2.0p	

Latest results	Interims - Sep
Next results	Finals - May
Next event	Trading update - Jan

Source: © 2022, S&P Global Market Intelligence

Analyst John Cummins
+44 (0) 207 220 1755
john.cummins@whirelandcm.com

Charlie Cullen
+44 (0) 207 220 1678
charlie.cullen@whirelandcm.com

East Imperial

Initiation of coverage – premium brand with sizeable growth opportunity

East Imperial produces and markets premium tonics and mixers, selling to some of the world's leading hotels, bars and restaurants in APAC, the US and other countries around the world. The company was founded in New Zealand and Singapore in 2012, with a focus on building a high-quality brand to capitalise on the growing demand for premium and ultra-premium spirits and mixers. With key competitors seeking high volume growth, including through expansion into off-trade value retailers, East Imperial's strategy is focused on disciplined expansion while maintaining its ultra-premium brand positioning. East Imperial has demonstrated a positive track record of success in its core APAC market, with a revenue CAGR of 39% until COVID-19 restrictions constrained growth in 2020 and 2021. With a large addressable market and a brand that has already built recognition in APAC, and is increasing penetration in the US, we believe that East Imperial is well placed to grow rapidly through its highly scalable business model. We see fair value for the shares at 4.6p, with scope for this to move higher as the strategy and key milestones are delivered.

- **Targeting the ultra-premium category** East Imperial has developed a premium line of mixers, focusing on high-quality ingredients and novel flavour profiles, crafted in collaboration with mixologists. The appeal of its product is borne out with consistent success at industry awards, winning eight awards and two best-in-class medals at the latest Tonic & Mixer Masters competition. The product's flavour and branding has also won a number of prestigious placements at notable establishments such as Soho House (LA), and Peninsula Hotels and Faena Hotels (US).
- **Highly scalable business model – execution is key** East Imperial's operations are based on a capital-light and scalable model, with bottling and distribution outsourced. The company has made good progress in 2022 in agreeing distribution partnerships, most notably in the US where it has signed with RNDC, the 2nd largest distributor in the market, as well as with a separate established distributor in China. Bottling is presently undertaken entirely within New Zealand. However, management is targeting 2Q23 to bring US bottling online, which is expected to bring material margin improvements. A full launch into the European market is planned during 2023.
- **Forecasts reflect growth opportunities and margin upside** With the company's growing reach from its distributor base, success in winning high-profile accounts and increasing brand recognition, we forecast progressive revenue growth – from £3.1m in 2022E towards the company's ambitious £50m stated revenue target over the next few years. Volumes should bring material economies of scale, with localised bottling in the US and Europe further benefiting margins and driving profitability by 2024.

Y/E Dec (£m)	2020A	2021A	2022E	2023E	2024E
Revenue	1.7	2.8	3.1	5.9	15.4
EBITDA	-0.9	-1.9	-3.0	-2.2	1.1
PBT	-1.0	-2.1	-3.0	-2.2	1.1
EPS (p)	-0.4	-0.8	-0.9	-0.6	0.3
P/E (x)	NA	NA	NA	NA	7.4
EV/EBITDA (x)	NA	NA	NA	NA	9.3
Dividend (p)	0.0	0.0	0.0	0.0	0.0
Net cash/(debt)	-0.2	0.1	-0.1	-2.1	-2.5

Source: Company accounts, WHIreland estimates

Headline financials

Income statement

Y/E Dec (£m)	2021A	2022E	2023E	2024E	2025E
Revenue	**2.8**	**3.1**	**5.9**	**15.4**	**23.1**
Growth (%)	*61.7*	*12.0*	*90.0*	*160.0*	*50.0*
Cost of sales	-2.2	-2.7	-4.4	-10.4	-15.0
Gross profit	**0.5**	**0.4**	**1.5**	**5.0**	**8.1**
Margin (%)	19.3	14.0	25.0	32.5	35.0
Administration costs	-2.4	-3.5	-3.7	-3.9	-4.5
As % of revenue	87.5	110.9	62.5	25.2	19.3
EBITDA	-1.9	-3.0	-2.2	1.1	3.6
Margin (%)	*-68.2*	*-96.9*	*-37.5*	*7.3*	*15.7*
Depreciation & Amortisation	0.0	0.0	0.0	0.0	0.0
Group operating profit	**-1.9**	**-3.0**	**-2.2**	**1.1**	**3.6**
Operating margin (%)	*-68.8*	*-97.5*	*-37.8*	*7.2*	*15.6*
Interest	-0.2	0.0	0.0	0.0	0.0
PBT (underlying)	**-2.1**	**-3.0**	**-2.2**	**1.1**	**3.6**
Exceptionals	-3.1	0.0	0.0	0.0	0.0
Share-based payments	-0.2	-0.2	-0.2	-0.2	-0.2
PBT (headline)	**-5.4**	**-3.3**	**-2.5**	**0.9**	**3.3**
Tax rate (%)	0.0	0.0	2.5	2.5	5.0
Underlying PAT	**-2.1**	**-3.0**	**-2.2**	**1.1**	**3.4**
Fully diluted shares in Issue	270.3	337.1	338.2	338.2	338.2
Underlying EPS FD (p)	**-0.8**	**-0.9**	**-0.6**	**0.3**	**1.0**
Growth (%)	*NA*	*NA*	*NA*	*NA*	*218.1%*
Dividend (p)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Cashflow

Y/E Dec (£m)	2021A	2022E	2023E	2024E	2025E
Profit before tax	-5.4	-3.3	-2.5	0.9	3.3
Depreciation & Amortisation	0.1	0.0	0.0	0.0	0.0
Working capital	-0.6	-0.5	0.4	-1.3	-0.2
Other	2.8	0.2	0.2	0.2	0.2
Operating cashflow	**-3.1**	**-3.5**	**-1.8**	**-0.2**	**3.4**
Net interest	0.0	0.0	0.0	0.0	0.0
Tax	0.0	0.0	0.1	0.0	-0.2
Gross free cashflow	**-3.1**	**-3.5**	**-1.7**	**-0.2**	**3.2**
Capex/Intangibles	0.0	-0.2	-0.2	-0.2	-0.2
In/outflow b/f	**-3.3**	**-3.7**	**-1.9**	**-0.4**	**3.0**
New financing	3.1	3.4	0.0	0.0	0.0
Net cashflow	**-0.3**	**-0.3**	**-1.9**	**-0.4**	**3.0**
Opening net cash	-0.2	0.1	-0.1	-2.1	-2.5
Net cashflow	-0.3	-0.3	-1.9	-0.4	3.0
Other movements	0.6	0.0	0.0	0.0	0.0
Net cash	**0.1**	**-0.1**	**-2.1**	**-2.5**	**0.6**

Investment case

Ultra-premium brand with a high-growth and scalable model

East Imperial is a high-quality brand within the premium mixer segment, with a strong track record of growth in its home market and the opportunity to expand into untapped markets in the US, Europe and Asia. The size of the premium segment is already considerable, and with many territories still in the early stages of the 'premiumisation' trend, the underlying opportunity could be even greater. At the same time, competitors have adopted volume growth strategies, including through off-trade value retailers, potentially damaging their premium brand positioning and leaving a niche for a truly premium product. East Imperial is well positioned to fulfil this demand, having built a strong brand with recognition in key markets within APAC, alongside iconic establishments across both Asia and, increasingly, the US. With a largely outsourced business model, East Imperial has the potential to scale rapidly with relatively limited additional staffing or capex requirements. Higher volumes should contribute to significantly higher economies of scale, driving increasing gross margins – further benefited by localised bottling capacity reducing ocean freight costs. While acknowledging the risks, including execution, with growing revenues and the potential for attractive operational gearing as the strategy is delivered, we see fair value for the shares at 4.6p, based on a 35% discount to the London listed non-alcoholic drinks peer group median of 1.8x year-3 EV/revenue.

Quality product positioned well for the continued trend towards 'premiumisation': East Imperial has a multi-award-winning range of premium mixers, based on traditional recipes using only the highest-quality raw ingredients. The company has been successful in winning customers in the highest-end hotels, bars and restaurants in APAC, the US, and Europe, with a value proposition based on quality and premium branding – high-profile customers include Soho House (LA), Faena Hotel (Miami), Peninsula Hotel Group (US), and Atlas Bar (voted Asia's best bar). With a quality product and association with premium establishments, we expect the brand to gain increasing recognition as the 'on-trend' mixer to stock in any quality venue.

A highly scalable business model: Production and bottling is outsourced to third parties, and has the potential to be scaled as demand grows. Delivery to both on and off-trade is fulfilled by distribution partners, with East Imperial typically only responsible for delivery of goods to the distributor's warehouses. With a scalable model and sizeable demand for premium mixers, there is the potential for East Imperial to more than meet its £50m revenue target in due course, provided that brand recognition and momentum continue to accelerate and execution of the overall strategy is achieved.

Key 'premium' competitors moving into distribution through value retailers: Key competitors in the 'premium' mixer space such as Fever-Tree and Q Drinks have, in recent years, pursued high-volume growth strategies, including extending their distribution into off-trade value retailers. However, this route to market has the potential to erode brand equity, making products less appealing in the 'premium' segment, particularly on-trade, high-end establishments. East Imperial is growing the off-trade channel at selected retailers but remains focused on being an 'ultra-premium' on-trade weighted brand.

Distribution partnerships underpin sales growth in key US and APAC markets: The company has secured distribution partnerships with key partners in the US and APAC, opening up access to these large territories. Distributor relationships represent a key

barrier to entry, with each of the three largest distributors in the US only stocking one mixer brand in the premium category.

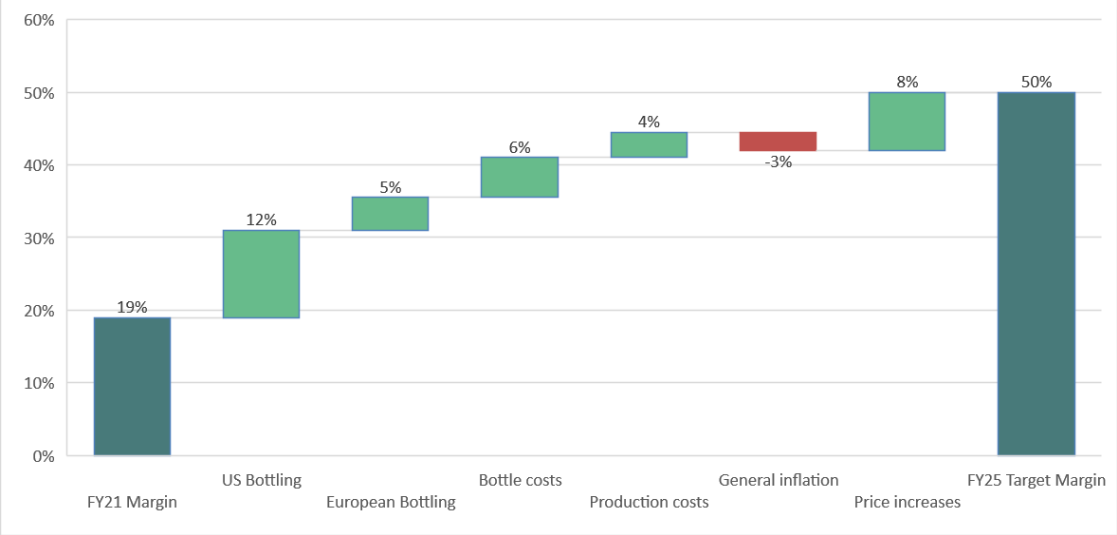
Economies of scale, localised bottling, and price optimisation – driving the gross margin: East Imperial's Board has a target of delivering a 50% gross margin by FY25E from the 19% reported in its latest financial year. The key drivers of this progression include:

i) A reduction in freight costs once localisation of bottling in the US (targeted Q223) and within Europe (potentially within FY23E) is secured. Freight costs currently make up 38% of COGS for US sales and are expected to fall to 26% once local bottling is operational.

ii) Economies of scale are expected to come through in bottle and packaging costs, as well as bottling production costs.

iii) Price increases are expected to be put through over the period, where appropriate.

Figure 1: Margin progression FY21-25E: Economies of scale and localised bottling drive gross margins



Source: East Imperial

Valuation

The four London-listed non-alcoholic drinks businesses trade on a median forecast Yr1 EV/revenue multiple of 2.0x, falling to just 1.9x and 1.8x, respectively, in Yr2 and Yr3, illustrating the perceived limited anticipated top-line growth profiles. While these companies are significantly larger and more established, East Imperial's growth rate is expected to be significantly greater given its stage of development and yet it is being valued at a similar 2.6x FY22E EV/revenue, 2.1x our implied 2H22E revenue run rate. However, our estimates show this falling to 1.7x EV/revenue in FY23E and 0.7x in FY24E, illustrating the market is yet to price in this growth, given perceived risks. As such, we would expect the business to grow into these multiples as the strategy is successfully executed and forecasts met.

While acknowledging the risks, including execution, with growing revenues and the potential for attractive operational gearing as the strategy is delivered, we see fair value for the shares at 4.6p, based on a 35% discount to the London listed non-alcoholic drinks peer group median of 1.8x year-3 EV/revenue.

Exploiting a gap in the ultra-premium category

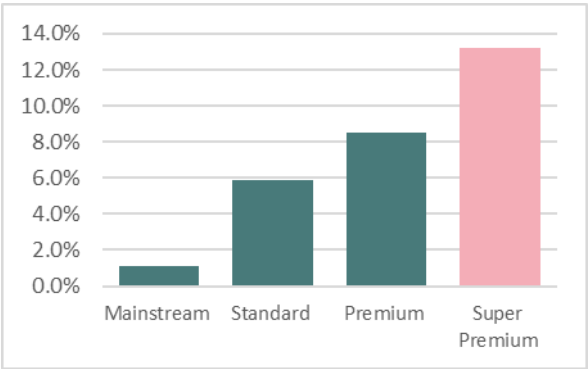
East Imperial was founded as a concept in 2012, with commercial sales of its first tonic water in its home market of New Zealand in 2013. With the increasing popularity of premium spirit brands, the founders began to develop mixers paired with this growing category. Since then, East Imperial has built up a comprehensive range of tonic waters and mixers targeted at the ultra-premium market, now consisting of 12 separate flavours and counting.

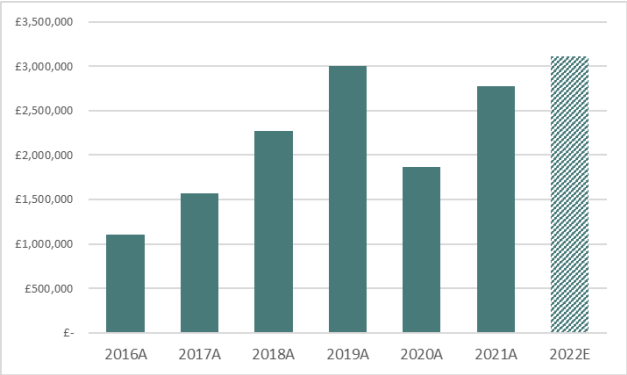
Utilising its experience in marketing and brand strategy, the founders, including current CEO Tony Burt, have built an authentic and premium brand through effective marketing and careful positioning at high-end, on-trade establishments and selective off-trade retailers. While other competing mixer brands have successfully targeted the premium segment over the past decade, uniquely among mixer producers, East Imperial's marketing emphasises the quality and provenance of its ingredients, creating beverages that are distinctive and differentiated in flavour from other premium tonics.

From its roots in New Zealand, the company's positioning in the fast-growing premium mixer segment and effective marketing strategy has seen it generate sales in its beachhead market in APAC, while making inroads into the US and, to a lesser extent, to date, the European market. The company's strategy is to expand geographically and gain further penetration in existing markets, principally through securing key distribution partnerships in its target geographical markets and gaining brand recognition with flagship customer relationships. The company is also developing its off-premise and direct-to-consumer channels, a strategy brought forward by COVID-19 disruptions to on-premise trading.

The company's operating model, as set out in more detail below, is focused on the development and marketing of its products. Bottling and logistics are outsourced, exploiting a healthy market of third-party providers, enabling the company to scale revenues rapidly without large capex requirements.

Figure 2: Growth in premium spirit market 2010-20 (CAGR %); East Imperial historical revenue





Source: IWSR retail sales value; East Imperial

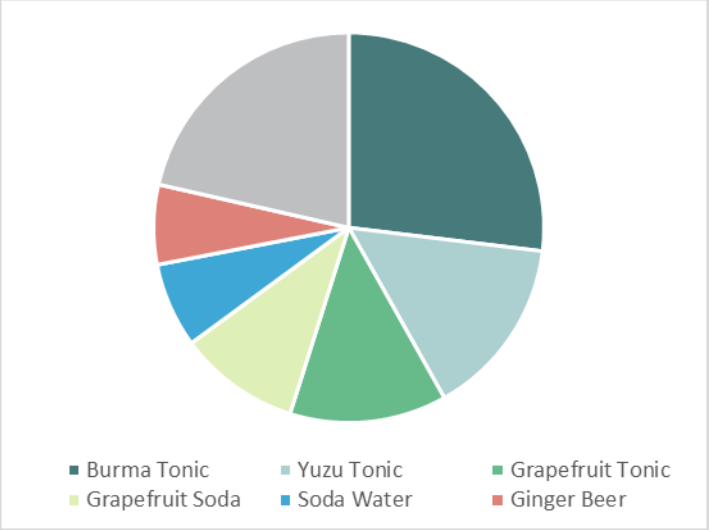
Brand based on heritage and quality

East Imperial's product range is based around a traditional and authentic approach to recipes and ingredients. Its first product, the Old World Tonic, was inspired by an original East African recipe from 1903, resulting in a product with naturally low sugar, high quinine content and low citric acid. The Old World Tonic was quickly joined by a Soda Water and

Ginger Beer, with additions of other key products added incrementally after careful development of ingredient sourcing and flavour profiles.

The company's focus for each beverage is to produce a distinctive product with novel, natural ingredients, as is notable in drinks like its Yuzu Lemonade. Ingredients are all natural and carefully sourced – the culmination of which is the company's all organic tonic water, which is intended to be released in 2Q23, representing the first fully certified premium organic tonic on the market.

Figure 3: East Imperial's comprehensive range of distinctive mixers; balanced product mix (APAC, FY21)



Source: WH Ireland Research; East Imperial

Equally important is the need to fulfil distributor requirements with a full range of mixers. The release of East Imperial's Grapefruit Soda was an essential step in the US market, where the mixer is very commonly paired with Tequila.

High-end contract wins secured and awards received provide product validation

While the marketing and positioning of the company's products has been a key ingredient to its growth, the flavour and appeal of its range are also well borne out. East Imperial's mixers have won numerous awards, including two best-in-category medals at The Global Spirit Masters, and eight awards at the 2022 Tonic & Mixer Masters competition.

Naturally, the company aims for its mixers to be mixed and, in collaboration with mixologists, has designed its products to pair well into popular drinks. The company's success in this regard is demonstrated by its selection at many of the most prestigious establishments, such as Peninsula Hotel (Beverly Hills), Faena Hotel (Miami), and Atlas Bar (Singapore). Management reports that many establishments have switched to East Imperial beverages from competing premium mixer brands, citing the products' premium higher-end positioning and flavour profiles as the main reasons for exclusively stocking East Imperial.

As such, we believe that East Imperial's products fulfil a gap in the market created by other premium mixers, expanding its own distribution into the value retailers in order to maintain volume growth.

Targeting a gap in the market

East Imperial's product positioning in terms of price and end customer is a key part of its differentiation as a brand, setting the company apart from other high-end producers who have, arguably, diluted their positioning as they have expanded into the mid-market. The core of East Imperial's customer base is made up of high-end hotels, restaurants and bars. Making up around 88% (as at FY21) of the sales mix, the luxury establishment market is a natural buyer for East Imperial's premium products and will continue to be a significant focus for the group going forward.

Despite making up a small proportion of the company's total sales mix currently, off-trade sales potentially offer a larger addressable market for premium mixers. For competitors, off-trade sales make up a much greater share – at Fever-Tree, for example, off-trade typically represents around half of sales. As a result, East Imperial has taken steps to develop direct-to-consumer ("DTC") digital channels and wholesale off-trade sales and envisage a ca.80:20 weighting towards the on-trade in the long term.

In the DTC channel, and with a greater emphasis placed on the route to market as a result of the closure of many on-trade premises during COVID-19, East Imperial launched its products on Amazon and Shopify e-commerce platforms in the US and APAC. E-commerce sales have reportedly achieved higher margins for the company than other channels, making DTC a lucrative area of focus going forward.

Figure 4: Luxury establishment partnerships: Little Beach House, Malibu and Amara at Paraiso, Miami

Source: East Imperial

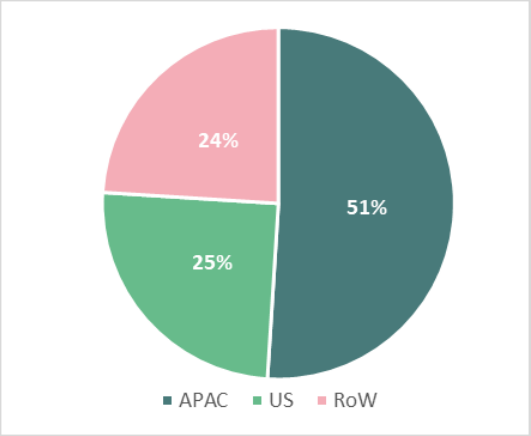
East Imperial's products are also stocked in selective retailers in New Zealand and the wider APAC region. Within this market, premium positioning remains a focus for the company in order to maintain its brand credentials. Key placements include Dan Murphy's in Australia (245 outlets) and Foodstuffs in NZ (1,000+ outlets).

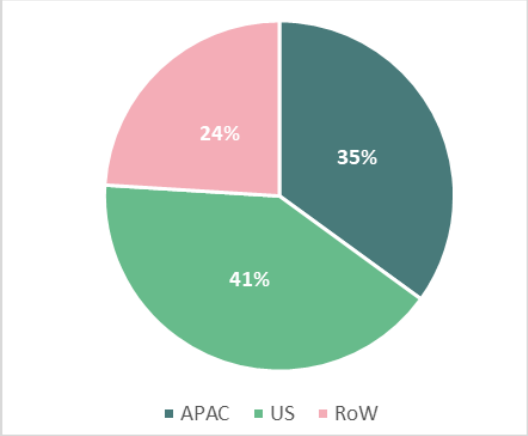
APAC recovering well post COVID-19, with significant potential in the US

Geographically, the brand continues to focus on exploiting its established base in APAC and increasing its presence in the US. Within APAC, East Imperial has a meaningful foothold, with existing competitors having limited established high brand recognition or penetration in the region. The company has local expertise and experience in the market, strengthened by the appointment of Horace Ngai to the Advisory Board (former executive within Pernod Ricard in Asia). By contrast, Fever-Tree generates less than 2% of its sales in Asia, and no other premium brand has a significant market share in the region.

Given the physical distance between its bottling base and Europe, East Imperial has naturally prioritised the US and APAC market. However, the size and maturity of the premium mixer market within Europe mean the region will nonetheless be an important strategic focus going forwards. In the long term, the Board's target of almost a quarter of sales coming from outside APAC and US by 2025, with localised bottling currently being actively considered.

Figure 5: East Imperial's current (lhs) and long-term target (rhs) geographical mix





Source: WH Ireland Research; East Imperial

Operations are capital light and scalable

East Imperial's business model is, broadly, to develop and market its range of mixers and to outsource capital-intensive bottling and distribution processes. In common with many producers in the beverage industry, this model provides flexibility and scalability to operations, and sourcing bottling capacity is typically not a challenge.

At present, all of East Imperial's bottling is carried out at one bottler in New Zealand and product is distributed to multiple distribution points in key markets. Economies of scale are key within these agreements, with the company striking a balance between volume at a small number of bottlers and proximity to end markets with a more distributed footprint. The majority of stock is then transferred directly to a range of distributors, with East Imperial arranging shipping with third-party carriers.

The company is in active discussions to secure key bottling agreements in the US and the UK to support North American and European expansion. As would be expected, management expects a significant margin improvement from the logistics cost savings resulting from localised bottling footprints.

Distribution partnerships underpin growth

A factor in the company's future potential growth is the agreement of key distribution agreements in its target markets. In this regard, the company has made substantial progress since IPO.

Distributors are an essential part of the beverage supply chain, connecting a fragmented collection of establishments with drinks producers, providing fulfilment and an element of marketing. Distributors tend to be large, with broad coverage within a target market, allowing beverage producers to access thousands of end customers through one channel. Distribution deals, therefore, are a necessary component to securing sales to establishments.

Commonly, beverage producers offer exclusivity to one chosen distributor within a market and choosing and agreeing distribution deals is a challenging component of their business models. Large distributors attract a significant amount of interest from producers, meaning brands need to demonstrate they will generate strong demand from the end customer to secure a deal. For this reason, it is also unlikely that a distributor will stock more than one or two brands for each type of product (except within especially popular segments).

Within the US, the market is made up of three major distributors, between them controlling a significant share of the market. In January 2022, East Imperial secured an exclusive agreement with RNDC, the second largest in the country. Each of the three major distributors now has one premium mixer brand (the other brands being Fever-Tree and Q Drinks), putting East Imperial in a strong position to significantly expand in the US market, strongly underpinning the company's growth in the US market and building a significant barrier to entry for a fourth mixer brand.

Table 1: Momentum in distributor deal signing: major recent distributor agreements

Date	Distributor	Scope
August 2022	WHI	Mainland China and Macau
January 2022	RNDC	11 US States, under phase 1
November 2021	SUTL	Singapore
2H21	Leung Yick	Hong Kong

Source: East Imperial

Sales teams drive on-premise demand

If distribution provides a push to product adoption, the company has also invested in developing pull-through demand through local sales teams. While distribution agreements are key to ensuring availability of a product, key accounts, in particular, are managed by the company sales team, with hotels, large hospitality groups and retailers being important targets for sales efforts.

Since IPO, East Imperial has invested in expanding its sales team, adding headcount in the company's key markets of US and APAC. In the US, in particular, where the company is poised to leverage widespread distribution capabilities and localised bottling capacity, a number of additions have strengthened the sales force, including Head of North America Sales Mark Zonghetti (formerly, US & Canada Sales Director at Armand de Brignac, an LVMH-owned brand).

In general, on-trade, 'flagship' partnerships with high-profile premises are an important part of the company's brand strategy. Association with well-respected establishments drives recognition and demand at smaller establishments and within the off-trade market. In this regard, key account wins such as Atlas Bar, voted the best bar in Asia (Timeout), and Faena Hotels and Peninsula Hotels in the US, demonstrate East Imperial's significant progress to date.

Strategy focused on geographical expansion and product releases

Going forward, the company's strategic priorities are to drive growth through:

- Strengthening distributor agreements, extending existing agreements (the US agreement with RNDC can be further expanded from 11 to 38 states), and building into new geographies.
- Developing new products: The recent release of a "slimline" tonic water and the imminent release of the brand's organic tonic water fill important gaps in the company's range, opening up further sales opportunities.
- Pull-through demand with sales teams: As noted above, sales teams are being expanded in key regions to win major, flagship contracts.
- Reinforcing supply chain: Localised bottling and more diverse suppliers should help eliminate supply disruption.

Operationally, the main objectives are to facilitate further growth and, crucially, to increase gross margins in product sales. **Local bottling** is seen as a key driver of higher margins, with US bottling expected to come on stream in 1H23. As discussed below, bypassing expensive logistics costs is expected to have a significant margin benefit.

Figure 6: Organic and light tonic waters – significant new product launches

Source: East Imperial

Effervescent market for premium mixers

Fever-Tree's arrival in the market in 2008 demonstrated a nascent demand for a mixer that was higher quality and more exclusive than the existing selection of lower price point incumbents, such as Schweppes. Mirroring trends in spirits, craft beer and many other markets, consumers have increasingly looked to 'trade up' to higher-end 'premium' products, while general increases in discretionary income have allowed them to do so.

As demand has rapidly increased over the past 14 years, the UK market is now relatively mature – with sales of premium mixers now making up 40% of the total off-trade mixer market and 50% of the on-trade by value. Elsewhere, however, the premium market is much less developed. Fever-Tree still generates around a half of its revenues from the UK, with an estimated 45% market share of the mixer market, while its share remains low in other regions – 14% in Europe, only 5% in the US, and very little footprint in Asia (Source: Fever-Tree: FY21 Investor Presentation). There remains, therefore, considerable scope for any number of premium mixer producers to capture a share of the untapped opportunity in the rest of the world, as the trend seen within the UK is replicated elsewhere.

Sizing the market

Estimating the overall size of the existing market for mixers, specifically within the premium segment, it is clear that the addressable market for East Imperial's product is sizeable.

Fever-Tree's estimate for the off-trade, based on underlying market research from Nielsen and UK IRI, sizes the market in its top 12 countries at £2.6bn per annum. Assuming that the on-trade market makes up half of the total market would imply a £5.2bn market in these countries alone.

Table 2: Size of the off-trade mixer market

Market	UK	US	Europe	Australia	Canada
Retail mixer market size (£ p.a.)	330m	1,445m	655m	86m	168m
Fever-Tree value share (%)	45%	5%	14%	14%	6%

Source: Fever-Tree, Nielsen, IRI

For East Imperial, additional markets within Asia offer a further channel for mixer sales. While these markets are less well developed, the sheer size means that Asian markets, most notably within China, should support revenues many times greater than their current level. IWSR reports that China is now the world's largest premium wine and spirits market, ahead of the US, although much of its consumption is currently weighted towards traditional 'baigiu', the broad category of Chinese white spirits.

Throughout Asia, the adoption of spirits is accelerating quickly, driven by both cultural trends and an increasing middle class. In FY21, Diageo reported a 16% organic growth in APAC revenues, with 17% growth in China alone. Pernod Ricard, meanwhile, have announced the opening of its first China-based distillery to exploit demand in the region. An 'internationalisation' of tastes should also see more bars and establishments adopt mixed drinks and drive premium mixer adoption.

Exclusivity is East Imperial's key differentiator

In the on-trade market, towards which East Imperial is heavily weighted, mixer choice is based on a few key factors, being (in varying levels of importance):

- **Quality:** Mixers must be of an adequate quality and flavour.
- **Brand:** Establishments will seek to stock a mixer in keeping with their brand. Exclusivity of a product may be important, with buyers attempting to stand out with the perceived quality of their selection.
- **Price:** Depending on the venue, price may or may not be a determining factor. However, we note that a tonic makes up a small proportion of the cost of a drink, and 'trading up' does not strongly influence margins.

In terms of branding, East Imperial's positioning is firmly at the ultra-premium end compared with key competitors such as Fever-Tree and Q-Drinks, typically commanding prices 10%-15% higher than competitors. With a high proportion of on-trade revenues and a number of key account wins at high-end establishments, the brand has built up a reputation within its core markets as exclusive and the drink of choice for the most discerning consumer. To maintain this position, the company has employed disciplined expansion, preserving exclusivity with careful choice of off-trade channels.

At the same time, Fever-Tree and other premium producers have successfully pursued expansion through both on-trade and off-trade, including value-focused retailers, with potential implications for brand perception.

While quality is subjective, East Imperial's award success demonstrates its credentials on this score – offering a product that is at least as desirable as its competitors on taste.

Cost of living and recession risk – impact limited in premium segment

With high inflation impacting cost of living in a number of major economies, there is inevitably a risk that demand for premium products will be affected by an increasing desire for consumers to economise on discretionary spending. While this is possible, in our view, it does not present a significant risk to East Imperial's strategy on the basis that:

i) East Imperial's growth is mainly driven by **increasing penetration**, not by growth in the market. With current market share at well below 1% of the overall premium mixer market, we believe that a decrease in the overall market should not significantly affect the company's sales.

ii) Premium mixer consumers are, typically, **high income** and less likely to be affected by cost-of-living squeezes. In the UK, the average premium mixer consumer has a household income of over £46k (see table below).

iii) East Imperial's market is less focused within the most severely affected economies, being underweight in Europe, where energy price rises have been most strongly felt.

iv) The on-trade market tends to be more **price elastic**, and tonic water cost makes up a very small proportion of the total drink cost.

Table 3: The average premium mixer consumer in the UK

Household income	£46,075
Age group	35-54 (45% of total market)
Gender	66% Female

Source: Fentimans

Valuation

While still relatively small in scale, East Imperial is putting in place a platform from which to scale significantly. Its potential value is underpinned by the sizeable opportunity in the super-premium mixer market available to it. With the strength of its brand and quality of its product range, we believe the business is very well placed among its competitors to exploit the underlying demand in the market. In addition to the large potential upside in terms of volumes and market share growth, East Imperial's position at the premium end of the market, with pricing considerably higher than mainstream soft drinks manufacturers, means the potential margin opportunity could also be significant once economies of scale are achieved. While acknowledging the risks, including execution, with growing revenues and the potential for attractive operational gearing as the strategy is delivered, we see fair value for the shares at 4.6p, based on a 35% discount to the London listed non-alcoholic drinks peer group median of 1.8x year-3 EV/revenue.

Peer group comparators

While very mindful of the execution risk, due to the anticipated high growth trajectory, near-term valuation metrics do no fully capture the value of the opportunity available to East Imperial from its current platform. Comparing the business against a listed UK peer group of soft drinks manufacturers, these companies are larger in scale but more mature and slower growing. Two companies within our UK peer group, A.G. Barr and Britvic, have showed almost no growth in revenues over the past seven years.

On the other hand, comparing East Imperial to a range of premium beverage brands, including Pernod Ricard and Diageo, is equally problematic given their scale and the established nature of their underlying brands and position.

The four London-listed non-alcoholic drinks businesses trade on a median forecast Yr1 EV/revenue multiple of 2.0x, falling to just 1.9x and 1.8x in Yr2 and Yr3, respectively, illustrating their perceived limited anticipated top-line growth profiles. While these companies are significantly larger and more established, East Imperial's growth rate is expected to be significantly greater given its stage of development and yet it is being valued at a similar 2.6x FY22E EV/revenue, 2.1x our implied 2H22 revenue run rate. However, our estimates show this falling to 1.7x EV/revenue in FY23E and 0.7x in FY24E, illustrating the market is yet to price in this growth, given perceived risks. As such, we would expect the business to grow into these multiples as the strategy is successfully executed and forecasts met.

For illustration, a wider group of international premium beverage producers, with an FY23E EV/revenue of 4.9x, implies a fair value of £28.9m, or £66m on the basis of our FY24E revenue forecast on a 4.3x multiple, both highlighting the significant potential upside on delivery of the forecasts and strategy.

We see fair value for the shares at 4.6p, based on a 35% discount to the London listed non-alcoholic drinks peer group median of 1.8x year-3 EV/revenue.

Table 4: UK listed peer group

	Mkt Cap	EV/Revenue			EV/EBITDA		
	(£m)	FY1	FY2	FY3	FY1	FY2	FY3
Fever-Tree Drinks PLC	1,152	2.9x	2.6x	2.4x	26.8x	22.2x	17.2x
Britvic plc	1,956	1.6x	1.5x	1.5x	9.6x	9.2x	8.6x
A.G. BARR p.l.c.	497	1.5x	1.4x	1.3x	8.0x	7.7x	7.3x
Nichols plc	419	2.3x	2.2x	2.1x	12.5x	NM	11.2x
Median		**2.0x**	**1.9x**	**1.8x**	**11.1x**	**9.2x**	**9.9x**
Average		2.1x	1.9x	1.8x	14.2x	13.0x	11.1x
East Imperial PLC	**8**	**2.6x**	**1.7x**	**0.7x**	**NA**	**NA**	**9.3x**

Source: WH Ireland Research, Capital IQ

While there is a material element of risk that the company may not meet its targeted revenue growth, we also note:

- the company currently trades on an EV/revenue for FY24E of just 0.7x, a 67% discount to our UK listed peer group; and
- an EV/EBITDA of only 9.3x in FY24E, demonstrating the significant operational gearing effect as volume comes through in later years.

Table 5: International beverage producers

	Mkt Cap	EV/Revenue			EV/EBITDA		
Company Name	(£m)	FY1	FY2	FY3	FY1	FY2	FY3
The Coca-Cola Company	257,265	6.7x	6.6x	6.2x	21.3x	20.5x	19.2x
PepsiCo, Inc.	251,205	3.3x	3.2x	3.1x	18.8x	17.6x	16.3x
Monster Beverage Corporation	51,600	7.7x	6.9x	6.2x	29.2x	22.9x	20.1x
Pernod Ricard SA	46,996	4.6x	NM	4.1x	14.1x	NM	12.4x
Rémy Cointreau SA	8,076	5.3x	4.9x	4.6x	17.2x	15.3x	13.9x
Heineken N.V.	**48,223**	**2.3x**	**2.1x**	2.0x	**10.2x**	**9.4x**	8.6x
Davide Campari-Milano N.V.	10,472	4.3x	4.0x	3.7x	17.8x	15.8x	14.4x
Diageo plc	82,910	5.7x	5.4x	5.1x	16.1x	14.9x	14.0x
Median		**4.9x**	**4.9x**	**4.3x**	**17.5x**	**15.8x**	**14.2x**
Average		5.0x	4.7x	4.4x	18.1x	16.6x	14.9x

Source: WH Ireland Research, Capital IQ

DCF

As a sense check, we also present our DCF model for the company, based on our three-year estimates to FY24E, illustrative estimates for FY25E, which are conservatively much lower than the company's stated targets, and a 5% growth rate thereafter. Our DCF-based valuation implies a fair value of 5.2p. We have assumed a WACC of 12.5% and terminal growth rate of 3.0%.

Table 6: East Imperial 10-year DCF model

10-year DCF Model	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	Perpetuity
PBT	-3.3	-2.5	0.9	3.3	4.7	4.9	5.2	5.4	5.7	6.0	
Depreciation & Amortisation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Working Capital	-0.5	0.4	-1.3	-0.2	-0.3	-0.3	-0.4	-0.4	-0.4	-0.4	
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Operating Cashflow	**-3.7**	**-2.0**	**-0.4**	**3.1**	**4.4**	**4.6**	**4.8**	**5.1**	**5.3**	**5.6**	
Cash Tax	0.0	0.1	0.0	-0.2	-1.1	-1.2	-1.2	-1.3	-1.3	-1.4	
Capex/Other	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3	
Net Cashflow	**-3.9**	**-2.1**	**-0.6**	**2.8**	**3.1**	**3.2**	**3.4**	**3.6**	**3.7**	**3.9**	**41.4**
Year of cashflow	1	2	3	4	5	6	7	8	9	10	
Discount Factor (WACC)	1.13	1.27	1.42	1.60	1.80	2.03	2.28	2.57	2.89	3.25	3.25
PV of netcashflow	-3.5	-1.7	-0.4	1.8	1.7	1.6	1.5	1.4	1.3	1.2	12.7
Present Value	17.6										
Net Cash	-0.2										
Equity Value	17.5										
Shares in issue	338.2										
Value Per share (p)	**5.2**										
Discount Rate	**12.5%**										
Terminal Growth Rate	**3.0%**										

Source: WH Ireland Research

M&A

Further supporting our valuation, we note the healthy M&A market in the premium beverage sector. In the spirit market, consolidators have been extremely active in the private market, including deals such as Diageo's acquisition of Aviation Gin in 2020 for up to $610m. In the premium mixer market, we note Coca-Cola's acquisition of Greek/UK-based tonic water producer 'Three Cents' for consideration of €45m – **implying an EV/revenue of ca.6.96x, based on FY19 revenues** (last uninterrupted year of trading pre COVID-19).

Financials

Scalable business model with margins tailwinds

East Imperial's financial model is, in essence, to develop and market its range of beverages and to outsource bottling and distribution to third parties. This flexible operating model means the business is highly scalable. Provided the company secures a wide distribution network through its distributor partnerships and generates demand in the underlying customer base, the company has the central capabilities to scale its revenues rapidly. The level of sales seen by competitors such as Fever-Tree demonstrates the considerable demand for premium tonics in traditional markets, subject to successful execution, while East Imperial's foothold in Asia presents a sizeable additional opportunity.

At the cost of sales level, volume is the key driver to margin upside, with the main components of COGS all benefiting from steep economies of scale. The company's plan to introduce localised production is expected to further benefit margins against high ocean freight prices. While gross margins at competing producers have been squeezed over the past 24 months (see discussion below), we believe the idiosyncratic factors affecting East Imperial should outweigh these inflationary headwinds.

Overheads are limited to fixed head office costs and a concentrated sales team managing "marquee" accounts – as a result, the model benefits from rapid operational gearing as volume of sales increases.

The business is asset light, with no significant capex requirements other than minimal office and tooling costs. The balance sheet is supported by the company's January 2022 fundraise, and, as volume increases into FY23E, we expect the company to be moving towards a breakeven position.

Growth slowed by COVID-19 lockdowns but momentum is building again

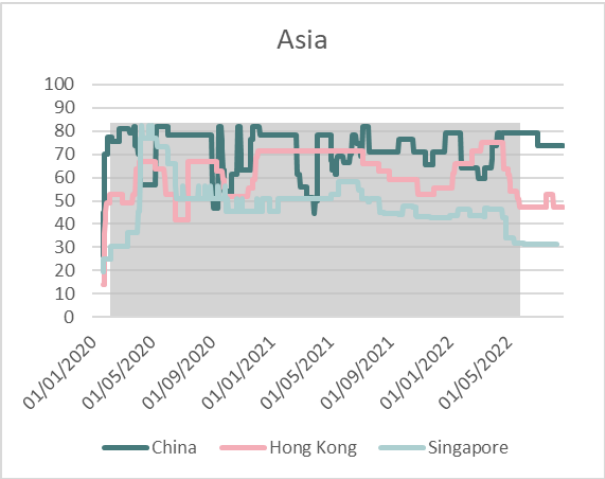
Trading up to FY20 has, overall, seen East Imperial increase its sales at an impressive rate, demonstrating both the flexibility of its model and the appeal of its brand. Revenues expanded at a 39% CAGR between 2016 and 2019, proving success in multiple markets in APAC and the US.

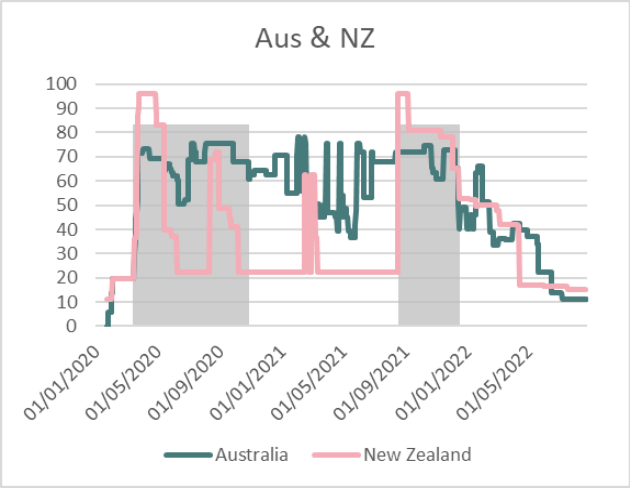
However, with the company's heavy on-trade weighting, the introduction of COVID-19-induced restrictions on bars, restaurants and hotels had a significant negative impact on the group's trading. Full-year revenues in FY20 were down 41% on the prior year, before rebounding 62% to just below pre-COVID levels in FY21.

COVID-19 has continued to affect sales into FY22. While restrictions have largely been lifted in Europe and the US and the on-trade market is making a strong return, Asian restrictions have remained tight and the APAC market is only just now opening up. China, in particular, continues to enforce local restrictions and heavy barriers to international movement, meaning throughout APAC the hotel and high-end market has been severely affected by the lack of international business and tourist travel, even where local restrictions are relatively weak. The Omicron variant similarly brought about restrictions in NZ and Australia in the traditionally strong southern hemisphere summer period.

However, as reflected in the company's positive 1H22 results, the recent lifting of lockdowns in key Asian territories has had a strong effect – New Zealand and Singapore have now returned to pre-COVID levels of trading. With the APAC market continuing to ease restrictions, we expect the group's momentum to rebuild into 2H22 and FY23.

Figure 7: Lockdowns have continued to impact in APAC – Oxford Stringency Index (periods of stringent lockdown shaded)





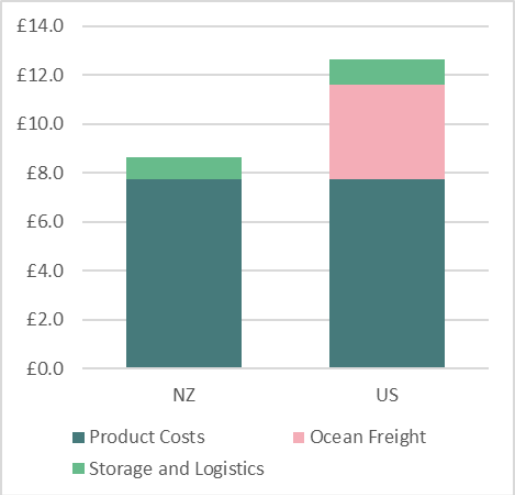
Source: WH Ireland Research, Oxford University

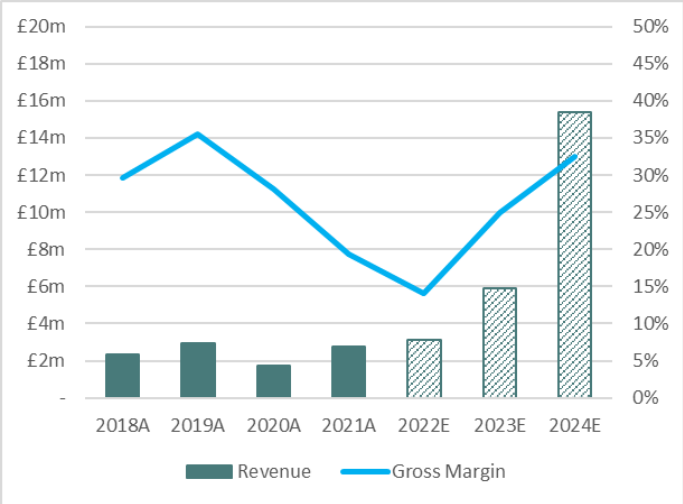
Gross margins hit by inflationary pressures but volume upside remains

The gross margin East Imperial is able to achieve on sales is a key area of sensitivity within our forecasts. The main components of cost of goods (excluding shipping and warehousing) are bottles (ca.23% of COGS), bottling fees (28%), and labelling, with the remainder being made of up of the actual liquid, closures and packaging. Shipping costs are a key variable – within New Zealand, where product is in close proximity to the bottling plant, storage and logistics may only be 10% of COGS, whereas, **in the US, ocean freight means logistics may make up 38% of COGS**.

Up to this point, the company has not adjusted US pricing to compensate for higher COGS with an increased selling price in the US, inevitably reducing demand. The group has absorbed the remainder of additional costs, resulting in materially lower gross margins for US sales. The effect of this is that, while margins are in the region of 34% in NZ, margins are typically 21% in the US. Bringing on bottling capacity within the US is therefore expected to bring significant margin improvements on US sales, as well as adding operational capacity.

Figure 8: Shipping to US brings significant cost increases: COGS (lhs); gross margin expectations (rhs)





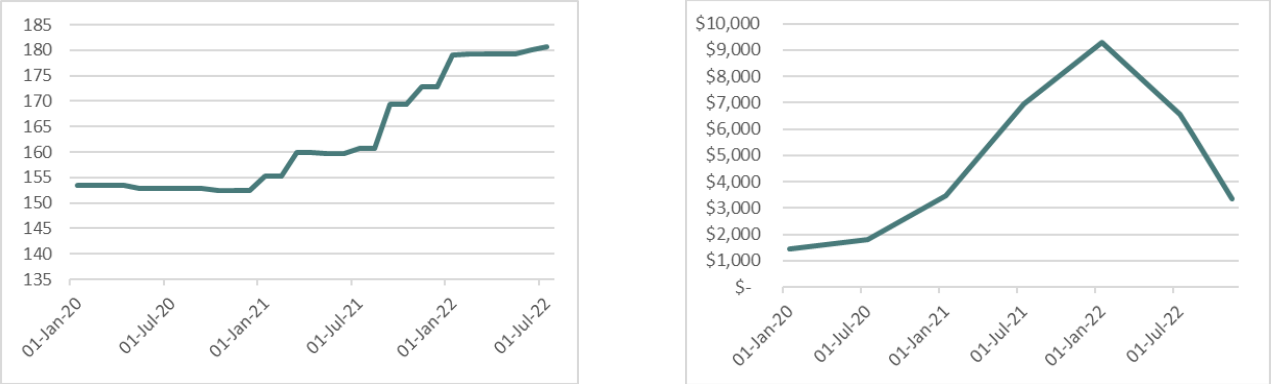
Source: WH Ireland Research, East Imperial

The company is also in early stages of discussion to agree local bottling capacity in the UK, providing a local footprint within Europe and greatly reducing the cost of doing business within this market.

A second key driver of margins is volume, which affects most items within COGS. Unit cost of bottles and bottling falls as volume increases at the company's bottling partners. While this effect is difficult to quantify, we expect a progressive impact from expanding volumes throughout the period of our forecasts, rising from 19% in 2021 to 35% in 2025.

Despite benefits from localised bottling and volume expansion, East Imperial is nonetheless exposed to a range of inflationary pressures within its supply chain. Both the company and its competitors have seen a marked increase in a number of components, driven by broad increases in raw material, labour, and energy costs. Glass production, which is particularly energy intensive, has seen an almost 20% price increase since January 2020.

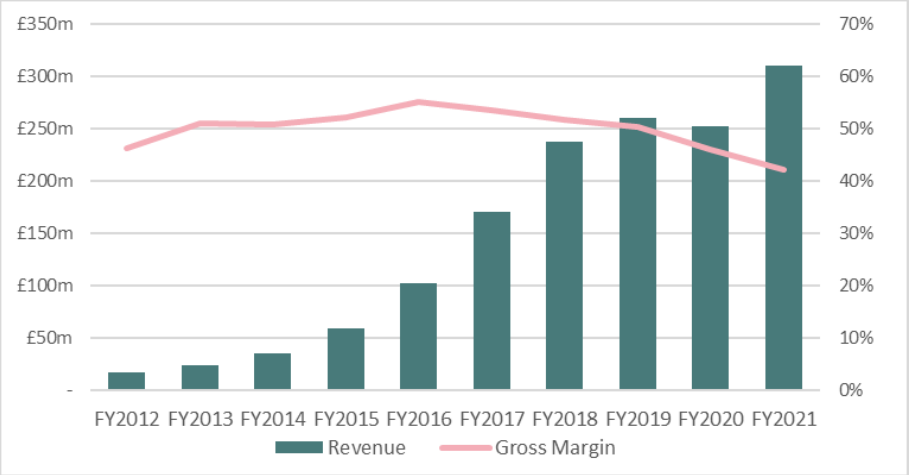
Figure 9: Gross margin pressures: Glass bottle costs (lhs) have risen, freight costs (rhs) falling dramatically



Source: Federal Reserve Economic Data

Fever-Tree has seen a notable decrease in gross margins since 2020 driven by an increase in product (+15% vs. FY19) and logistics costs (+50% vs. 2019), falling from 50.5% in 2019 to 42.1% in 2021 – consensus forecasts point to a further decrease to 33.7% for FY22. However, we note margins remain significantly higher than East Imperial's, demonstrating the upside potential as the company's volume and operations scale.

Figure 10: Fever-Tree gross margins against revenue – volume benefits before inflationary headwinds



Source: Fever-Tree

Detailed forecasts

Revenue

Our revenue forecasts are premised on the volume of 24 bottle cases sold. With the company's significantly increased network of distributors, particularly within the key US and Chinese markets where agreements were recently announced with RNDC (January 2022) and WHI (August 2022), we have forecast an increase in volume into 2H22 and into FY23, taking a cautious stance in FY23 as these new territories bed in. Further benefits should be realised from the lifting of lockdowns in key Asian markets such as Singapore. Given the significant impact from continued lockdowns in APAC in 1H22, offset by a return to strong trading in 2H, we forecast total volumes increasing a modest 12% over FY21 to 230k cases (implying EISB achieves a doubling in revenue from 1H to 2H). Based on a full year of trading within the company's key markets and further brand recognition and momentum, we assume a further increase to 438k cases in FY23, and progressive increases thereafter to 1,706k in FY25.

We have conservatively assumed that price per case remains static as the company continues to pursue a growth strategy, although management expects that some price increases could be tolerated in future.

Table 7: Revenue assumptions FY19A-FY25E

	2019A	2020A	2021A	2022E	2023E	2024E	2025E
Cases sold	209,784	123,361	205,593	230,264	437,502	1,137,505	1,706,257
Price per case (£)	13.9	13.9	13.5	13.5	13.5	13.5	13.5
Revenue (£m)	2.9	1.7	2.8	3.1	5.9	15.4	23.1
% increase		-41%	62%	12%	90%	160%	50%

Source: Company accounts, WH Ireland estimates

Gross margin

As discussed above, we have assumed a progressive increase in gross margins from FY21, driven both by an increase in economies of scale as volumes increase and by a benefit from localised production. While inflationary pressures are likely to remain in the medium term, there is evidence that certain costs are normalising to an extent, with freight indexes starting to fall dramatically from their 2021 peak. In FY22, we assume gross margin will decrease to 14.5% – driven by one-off charges relating to a stock write off and the effect of old stock (with a high logistics cost base) being sold in the period. The underlying gross margin for FY22, excluding a £109k stock write off, is assumed to be ca. 19%. Following a move to localised bottling, and a normalisation of logistics costs, we assume a gradual increase in margin to 25% in FY23E, 32.5% in FY24E and 35% by FY25E.

Table 8: Gross margin assumptions FY19A-FY25E

	2019A	2020A	2021A	2022E	2023E	2024E	2025E
Gross margin	35.5%	28.1%	19.3%	14.5%	25.0%	32.5%	35.0%

Source: Company accounts, WH Ireland estimates

Administrative costs

Overheads are generally fixed, relating to head office/management functions, sales teams and plc costs. Given the company's largely outsourced operating model, we have assumed that no significant increase in management personnel is required to achieve our forecast level of sales. Marketing and sales teams have seen strategic increases in headcount in FY22; however, we do not expect a significant further increase will be required going forward – sales teams are only required for interaction with very large accounts and are now broadly sufficient to service the group's target markets.

We forecast FY22 to increase by 42% to £3.5m, primarily driven by one-off costs in the period. Taking into account a modest increase in sales headcount over FY2022/23, we assume an increase to £3.7m in FY2023, and increases £3.9m and £4.5m in FY2024 and FY2025.

Finance costs and tax

The group has a small overdraft used occasionally for working capital purposes, giving rise to a negligible interest expense. Given the group's accumulated tax losses, we have assumed a low rate of tax going forward where these cannot be fully utilised, rising from 0% in FY22, to 2.5% in FY23-24 and 5% in FY25.

Working capital

The group's inventory value increased significantly in FY21, primarily driven by the decision to build stock to mitigate the risk of supply chain disruptions and a greater-than-expected impact of COVID-19 lockdowns on sales. With localised bottling in the US and a normalisation in stock, we have assumed a shorter inventory turnover going forward, with inventory as a percentage of sales falling gradually from 82% to 42% by FY25.

Receivables are assumed to fall gradually, as the level approaches the company's agreed 30-day payment terms with distributors. Payables are conservatively assumed to fall as a percentage of revenue over time, in line with receivables.

Capex

The business is capital light, with no significant capex or long-term leasing requirements expected. A small amount of capex is required to purchase bottling tooling, which is used at a third-party bottler. We have assumed this cost will be £150k p.a.

The Board

Board members

Anthony Burt – Chief Executive Office
Mr Burt has a strong brand building background. After leaving the University of Auckland, Mr Burt has spent time working in Japan, the US, and more than 15 years in the UK, where he worked in two leading London-based advertising and branding agencies. He then returned with his young family to New Zealand in 2009 and was appointed chief executive of full-service agency M&C Saatchi. Mr Burt created the East Imperial story and brand in 2011 and co-founded East Imperial in 2013 in New Zealand. He has been chief executive officer of East Imperial since its formation.

Andrew Robertson – Finance Director
Mr Robertson joined East Imperial in May 2018. Mr Robertson is a graduate of Waikato University where he studied a Bachelor of Management Studies. He has held a variety of finance roles in a variety of industries, including Air New Zealand, Fletcher Paper and Flight Centre. More recently, Mr Robertson has specialised in growth companies and, before joining East Imperial, he was chief financial officer of a New Zealand-based technology start-up company.

Alistair Kenneth McGeorge – Non-Executive Chairman
Mr McGeorge has a breadth of experience in both public and private consumer facing businesses, including New Look Group, Matalan, BIGW Limited and 11 years at Littlewoods/Shop Direct. He has played a leading role in turning around, managing and growing successful businesses, through ongoing change and developing new routes to market.

Toby Hayward – Non-Executive Director
Mr Hayward qualified as a Chartered Accountant with Touche Ross & Co in 1984 and subsequently held a number of senior equity capital market positions in London. Mr Hayward was formerly Managing Director and Head of Corporate Broking at Jefferies International Limited, prior to which he was Head of Oil and Gas Equity Capital Markets at Canaccord Adams. He has also previously held the positions of Chairman and Non-Executive Director at Severfield plc and Non-Executive Director and Interim CEO at Afren plc.

Dr Olufunke Abimbola M.B.E. – Non-Executive Director
Dr Abimbola graduated with a law degree from Newcastle University in 1994, qualifying as a solicitor in England and Wales in 2000. She started her career at Wembley PLC, previously a fully listed company within the entertainment sector, and practised as a corporate/transactional lawyer for 12 years with various law firms before joining the global pharmaceutical industry in 2012. She has since held several senior leadership positions with Roche Pharmaceuticals and Cycle Pharmaceuticals, including serving as General Counsel, Compliance Officer, Data Protection Officer and Head of Financial Compliance. The Financial Times has listed her as being one of the top 15 ethnic minority leaders globally and she is also a notable alumna of her alma mater, Newcastle University. In 2017, she was awarded an M.B.E. in the Queen's birthday honours list for services to diversity and young people. She was subsequently appointed as an honorary Doctor of Laws by the University of Hertfordshire in 2019 for contributions to social and corporate diversity.

Colin Glen Henry – Non-Executive Director
Colin has over 20 years' experience in retail companies having previously held senior roles at Marks & Spencer PLC, Polo Ralph Lauren Inc and Nike Inc/Umbro Inc as well as

other major brands such as Jaeger Ltd, Matalan Group, New Look Group and BIGW. His experience of driving results is in both luxury and mass markets, across buying, brand development, marketing, digital and supply chain.

Risks

Execution risk
While we believe that East Imperial is laying the foundations and building a strong platform from which it can scale rapidly, as with any business at this stage of its growth trajectory, execution risk in delivering the strategy will remain.

Financing risk
We are forecasting the group moving into a net debt position in the current growth phase, which we believe could be funded through invoice discount, equity or debt, or a combination of these, during our forecast time horizon before becoming cash generative from 2025.

Input costs could rise further
With energy costs continuing to rise, there is a risk that gross margins could face further pressure, mainly from increases in bottles, bottling costs and logistics. Glass costs and logistics have already seen a marked increase, but it is uncertain whether these trends have further room to run. A decline in margins would decrease the company's runway and could be unsustainable in the long term. However, the company does have the ability to put up prices, particularly since competitors should be pressured to do the same. Overall, we would expect a number of inflationary pressures to be reversible, and face some normalisation.

Competition risk
There is a risk that East Imperial could face additional competition from other brands, particularly should a well-capitalised new entrant aggressively price product and fund marketing efforts. While this is conceivable, the company does maintain barriers to entry and any new entrant would need to commit a significant amount of investment to be competitive in the market.

Prolonged COVID-19 disruptions
While COVID-19 lockdowns have lifted in the US and Europe, some countries continue to pursue "zero-COVID" policies, reducing international travel and gatherings within a country. This does present a risk, should lockdowns affect significant portions of the company's market; however, the increase in vaccine rates and decline in the market as a whole mean this is unlikely for a significant number of markets.

Market risk
There is a risk that the market for premium spirits and mixers reverses, potentially brought about by economic downturn and a decrease in discretionary spending. While the future direction of the market is uncertain, there is little evidence of a slowdown thus far and many cost-of-living pressures may not be felt within East Imperial's high-end customer base. In our view, a movement in the overall market would not be felt as acutely by East Imperial, given that its market share is relatively small at present.

Supply risk
There is a risk that the company may not be able to source materials for the production of its beverages or bottling capacity in the future, disrupting production of its range. While this is a possibility, the market for bottling remains competitive and management believes that there is sufficient capacity to provide for a very large increase in volumes. With regards to raw materials, this risk could be mitigated with a longer inventory turnover period, although this would inevitably have negative working capital implications.

Analysis of the environment

Porter's five competitive forces model

Buyers
Bargaining power of buyers

Rating 4

East Imperial's end customers are a relatively fragmented group of establishments, with limited ability to negotiate prices. EISB is able to charge a premium over competitors' products

Suppliers
Bargaining power of suppliers

Rating 3

Bottlers and distributors have some bargaining power, which should reduce with economies of scale and there is healthy competition within these markets.

Industry Competitors
Rivalry among existing firms

Rating 2

There are a number of competing mixer producers; however, at the ultra-premium end, competition is more limited, with only a handful of operators.

Substitutes
Threat of substitute products

Rating 5

While specific mixers may vary in popularity there is a low risk that mixers will be substituted. In general, the mixer market is growing with fewer drinkers opting to drink neat spirits.

Potential entrants
Threat of new entrants

Rating 2

Barriers to entry include product development, building a brand, and securing distributor agreements. However, with the opportunity available, a well-capitalised competitor may enter the market.

5 Low
4 Low/Medium
3 Medium
2 High/Medium
1 High

SWOT analysis

Strengths

- Exclusivity and positioning of brand
- Investment in a quality and award-winning range of mixers
- Foothold in Asian market currently unmatched by key competitors

Weaknesses

- Operational (bottling) footprint is distant from key markets
- Low volumes mean the business lacks economies of scale of competitors
- Exposure to rising input costs in bottles and logistics

Threats

- Well-capitalised competitors could aggressively enter market
- Further input cost increases could continue to reduce margins/damped demand

Opportunities

- Growth in the market for premium spirits and drinks
- Fever-Tree and competitors moving towards mid-market

DISCLAIMER

Marketing Communication

This research report is disseminated by WH Ireland Limited ("WHI") which is authorised and regulated by the Financial Conduct Authority ("FCA") and is a member of the London Stock Exchange. This research report is intended for the sole use of the person for whom it is addressed and is not intended for private individuals or those classified as Retails Clients as defined by the Markets in Financial Instruments Directive 2004/39/EC ("MiFID").

Non-independent research

This research report is marketing communications and is produced in accordance with the FCA's Conduct of Business Sourcebook. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. However, WHI is required by the FCA to have policies in place to identify and manage the conflicts of interest which may arise in the production and dissemination of this research report , such management of conflicts include a firm wide ban of PA dealings in any issuer under research coverage.

Planned frequency of updates to recommendation

WHI does not have a schedule for issuing research recommendations, they are issued whenever the research analyst and members of the research team alone deem it relevant, but usually in the event of significant development.

Disclaimer

This research report has been approved under part IV article 19 of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "FPO") by WHI for communication in the United Kingdom only to investment professionals as that term is defined in article 19(5) of the FPO. Its contents are not directed at, may not be suitable for and should not be relied on by anyone who is not an investment professional including retail clients. This research report is for distribution only as may be permitted by law. It is not directed to, or intended for distribution to or use by, any person or entity in any jurisdiction where doing so would be contrary to law or regulation or would subject WHI to any registration or licensing requirement within such jurisdiction. This research report is not an offer or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy. It does not constitute a personal recommendation and recipients must satisfy themselves that any dealing is appropriate in the light of their own understanding, appraisal of risk and reward, objectives, experience, and financial and operational resources.

The information herein is believed to be reliable and has been obtained from public sources believed to be reliable. WHI makes no representation or warranty, either express or implied, as to the accuracy or completeness of such information. Any opinions expressed in this research report may change without notice and may differ or be contrary to opinions expressed by other business areas of WHI. Any statements contained in this report attributed to a third party represent WHI's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party. Investments involve risks, and investors should exercise prudence and their own judgement in making their investment decisions. The financial instruments described in this research report may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument referred to in this research report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative.

The value of any investment or income may go down as well as up, and investors may not get back the full amount invested. Past performance is not necessarily a guide to future performance. WHI accepts no fiduciary duties to the reader of this research report and in communicating it WHI is not acting in a fiduciary capacity. Neither WHI nor any of its directors, employees or agents accepts any liability for any loss (including investment loss) or damage arising out of the use of all or any of the Information.

As at the quarter ending 31 October 2022 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage %	Corporate	Percentage %
Corporate	67	97.1	67	100.0
Buy	2	2.9	0	0.0
Speculative Buy	0	0.0	0	0.0
Outperform	0	0.0	0	0.0
Market Perform	0	0.0	0	0.0
Underperform	0	0.0	0	0.0
Sell	0	0.0	0	0.0
Total	**69.0**	**100.0**	**67.0**	**100.0**

Valuation and Risks

For details relating to valuation and risks for subject issuers, please refer to the comments contained herein or in previously published research reports or sector notes.

Time and date of recommendation and financial instruments in the recommendation

The time and date when the production of this research recommendation is published is the date and time found in the header of the email carrying the research report.

Any prices stated in this document are for information purposes only, there is no representation that any transaction can or could have been effected at those prices. Different assumptions by any other source may yield substantially different results. Where a price of a financial instrument is quoted it will generally, in the absence of the contrary, be the closing mid-point price at the close of business the day before publication date.

A draft of this research report has been shown to the company following which factual amendments have been made.

By accepting this document, you agree to be bound by the disclaimers stated above. Please refer to https://www.whirelandplc.com/capital-markets/coi-for-research for conflicts of Interest regarding Non-Independent Research.

Company/Issuer Disclosures

Company Name	Table of interest number	12-month recommendation history	Date
East Imperial	2,3,4,5	Corporate	14.09.22

https://www.whirelandplc.com/capital-markets/research-recommendations

Companies Mentioned

Company Name	Recommendation	Price	Price Date/Time
East Imperial PLC	Corporate	2.4	11.11.22 @ 16:30
Fevertree Drinks PLC	No rec	989	11.11.22 @ 16:30
Britvic plc	No rec	748	11.11.22 @ 16:30
A.G. BARR p.l.c.	No rec	447	11.11.22 @ 16:30
Nichols plc	No rec	1,150	11.11.22 @ 16:30
The Coca-Cola Company	No rec	5,949	11.11.22 @ 16:30
PepsiCo, Inc.	No rec	18,021	11.11.22 @ 16:30
Monster Beverage Corporation	No rec	9,890	11.11.22 @ 16:30
Pernod Ricard SA	No rec	18,080	11.11.22 @ 16:30
Rémy Cointreau SA	No rec	15,940	11.11.22 @ 16:30
Heineken N.V.	No rec	8,378	11.11.22 @ 16:30
Davide Campari-Milano N.V.	No rec	933	11.11.22 @ 16:30
Diageo plc	No rec	3,645	11.11.22 @ 16:30

Headline	Date
Initiation - Premium brand with open-ended growth opportunity	16.11.22

Recommendation	From	To	Analyst
Corporate	14.09.22	present	CA

Current Analyst (CA), Previous Analyst (PA)

The WH Ireland Research & Corporate Events Portal is available at https://www.whirelandplc.com/research-portal

Contacts

Research

John Cummins		020 7220 1755	john.cummins@whirelandcm.com
Matthew Davis		0113 394 6620	matthew.davis@whirelandcm.com
Brendan Long	Oil & Gas	020 7220 1694	brendan.long@whirelandcm.com
Paul Smith	Mining	0113 394 6609	paul.smith@whirelandcm.com
David Seers	Mining	0113 394 6610	david.seers@whirelandcm.com
Nick Spoliar		020 7220 1761	nick.spoliar@whirelandcm.com
Emma Ulker	Healthcare	020 7398 1141	emma.ulker@whirelandcm.com
Susanna Virtanen		020 7220 1674	susanna.virtanen@whirelandcm.com
Charlie Cullen		020 7220 1678	charlie.cullen@whirelandcm.com

Sales & Trading

Harry Ansell	020 7220 1670	harry.ansell@whirelandcm.com
Dan Bristowe	020 7220 1648	daniel.bristowe@whirelandcm.com
Melvyn Brown	020 7220 1688	melvyn.brown@whirelandcm.com
Stephen Frohlich	020 7220 0492	stephen.frohlich@whirelandcm.com
Beverley Gibbons	020 7220 0479	beverley.gibbons@whirelandcm.com

Corporate Broking & Investor Relations

Fraser Marshall	020 7220 0484	fraser.marshall@whirelandplc.com
George Krokos	020 7398 1106	george.krokos@whirelandcm.com
Joanna Hunt	020 7398 1124	joanna.hunt@whirelandcm.com
Tara Browne	020 7398 1198	tara.browne@whirelandcm.com
Martyna Kandrataviciute	020 7398 1134	martyna.kandrataviciute@whirelandcm.com

East Imperial

Company Overview

East Imperial produces and markets premium tonics and mixers, selling to some of the world's leading hotels, bars and restaurants in APAC, the US and the rest of the world. The company was founded in New Zealand and Singapore in 2012, with a focus on building a high-quality brand to capitalise on the growing demand for premium and ultra-premium spirits and mixers.

Valuation	2020A	2021A	2022E	2023E	2024E	2025E
P/E (x)	NA	NA	NA	NA	7.4	2.3
EV/EBITDA (x)	NA	NA	NA	NA	9.3	2.0
EV/Sales (x)	4.7	2.8	2.6	1.7	0.7	0.3
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
Cash Yield (%)	NA	NA	NA	NA	NA	38.4
P/CFPS (x)	NA	NA	NA	NA	NA	2.6
P/NAV (x)	4.0	1.9	2.1	4.9	3.0	1.3
PEG (x)	0.1	0.0	-0.1	0.1	0.0	0.0

Returns Profile	2020A	2021A	2022E	2023E	2024E	2025E
ROCE (%)	NA	NA	NA	NA	24.4	64.0
WACC (%)	9.7	9.9	9.7	8.5	8.3	10.7
Spread (%)	NA	NA	NA	NA	16.0	53.3
CROCE (%)	NA	NA	NA	NA	24.4	64.0
ROE (%)	NA	NA	NA	NA	50.0	77.8

I/S Data	2020A	2021A	2022E	2023E	2024E	2025E
Revenue (£m)	1.7	2.8	3.1	5.9	15.4	23.1
Growth (%)	NA	*61.7*	*12.0*	*90.0*	*160.0*	*50.0*
EBITDA (£m)	-0.9	-1.9	-3.0	-2.2	1.1	3.6
Growth (%)	NA	*106.0*	*59.2*	NA	NA	*222.9*
PBT (£m)	-1.0	-2.1	-3.0	-2.2	1.1	3.6
Growth (%)	*5.0*	*112.8*	*46.9*	NA	NA	*226.5*
EPS FD (p)	-0.4	-0.8	-0.9	-0.6	0.3	1.0
Growth (%)	NA	*89.5*	*17.8*	NA	NA	*218.1*
Dividend (p)	0.0	0.0	0.0	0.0	0.0	0.0
Growth (%)	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Dividend Cover (x)	*NA*	*NA*	*NA*	*NA*	*NA*	*NA*
Interest Cover (x)	243.8	NA	NA	NA	NA	NA
EBITDA Margin (%)	-53.5	-68.2	-96.9	-37.5	7.3	15.7
EBIT Margin (%)	-56.7	-68.8	-97.5	-37.8	7.2	15.6
PBT Margin (%)	-56.5	-74.3	-97.5	-37.8	7.2	15.6

Cashflow & B/S Data	2020A	2021A	2022E	2023E	2024E	2025E
Net Assets (£m)	1.4	3.4	3.8	1.6	2.7	6.1
Net Cash (Debt) (£m)	-0.2	0.1	-0.1	-2.1	-2.5	0.6
Gearing (%)	NA	NA	NA	NA	NA	NA
Free Cash EPS (p)	-0.1	-1.2	-1.1	-0.6	-0.1	0.9
NAV (p)	0.6	1.3	1.1	0.5	0.8	1.8