

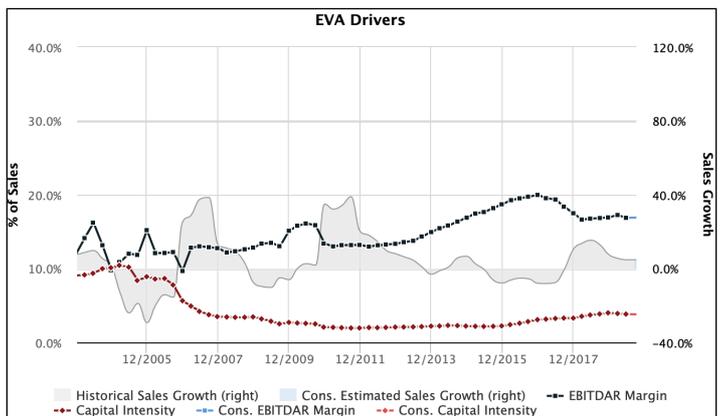
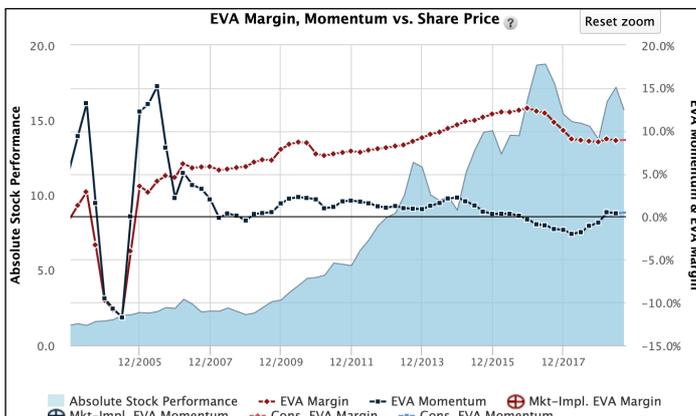
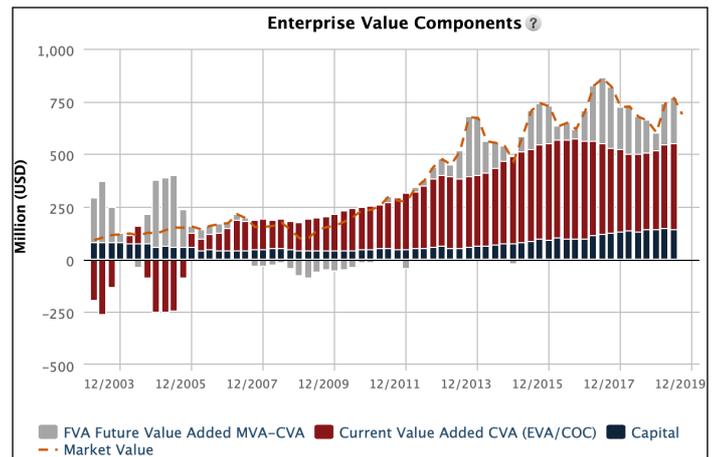
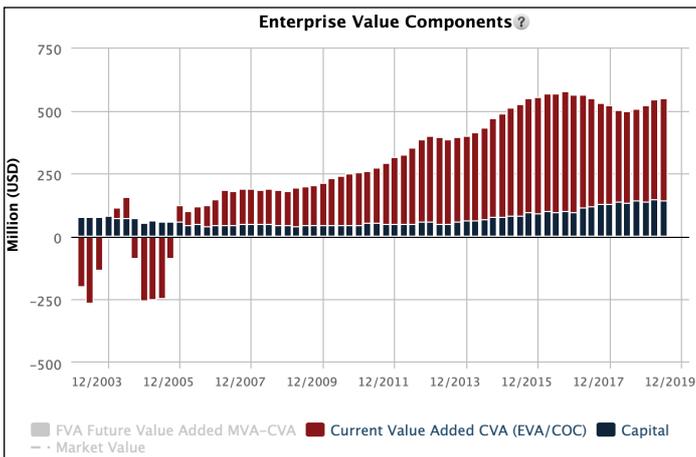
Nichols PLC (NICL LN)

Sept 23rd, 2019

Moat Category Legacy Moat	Fair Value Estimate -	Price \$19.61	Enterprise Value \$689m
Moat Type Intangible Assets - Brand	Economic Moat Narrow	Stewardship Rating -	Market Cap \$724m

What does it do: "Nichols PLC is a UK-based company which is in an international soft drinks business, selling products in both the still and carbonate categories. The company offers Vimto brand in the UK as well as the Middle East and Africa. It also holds other brands such as Feel Good, Panda, Starslush, Levi Roots and Sunkist. It is engaged in the supply of soft drinks to the retail, wholesale, catering, licensed and leisure

industries. The company organizes its business into two segments namely still and carbonate. Geographically, its business is divided into four regions such as Middle East, Africa and Rest of the World." (Source: Morningstar)



Source: www.evaexpress.com

Past 10-year performance metrics

Profitability	NICL LN's exceptionally strong return on capital, offset by a weak 70th percentile									
	2011TFQ2	2012TFQ2	2013TFQ2	2014TFQ2	2015TFQ2	2016TFQ2	2017TFQ2	2018TFQ2	2019TFQ2	
1 Sales	204	233	244	246	245	232	215	248	260	
2 EBITDAR (EBITDA+Rent+R&D+Ad+Etc)	27	31	34	39	43	45	42	42	44	
3 NOPAT (Net Operating Profit After Tax)	18	21	24	28	33	34	32	30	32	
4 Capital (Net Operating Assets)	51	49	50	68	82	96	116	129	142	
5 Return on Capital (ROC) (NOPAT/Capital)	39.0%	43.9%	43.6%	47.1%	42.8%	36.5%	31.4%	23.6%	22.6%	
6 Cost of Capital (COC)	7.0%	6.7%	6.1%	6.9%	6.8%	6.3%	6.1%	6.4%	6.2%	
7 EVA (ROC-COC) x Capital	15	18	20	24	28	28	26	22	23	
9 EVA Spread (EVA/Capital = ROC-COC)	32.0%	37.2%	37.5%	40.2%	36.1%	30.2%	25.3%	17.2%	16.5%	
10 EVA Margin (EVA/Sales)	7.3%	7.8%	8.4%	9.9%	11.2%	12.2%	12.1%	8.9%	8.9%	
11 EBITDAR Margin (EBITDAR/Sales)	13.2%	13.2%	13.8%	15.8%	17.7%	19.5%	19.4%	16.8%	16.9%	
12 Sales Growth	34.3%	14.5%	4.5%	1.0%	-0.6%	-5.2%	-7.5%	15.4%	4.8%	
13 EVA Momentum (ΔEVA/Sales)	1.1%	1.6%	1.0%	1.6%	1.3%	0.3%	-1.0%	-1.8%	0.4%	
14 EVA Momentum (ΔEVA/Capital)	4.1%	6.8%	4.8%	7.1%	5.3%	1.1%	-2.5%	-3.8%	0.8%	
15 3 Year Trend (ΔEVA/Capital)	4.8%	6.1%	5.4%	6.1%	5.9%	4.2%	0.8%	-2.1%	-1.8%	
16 Last Quarter (ΔEVA/Capital)	9.4%	5.9%	1.7%	7.8%	-0.8%	-1.0%	-1.9%	-0.1%	-1.0%	

Source: www.evaexpress.com

Figures in USD millions.

Industry observations

Life Cycle Stage	Mature	Regulation Level	Medium
Revenue Volatility	Low	Technology Change	Medium
Capital Intensity	High	Barriers to Entry	Medium
Industry Assistance	Low	Industry Globalization	Medium
Concentration Level	Medium	Competition Level	High

Source: www.ibisworld.com

Wide Moat Checklists

Competitive Strengths	Does NICL have it?	Evidence
Product or service is needed or desired (and will continue to do so)	<input checked="" type="checkbox"/>	Soft drinks are a desirable product for consumers, and will continue to remain so.
Product is perceived by its customers to have no close substitute	<input type="checkbox"/>	Nichols is in a highly competitive market with many players, many of which are much larger than Nichols. The brands under Nichols, primarily the Vimto brand, is what sets apart Nichols from other players.
Product is not subject to price regulation	<input checked="" type="checkbox"/>	Industry is moderately regulated, but not regarding price.
Strong barriers to entry	<input type="checkbox"/>	Barriers to entry are moderate. Changing consumer preferences and cultural shifts towards healthier living can create opportunities for new players to capture niche markets. However, new firms will struggle to match the significant investment required to create large distribution channels and build strong brand loyalty. Existing players deploy large amounts of capital into marketing to maintain brand awareness. Potential entrants will have to do the same. Acquisitions of smaller firms across the supply chain has also allowed big players to maintain their dominance. Own-label products for major retailers remains to be the easiest point of entry.
Loyal customers	<input checked="" type="checkbox"/>	Vimto, Nichols' flagship brand, is a 110 year old product. It has grown strong brand loyalty, both in the UK and internationally. Given the wide variety of drinks on the shelves of retailers, and that most drinks are a small-ticket item, it is not costly for a consumer to try out competing brands. And yet, Vimto has survived over the years due to brand loyalty, and consistently changing with the times.
Low risk of technological obsolescence	<input checked="" type="checkbox"/>	The basic process of producing soft drinks has remained relatively unchanged, while improvements to the assembly line are incremental. Operators have focused investment towards improving energy efficiency, automation, packaging and logistics.
Abundant growth possibilities	<input type="checkbox"/>	The industry is in the Mature phase of its life-cycle. Majority of the growth for Nichols is outside the UK, and its strategy is to increase its presence in markets like the Middle-East and Africa. More research is required to know what the rate of growth will look like.
Limited capital requirements	<input type="checkbox"/>	Capital intensity levels are ranked High by IBIS. The production process of making soft drinks depend heavily on depreciable assets.
Significant and growing free cash flows (and EVAs)	<input type="checkbox"/>	More research required.