



Creightons, PLC CRL.LON Disclosure: Long	PRICE 12/14/23	21.5p	SHARES OUT	77.6m	MARKET CAP	£16.7m



DESCRIPTION: UK-based personal care company. Manufactures for owned brands, private label, and contract manufacturing. Brands include Creightons, Feather & Down, Emma Hardie, Curl, and others.

PREVIOUS ANALYSIS:
Deep Dive: May 2022
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Figures in thousands	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2023H1	2024H1
Branded products (core)							£10,324	£11,980	£16,491	£16,682	£8,174	£7,717
Branded products (acquisitions)									3,630	6,075	2,600	2,700
Private label							24,198	22,751	24,908	21,997	11,165	12,259
Contract							13,279	12,275	15,866	13,795	7,737	4,868
Hygiene products							0	14,587	256	0	0	0
Other							7	12	6	18	0	11
Total revenue	£19,352	£21,093	£21,153	£30,586	£34,810	£44,030	£47,808	£61,605	£61,157	£58,567	£29,676	£27,555
Revenue growth	12%	9%	0%	45%	14%	26%	9%	29%	-1%	-4%	-1%	-7%
Capital employed	£5,583	£5,914	£6,386	£6,520	£9,418	£13,068	£16,799	£17,812	£36,881	£34,051	£37,020	£34,399
Revenues / avg. capital	£3.56	£3.67	£3.44	£4.74	£4.37	£3.92	£3.20	£3.56	£2.24	£1.65	£0.82	£0.77
EBIT margin	2.6%	2.4%	2.6%	4.9%	4.7%	6.6%	7.9%	8.8%	7.1%	2.4%	0.4%	1.8%
Pre-tax ROIC	9%	9%	9%	23%	21%	26%	25%	31%	16%	4%	0%	1%
Net income	471	851	1,329	1,251	1,232	2,891	3,168	4,334	3,110	514	(385)	285
Growth capex - physical plant	(65)	16	(573)	(263)	(221)	(537)	(3,824)	149	(248)	469	(122)	441
Purchase of intangibles, net	35	(24)	43	27	(137)	(69)	(548)	153	97	(27)	(16)	(37)
(Acquisitions) / dispositions	0	387	1,000	0	0	0	0	0	(9,713)	0	0	0
Issuance (repurchase) of shares	72	0	4	17	4	85	99	5	3,067	(576)	(576)	0
Change in debt & lease liabilities	(298)	(548)	(106)	595	145	179	3,772	(743)	4,261	(936)	1,959	(65)
Change in core working capital	(273)	(318)	292	96	(2,585)	(3,050)	1,535	(956)	(6,599)	2,851	(36)	(569)
Net debt (including leases)	£650	£104	£-807	£-2,029	£-221	£577	£1,028	£-2,603	£7,376	£5,627	£9,410	£5,534
Cash conversion cycle days	95	94	81	47	67	92	62	52	106	84	105	97
Gross margin	40.8%	39.8%	42.2%	42.5%	40.6%	39.4%	42.2%	40.6%	42.8%	41.6%	40.4%	42.2%
Distribution costs / revenue	4.1%	4.4%	4.4%	4.2%	4.2%	5.0%	5.1%	5.4%	5.8%	6.7%	6.6%	6.8%
SG&A / revenue	34%	33%	35%	33%	32%	28%	29%	26%	30%	32%	33%	34%
Diluted shares (mil)	59.93	66.94	66.84	66.49	66.44	73.18	72.71	75.99	79.77	79.30	79.69	77.57

FIRST HALF 2024 UPDATE

If Creighton's six-month results through September 2023 (H1 of FYE March 31, 2024) weren't distressing enough, there's more bad news: the company announced that Bernard Johnson, 20+ year Managing Director (equivalent to the CEO in America) had left the company and the board at the end of November 2023.

The company gave no reason for the split. Until a permanent replacement is found, Deputy MD's Pippa Clark and Martin Stevens will lead the company. The team under Johnson is impressive, and if it weren't for

that fact, I might be more worried. Still, the company has a tough slog ahead.

CRL has been hit with a few factors negatively affecting the business. One is an inflationary environment. A rebound in the gross margin to over 42% is evidence of some success raising prices. But distribution costs remain elevated at 6.8% of revenues compared to the low-to-mid 4% range historically.

Lower volume is due in part to supply chain restocking. The company has responded by slimming



down to one shift at both Peterborough and Devon and bringing warehousing and picking/packing in-house.

Looking under the hood at H1 results, the news isn't all bad. The headline 7% decrease in sales came largely from a 37% decline in contract manufacturing revenues. Existing "core" branded products sales declined 5.6%. On the positive side, combined sales of the two recent acquisitions, Emma Hardie and Brodie & Stone, were up 3.9%, and private label sales rose 9.8%.

Looking at seven halves of results beginning with the first half of 2021 we see that generally the second half of the year is stronger, which is what the company anticipates this year.

	2021H1	2021H2	2022H1	2022H2	2023H1	2023H2	2024H1
Branded products (core)	5,470	6,510	8,040	8,451	8,174	8,508	7,717
Branded products (acquisitions)				3,630	2,600	3,475	2,700
Private label	10,760	11,991	13,090	11,818	11,165	10,832	12,259
Contract	4,600	7,675	8,080	7,786	7,737	6,058	4,868
Hygiene products	11,530	3,057	790	(534)	0	0	0
Other	15	(3)	5	1	0	18	11
Total revenue	32,375	29,230	30,005	31,152	29,676	28,891	27,555

	2021H1	2021H2	2022H1	2022H2	2023H1	2023H2	2024H1
Branded products (core)		19%	24%	5%	-3%	4%	-9%
Branded products (acquisitions)					-28%	34%	-22%
Private label		11%	9%	-10%	-6%	-3%	13%
Contract		67%	5%	-4%	-1%	-22%	-20%
Hygiene products		-73%	-74%	-168%	-100%		
Other		-120%	-267%	-80%	-100%		-39%
Total revenue		-10%	3%	4%	-5%	-3%	-5%

It's somewhat difficult to put CRL's results in context given its tiny size compared to major competitors that play in other spaces like beauty and cosmetics. L'Oreal, the market leader and worldwide giant, grew revenues by almost 15%. Estee Lauder, another giant, saw organic sales decline by 11% due to weakness in Asia travel and China, an area analysts spent a lot of time grilling L'Oreal on in its conference call. Both companies pointed to inflation as a challenge.

On the more micro level, tertiary competitor Warpaint London, PLC (more of a cosmetics company) experienced growth of 46% to £37 million in H1 2023, including growth of 28% in the UK.

Brand Architekts Group (XLON: BAR) is perhaps the closest competitor to CRL. Its core results, which exclude Innova Derma, a major acquisition it's currently digesting, show an operating margin of 1.3% compared to 1.8% at CRL.

Year ended 30 June 2023	Brand Architekts Brands £'000	InnovaDerma Brands £'000
UK revenue	11,243	4,538
International revenue	3,225	1,079
Revenue – External	14,468	5,617
Revenue – Internal	–	–
Total revenue	14,468	5,617
Underlying profit/(loss) from operations	193	(233)
Credit/(charge) for share-based payments	(12)	–
Amortisation of acquisition-related intangibles	–	–
Exceptional items – Impairment of intangible assets (Note 3)	–	(3,500)
Other Exceptional items (Note 3)	(147)	(297)
Net borrowing income/(expense)	–	–
Profit/(loss) before taxation	34	(4,030)
Tax charge	77	(91)
Loss for the year	111	(4,121)

CRL shares are down over 40% YTD and off over 80% from the highs in the 125-range two years ago. Shares have come down so far that, in my view, the current price more than compensates for the added risks surrounding leadership and operations. The balance sheet is in pretty good shape with cash/liquidity on hand, and the business remains profitable, so I'm not worried about it going bust. The leadership issue worries me a bit, but at least the long-time Chairman, William McIlroy, remains in place, as does the rest of the leadership team. The board made the right move to cut the dividend at the beginning of last fiscal year. I only wish they'd allocate some capital to repurchase shares at current levels.

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