MAKING MONEY WORK FOR YOU.

LOCAL EQUITY REPORT

LASCO DISTRIBUTORS LIMITED

Barita Investments Limited
15 St. Lucia Way, Kingston
Tel #: 1-888-429-5333

Company Overview

LASCO Distributors Limited is a leading distribution company in Jamaica that has been operating for over 30 years. The Company is well known for several innovations and product introductions: the flagship product LASCO Food Drink and LaSoy range of beverage products, Curves Sanitary Napkins, and the iCool range of waters, flavoured waters, and drinks. The Company was listed on the Jamaica Stock Exchange in October 2010 and is organized into a Consumer Division and a Pharmaceutical Division.

Stock	LASD
Current Price	$2.66
Estimated Fair Value	$4.06
YTD Return	-17.17%
Trailing P/E	7.97x
Forward P/E	7.93x
Dividend Yield	2.20%
Potential Upside	52.50%
Total Return	54.70%
Recommendation	OVERWEIGHT
as at May 4, 2023	

Executive Summary

The Company distributes one of the broadest ranges of fast-moving consumer goods under its own LASCO label and other sub-brands such as Curves and iCool. The Consumer Division primarily distributes food, beverage, personal care, baby care, adult incontinence, and home care products. LASCO also distributes Unilever's home and personal care portfolio with Breeze, Dove, St. Ives, Mistolin, and Axe. Another core supplier partner is Salada, with its brands of high-quality Jamaican coffees; Jamaica Mountain Peak and Mountain Bliss 876, and their range of teas. The Pharmaceutical Division distributes major international brands in ethical, over-the-counter, animal health and equipment, and its private brand of generics under the LASMED brand name. LASCO's route to market covers all core channels, including supermarkets, wholesalers, small shops, schools, pharmacies, government institutions, and healthcare facilities across Jamaica.

We expect continued growth, supported by the improving local economy, which should manifest through continued domestic demand for goods and services. Given the increased stopover arrivals and the reopening of key industries such as entertainment and education (face-to-face teaching), there is sufficient momentum to sustain further growth in 2023. Also, the defensive nature of the products the company distributes provides some insulation to the company's operations as it means there will likely be stable demand for the company's products, even during economic slumps. Finally, the company plans to expand its operations into new markets with the aim of increasing the contribution of export to overall revenue, which will broaden the scope of the Company's addressable market. However, this has not been without challenges as global supply chain bottlenecks have contributed to inflationary pressure, driving a higher cost of sales for LASD. Against this backdrop, the gross profit margin has been compressed as LASD has not passed on the full impact of the cost increases to end customers. In response, management has prudently controlled operational costs and shifted into higher margin channels to preserve the bottom line.

Our estimate of the LASD's fair value is **J$4.06**, which, when compared to the current price of **J$2.66**, represents a potential total return of **54.70%.** This outlook reflects revenue growth driven by the continued demand for the products the company distributes and contributions into different markets coupled with the company's efforts to control operational costs and focus on higher margin channels to preserve profits. As inflationary conditions continue to stabilize, we anticipate improved profitability for the company. Against this backdrop, we recommend that investors OVERWEIGHT this stock in their portfolio.

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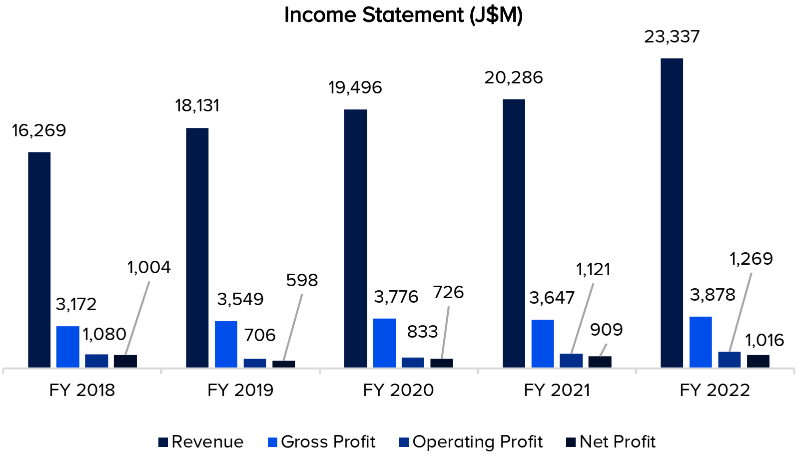
2022 Financial Year-End Financial Performance

Income Statement

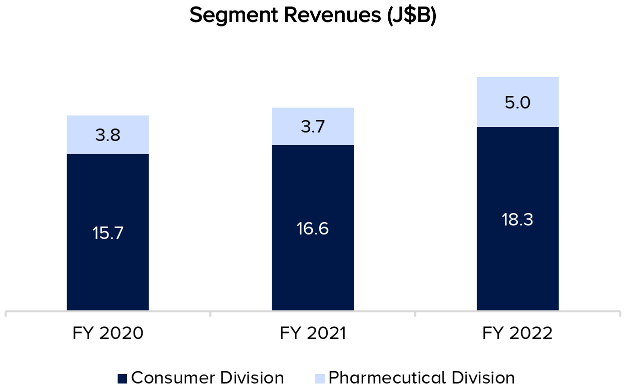
Revenue: Revenue for the 2022 financial year increased by 15.0%, amounting to $23.3 billion, compared to the prior year's outturn of $20.3 billion. The strong revenue growth reflects broad-based growth in all key categories and brands in both divisions, driven by increased marketing investment and expanded distribution. The company continues to execute its strategic framework while reshaping the organization to be more effective, efficient, and competitive.

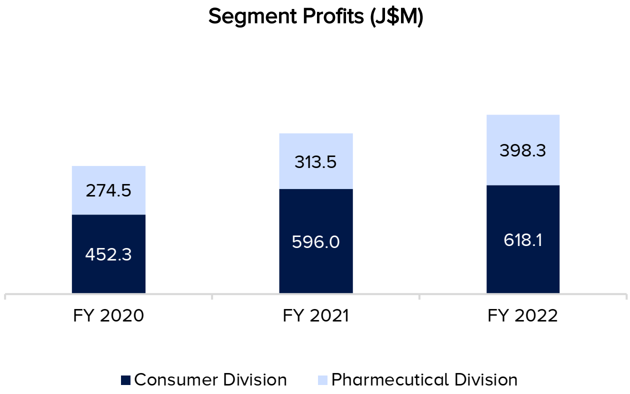


Division Reporting

Consumer: The Consumer Division saw Revenue amounting to $18.3 billion, a 10.6% improvement over the prior year. The nutrition, food, and beverage categories continued to deliver strong growth, led by its core brands in all channels, particularly in the ready-to-drink beverage category as out-of-home channels re-opened and on-the-go consumption increased. The Hygiene (Homecare and Personal Care) portfolio's innovation agenda accelerated as the company rolled out a multi-brand, multi-channel Home Care strategy, supported by increased marketing investment. The Personal Care business experienced headwinds due to supply chain constraints but saw an improvement in product availability in the 4th quarter of the year. The company restructured its marketing organization, and coupled with increased brand investment, has seen improvements to the division's top-line results reported. Sales and distribution capabilities continue to be improved for the division through investments in technology and talent.

Pharmaceutical: The Pharmaceutical Division's revenue increased by 34.6% to $5.0 billion, partially driven by increased demand for Covid-related diagnostic systems and by improved sales and distribution efficiencies. The division saw realignment amongst its commercial team to ensure adequate external focus and Supply Chain operations have been reorganized to improve customer service, efficiency, and speed. The company continues to strengthen its partnerships with the network of global suppliers and is currently undertaking several initiatives to engage new partners as well as enter new categories.





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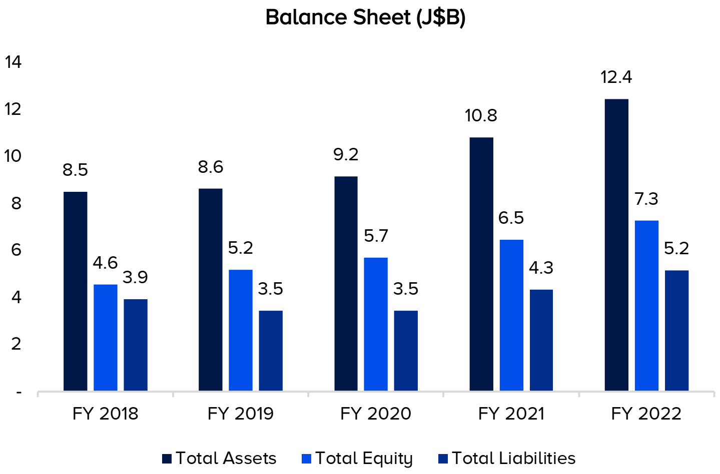
Gross Profit: Gross Profit was $3.9 billion, a 6.3% increase year-over-year (YoY). However, the gross profit margin decreased to 16.6% from 18.0% in the prior year due to product and freight cost increases outpacing the measured price increases and changes to the product and channel mix. While margin progression is important to management, the company only partially offset greater input costs with price increases and changes to the channel and product mix.

Operating Profit: Operating Profit amounted to $1.3 billion, representing an increase of 13.2% YoY. Total Administrative, Selling and Other Expenses were $2.9 billion, an increase of 6.8% YoY, driven by an increase in marketing, brand investment and consumer communication. The operating margin for the year was 5.4%, representing a slight decrease from the prior year's outturn of 5.5% as revenue growth came in higher than operating profit, implying a faster pace of growth in operating costs.

Net Profit: Finance costs amounted to $1.92 million, improving 60.1% year over year, due to the repayment of $13.33 million in long-term loans during the year. Ultimately, net profit for the period grew by 11.8% to $1.0 billion.

Balance Sheet

Total Assets: Total assets for the year increased by 15.2% YoY to $12.4 billion. Of the total, current assets represented 81.5% of total assets, while non-current asset represents the remaining 18.5%. Inventories and receivables accounted for 37.3% and 38.9% of current assets respectively and were the largest contributors to growth in the asset base. Inventories grew 30.0% to $3.79 billion, and receivables grew 22.1% to $3.95 billion. Cash and cash equivalents declined 3.8% to $1.96 billion at the end of the FY 2022.



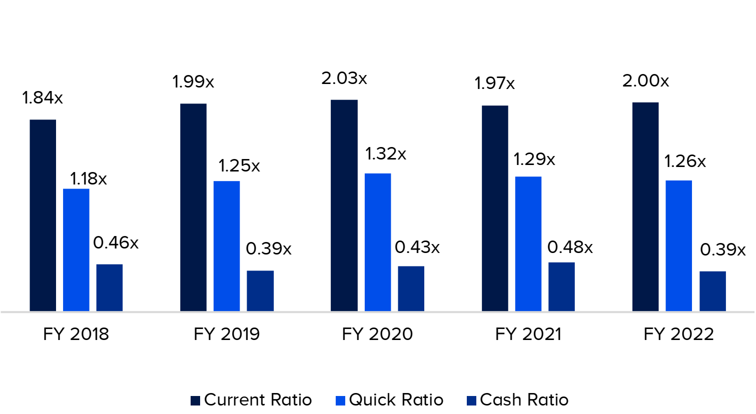
Total Liabilities: Total liabilities stood at $5.16 billion, representing an increase of 19.0% over the prior year's total of $4.34 billion. This Increase was almost entirely due to an 19.9% in payables to $4.93 billion during the year. Payables accounted for 97.3% of current liabilities and 95.5% of total liabilities. Non-current liabilities totalled $99.94 million which accounted for 1.9% of total liabilities , while current liabilities accounted for the other 98.1%.

Total Equity: Shareholders' equity saw an increase of 12.6% over the prior year amounting to a total of $7.29 billion, compared to the 2021 financial year's total of $6.47 billion. This increase was mainly driven by retained earnings, which amounted to $6.72 billion for the year-end, an Increase of 13.3% YoY and represents 92.2% of Shareholders' equity.

Liquidity and Leverage

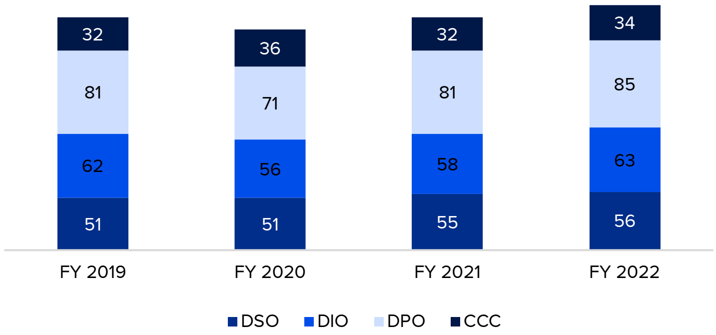
Liquidity: The company has maintained a stable level of liquidity and solvency, with the current ratio over the last five years remaining relatively constant. At the end of the 2022 financial year, the current ratio was 2.00x, a slight increase from 1.97x in 2021. Current assets increased by 25.1%, while current liabilities decreased by 2.8% for the period. The company has sufficient current assets to cover short-term obligations and maintained a healthy quick ratio of 1.26x, while the cash ratio was 0.39x.

Liquidity



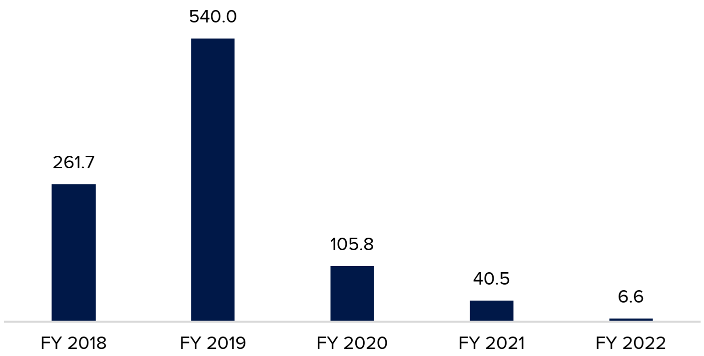
Cash Conversion Cycle: The company had a cash conversion cycle of 34 days at the end of the 2022 financial year, with days of inventory outstanding (DIO) being the longest portion at 63 days. Days of payables outstanding (DPO) stood at 85 days. The days of sales outstanding (DSO) for the year was 56 days.

Cash Conversion Cycle (in days)



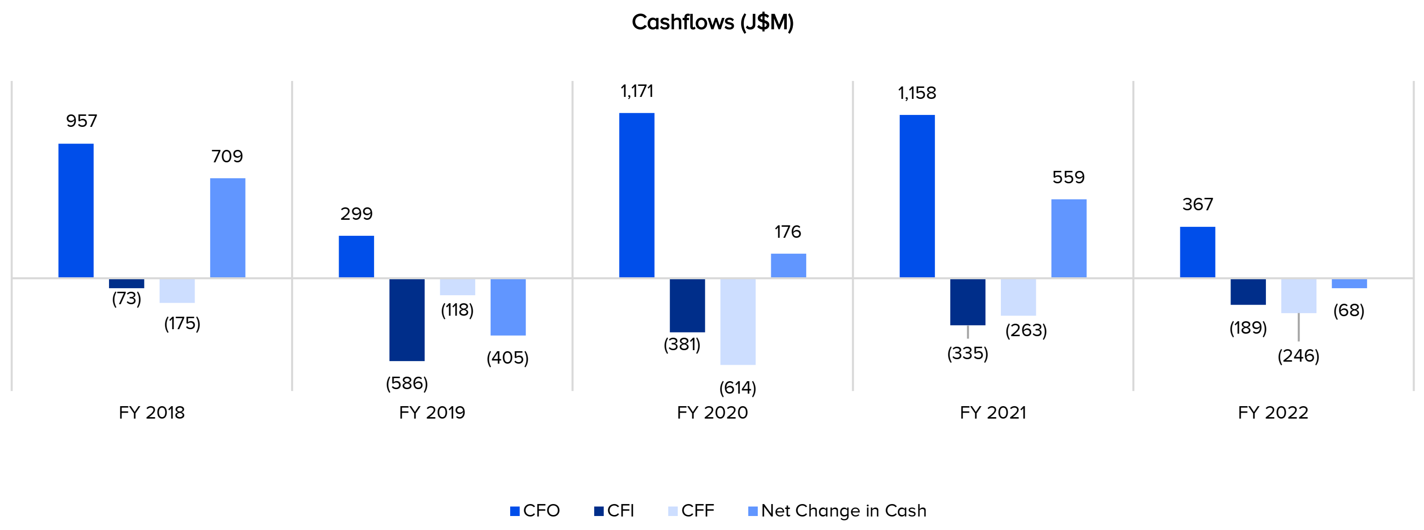
Leverage: The company has historically operated at low debt capacity levels, with the bulk of financial leverage being attributable to payables which accounted for 95.5% of total liabilities. The company had no short-term, long-term loan or bank overdraft outstanding at end of the 2022 financial year, with lease obligations being the only interest-bearing debt on the balance sheet. Interest-bearing debt moved from $267.1 million in FY 2018 to $6.6 million for the Financial Year End 2022 reflecting a debt-to-equity ratio of below 0.00x (0.001x).

Total Debt (J$M)



Cashflow Statement

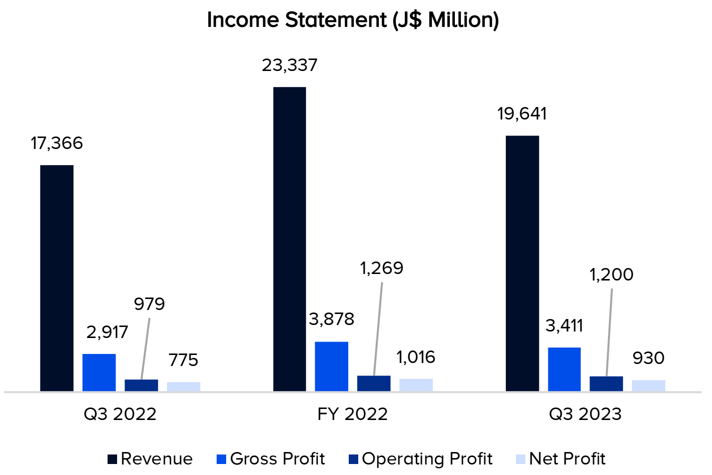
Historically (2018 FY – 2022 FY) the company has seen positive operating cash flows with the 2020 and 2021 FY seeing net operating cash flows above net profits. This allows the company to make investments without the need for external financing and creates room for flexibility on payments, which has been reflected in the company financials with interest-bearing debt falling 97.5% over the period. Investing cash flows have seen outflows fall from $585.6 million in the 2019 FY to $188.9 million in the 2022 FY, with capital expenditures seeing a decline for the company. Financing cash flows would have seen existing debt being refinanced and /or repaid along with new issuances, accompanied by dividend outflows as the main drivers. The company's last corporate debt raise came in the 2019 FY, totalling $400 million, and saw its last loan repayment made in the first quarter of the 2022 FY. Dividends paid since the 2020 FY grew at a CAGR of 23.0% moving from $150.8 million to $228.2 million in the 2022 FY. Cash and cash equivalents for the 2022 FY totalled $2.0 billion, 14% above the 2018 FY balance of $1.7 billion.



Nine-Months 2023 (December 31, 2022) Financial Performance

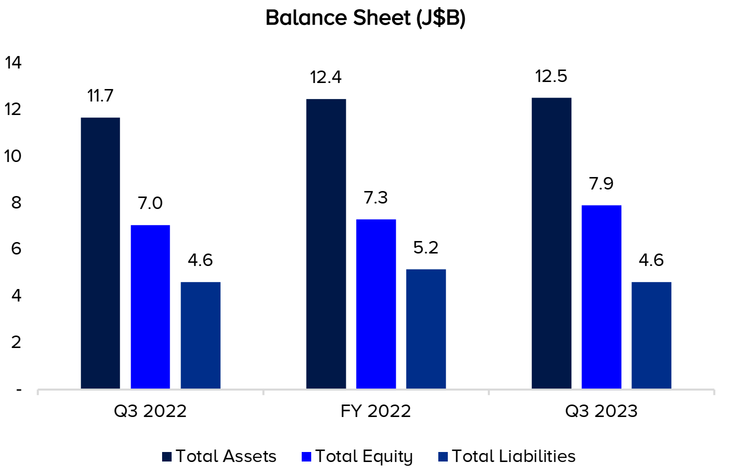
Income Statement

For the nine months ended December 31, 2022, revenue grew at 13.1% to $19.6 billion compared to the same period of the prior year's revenue of $17.4 billion. This was supported by growth across all divisions in both domestic and export markets as well as marketing activities focusing on improving on-shelf availability. New product launches including nutrition beverages, snacks, and DIY home repair are margin accretive and provide a platform for accelerated growth in the near-term. The company's exports also saw strong growth, coming off a strategic redesign focused on driving growth in its international expansion. Gross profits for the three months grew at 16.9% to $3.4 billion compared to the prior year's outturn of $2.9 billion. This was the result of the accelerated growth of higher-margin products and a strategic shift into higher-margin channels. Operating Expenses were $2.4 billion, an increase of 11.1% due primarily to an increase in marketing investments. Finance costs for the period were $24.7 million, increasing 1523.9% YoY, likely driven by interest associated with greater short-term loans. Ultimately, net profit for the nine months ended December 31, 2022, amounted to $930.1 million, representing growth of 20.0% over the prior period's outturn.



Balance Sheet

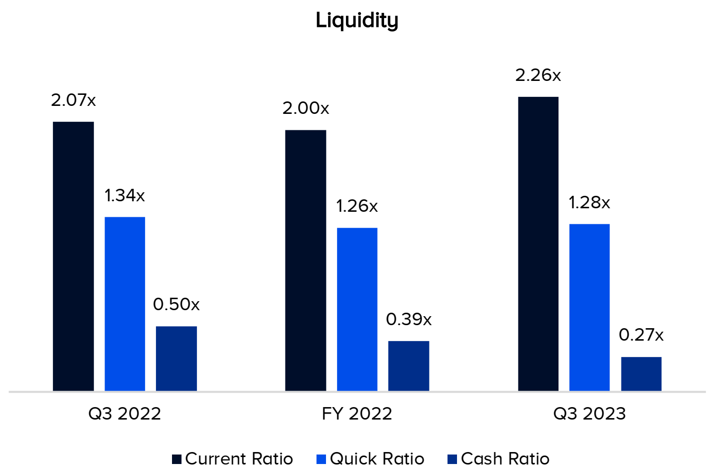
Total Assets: Total assets as of the nine months ended December 31, 2022, stood at $12.5 billion compared to the prior year's amount of $11.7 billion, a 7.3% growth YoY, and a 0.4% growth over the 2022 FY end. Current assets make up 81.4% of the total asset base while the remaining 18.6% are non-current assets. Inventory increased by 33.5% to $4.4 billion in the period, as the company Increased safety stock levels to aid in cushioning the ongoing supply chain disruptions. Inventory accounts for 43.2% of current assets and 35.2% of total assets. Receivables grew by 12.9% to $3.9 billion and account for 38.5% of current assets, and 31.3% of total assets. Cash and cash equivalents for the period under review amounted to $1.2 billion, a 46.7% decline from the prior year period amount of $2.3 billion. This was primarily due to an increase in inventories.



Total Equity: Shareholders' Equity for the nine months ended totalled $7.9 billion, a 12.3% increase over the prior year's total of $7.0 billion, and an increase of 8.4% over the 2022 FY end total of $7.3 billion. This was driven by 13.2% YoY growth in retained earnings amounting to $733.1 million.

Total Liabilities: Total Liabilities as of the nine months ended December 31, 2022, remained relatively constant, amounting to $4.6 billion, compared to the prior period's $4.62 billion. However, total liabilities decreased by 10.8% when compared to the 2022 FY end amount of $5.2 billion. This is primarily due to a decrease in payables moving from $4.9 billion at the 2022 FY end to current period amount of $4.3 billion in nine months ended December 31, 2022.

Liquidity and Solvency: During the second quarter (Q2 2023) the company borrowed $27.4 million in short-term financing, which resulted in Interest bearing debt seeing an uptick to $39.0 million, reflecting a debt-to-equity ratio of 0.005x. Interest-bearing debt declined 65.6% from the previous quarter (Q2) to $13.4 million In Q3, resulting in a debt-to-equity ratio of 0.002x. The current ratio for the period measured at 2.26x, an increase when compared to the 2022 financial year-end ratio of 2.00x. This is primarily because inventories grew by 16.1% from the 2022 FY end to Q3 2023, becoming the largest line item among current assets, while payables the largest line item among current liabilities, shrunk by 13.2%. The cash ratio for the current period saw an outturn of 0.27x, a deterioration from the



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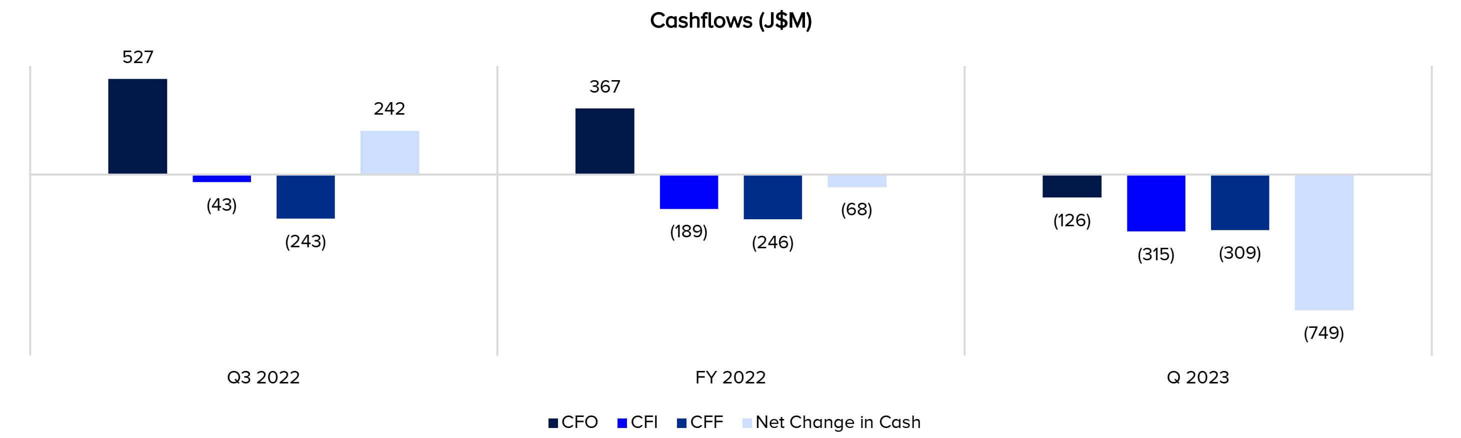
2022 FY outturn of 0.39x. This was due to cash and cash equivalents declining 38.2% over the same period while current liabilities only declined 11.1%, moving from $5.1 billion in the 2022 FY to $4.5 billion in the current period.

The company's cash conversion cycle (CCC) for the nine months ended December 2022 (trailing twelve months) remained constant when compared to the 2022 FY end, both reporting 34 days. Days Sales Outstanding (DSO) for the period fell to 53 days from 56 days at the 2022 FY end, Days Inventory Outstanding (DIO) fell to 61 days from 63 days at the FY end, while, Days Payables Outstanding (DPO) fell to 79 days from 85 days at the 2022 FY end.

Cash flows from Operations (CFO) had a cash outflow of $126.0 million, when compared to the prior period's Inflow of $527.4 million. This was primarily due to a decrease in payables and an increase in inventories. Cash flows from Investing Activities (CFI) saw an outflow amounting to $314.5 million, an increase of 639.4% over the prior year's outflow of $42.5 million. This is largely due to a $184.3 million outflow on short-term investments, a YoY increase of 4421.2%. Cash flows from Financing Activities (CFF) saw an outflow of $308.6 million, compared to the prior year's outflow of $243.1 million. This is a direct result of a dividend payment of $316.0 million being made in the previous quarter, in comparison to a payment of $228.2 million in the prior year. This resulted In $749.1 net change In cash and an ending cash balance of $1.2 billion.



Trading Summary and Liquidity

It Is important to factor in the liquidity of the stock, as It Is tightly held, with 80.99% of the outstanding shares being regarded as stagnant shares, resulting in a market float of 667.3 million shares. This implies access to significant volume of shares could be limited. The average daily volume over the past twelve months of trading has amounted to 123,072 with a median volume of shares of 28,485 implying the stock is relatively thinly traded daily.

LASCO DISTRIBUTORS LTD (LASD JA Equity)

Calculation of Float

Current Shares Outstanding - Stagnant Shares

Components	Position	% Out
Float	667,250,500	19.006
Shares Outstanding	3,510,702,702	100.000
Stagnant Shares	2,843,452,202	80.994

Due to the limited supply, the stock has seen some volatility around the price. The company's stock has traded on the market between the price ranges of $2.50 and $3.70 over the last 52 weeks.

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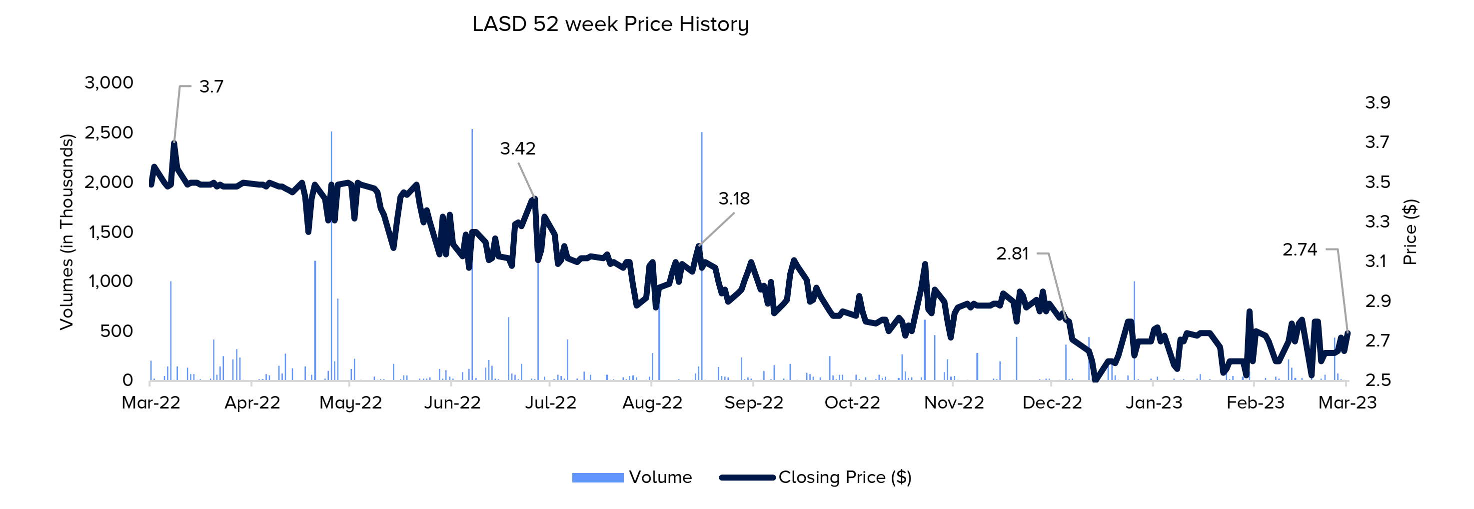

Valuation and Recommendation

To arrive at a fair value estimate for the company we utilized two methods, namely a Justified Price-to-Book method and the Justified Price-to-Earnings method approach. To arrive at a discount rate, we utilized the capital asset pricing model to arrive at a discount rate of 14.53%. We calculated the company's sustainable growth rate based on factors including the company's net profit margin, equity multiplier, total asset turnover and retention ratio, arriving at an outturn of 7.36%. **This long-term growth rate resulted in the company having a justified P/E ratio of 13.95x, giving us a price target of $4.68.** Our Price to Book Valuation utilized a justified P/B of **1.38x**, along with our 2023 financial year-end expected book value of **$2.50**. This resulted in a valuation of **$3.43**. Averaging our P/E and P/B estimates, we arrived at a price target of **$4.06**, a **54.70%** upside to the May 3rd, 2023, price of **$2.66**, suggesting the stock is undervalued. In light of this fair value estimate and expected financial performance going forward, we recommend investors OVERWEIGHT the stock.

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Financial Summary and Highlights

	FY 2020	FY 2021	FY 2022	9M FY 2022	9M FY 2023
BALANCE SHEET	**J$ '000**	**J$ '000**	**J$ '000**	**J$ '000**	**J$ '000**
Total assets	9,158,627	10,536,823	12,449,982	11,650,620	12,501,493
Property, Plant & Equipment	1,922,116	1,079,369	1,813,652	1,836,894	1,859,887
Total Liabilities	3,450,278	4,339,125	5,161,737	4,615,960	4,601,730
Total Debt	105,807	40,487	6,600	14,781	13,415
Stockholders' equity	5,708,349	6,472,428	7,288,245	7,034,660	7,899,763
Retained Earnings	5,198,395	5,928,954	6,717,186	6,475,961	7,331,333
Income Statement	**J$ '000**	**J$ '000**	**J$ '000**	**J$ '000**	**J$ '000**
Revenues	19,496,216	20,286,028	23,337,292	17,365,561	19,640,883
Gross Profit	3,776,437	3,647,203	3,877,606	2,916,963	3,411,060
Total Operating Expenses	-3,073,300	-2,674,103	-2,855,229	-2,134,367	-2,372,042
Finance Cost	-15,204	-4,836	-1,928	-1,522	-24,716
Profit before Taxation	833,469	1,120,849	1,269,161	979,181	1,200,251
Net Profit	725,756	909,480	1,016,428	775,203	930,111
FINANCIAL RATIOS	**FY 2020**	**FY 2021**	**FY 2022**	**9M FY 2022**	**9M FY 2023**
Earnings per stock unit (J$)	$2.24	$3.24	$4.24	$3.24	$4.24
Gross Profit Margin	19.37%	17.98%	16.62%	16.80%	17.37%
Net Profit Margin	3.72%	4.48%	4.36%	4.46%	4.74%
Current Ratio	2.03x	1.97x	2.00x	2.07x	2.26x
Cash Ratio	0.43x	0.48x	0.39x	0.50x	0.27x
Debt to Equity	0.02x	0.01x	0.00x	0.00x	0.00x

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