

Greggs

Learning to manage

Greggs' Q320 trading update shows a recovery in sales in line with our expectations. There has been good progress: getting all infrastructure up and running, and adapting to the new environment, both in store (including the Click and Collect service) and in generating strong incremental sales from the new Delivery offer. We retain our existing forecasts. The uncertainty about the recovery in sales leaves the EV/sales multiple for FY21e of 1.1x lower than recent multiples.

| Year end | Revenue (£m) | PBT* (£m) | EPS* (p) | DPS (p) | P/E (x) | Yield (%) |
|----------|--------------|-----------|----------|---------|---------|-----------|
| 12/18 | 1,029.3 | 89.8 | 70.3 | 35.7 | 16.3 | 3.1 |
| 12/19 | 1,167.9 | 114.2 | 89.7 | 46.9** | 12.8 | 4.1 |
| 12/20e | 765.4 | (77.9) | (63.4) | 0.0 | N/A | 0.0 |
| 12/21e | 1,040.1 | 60.8 | 48.0 | 15.0 | 23.8 | 1.3 |

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items. **Includes special dividend of 35p/share.

Q320: Gradual recovery in sales

Greggs' Q320 I-f-I revenue in company-managed stores, at 71.2% of the FY19 level, is a gradual improvement from c 70% for the first three weeks of trading (July) after re-opening after COVID-19 closures. Following a weaker-than-expected August due to hot weather and not participating in the 'Eat Out to Help Out' scheme, September was much stronger (76.1% of FY19) as consumers attempted to return to 'normality'. The improvement is roughly consistent across the portfolio, albeit some better momentum in transport locations from a low base and the rollout of Delivery (via Just Eat) has been very beneficial, contributing c 2pp of revenue growth despite not having full geographic coverage. Operationally, there is good progress with the full menu in all stores as manufacturing is back on stream and socially distanced seating is available in c 100 larger stores. Financially, the move back to a net-cash position during September might enable the repayment of government support for furloughed staff before the year end.

FY20 forecasts: Unchanged with in-line sales

Our forecasts are maintained as the sales recovery is broadly in line with our expectations, as highlighted in our last [note](#). The announcement of c 20 net new store openings for FY20 versus 10 previously, with a focus on car-accessible locations, is positive but will have limited impact on FY20. The announced consultation to reduce staff costs to better match lower anticipated demand will result in an unspecified restructuring charge later in FY20, but is unlikely to lead to a significant change in management's prior guidance on Greggs' profitability at varying levels of sales recovery.

Valuation: Reflecting uncertain recovery

Following a good recovery at the start of August, the share price has been weak and currently trades at the low end of its 12-month range. At 1,144p, the EV/sales multiple for FY21e is 1.1x, compared to the average since FY15 of 1.2x when the new strategy began to deliver results and an average of 0.9x since FY08.

Q320 trading update

Retail

30 September 2020

Price 1,144p
Market cap £1,159m

| | |
|--|--------|
| Net debt (£m) at 27 June 2020 (excluding IFRS 16 leases) | 26.2 |
| Shares in issue | 101.3m |
| Free float | 99.6% |
| Code | GRG |
| Primary exchange | LSE |
| Secondary exchange | N/A |

Share price performance



| % | 1m | 3m | 12m |
|------------------|--------|--------|--------|
| Abs | (21.0) | (31.8) | (46.2) |
| Rel (local) | (19.7) | (28.7) | (33.4) |
| 52-week high/low | 2,442p | 1,119p | |

Business description

With 2,039 shops, eight manufacturing and distribution centres and 23,000 employees, Greggs is the leading UK 'food-on-the-go' retailer. It uses vertical integration to offer differentiated products at competitive prices.

Next events

| | |
|--------------|--------------|
| Q420 trading | January 2021 |
| FY20 results | March 2021 |

Analysts

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Exhibit 1: Financial summary

| £m | 2018 | 2019 | 2020e | 2021e |
|--|---------|---------|---------|---------|
| Year-end December | IFRS | IFRS | IFRS | IFRS |
| PROFIT & LOSS | | | | |
| Revenue | 1,029.3 | 1,167.9 | 765.4 | 1,040.1 |
| Cost of Sales | (373.5) | (412.2) | (321.9) | (381.4) |
| Gross Profit | 655.9 | 755.7 | 443.4 | 658.6 |
| EBITDA | 145.7 | 231.9 | 50.9 | 192.4 |
| Operating Profit (before amort. and except.) | 89.8 | 120.7 | (66.8) | 72.5 |
| Intangible Amortisation | 0.0 | 0.0 | 0.0 | 0.0 |
| Exceptionals | (7.2) | (5.9) | (0.7) | 0.0 |
| Operating Profit | 82.6 | 114.8 | (67.5) | 72.5 |
| Net Interest | (0.0) | (6.5) | (11.1) | (11.7) |
| Profit Before Tax (norm) | 89.8 | 114.2 | (77.9) | 60.8 |
| Profit Before Tax (FRS 3) | 82.6 | 108.3 | (78.6) | 60.8 |
| Tax | (18.2) | (22.4) | 13.9 | (12.5) |
| Profit After Tax (norm) | 71.6 | 91.8 | (63.9) | 48.4 |
| Profit After Tax (FRS 3) | 65.7 | 87.0 | (64.6) | 48.4 |
| Average Number of Shares Outstanding (m) | 100.7 | 100.8 | 100.8 | 100.8 |
| EPS - normalised fully diluted (p) | 70.3 | 89.7 | (63.4) | 48.0 |
| EPS - (IFRS) (p) | 65.3 | 86.3 | (64.1) | 48.0 |
| Dividend per share (p) | 35.7 | 46.9 | 0.0 | 15.0 |
| Gross Margin (%) | 63.7 | 64.7 | 57.9 | 63.3 |
| EBITDA Margin (%) | 14.2 | 19.9 | 6.7 | 18.5 |
| Operating Margin (before GW and except.) (%) | 8.7 | 10.3 | (8.7) | 7.0 |
| BALANCE SHEET | | | | |
| Fixed Assets | 347.5 | 646.5 | 634.9 | 639.8 |
| Intangible Assets | 16.9 | 16.8 | 15.6 | 14.1 |
| Tangible Assets | 330.5 | 353.7 | 347.0 | 353.6 |
| Right-of-Use Assets | 0.0 | 272.7 | 268.9 | 268.9 |
| Other | 0.2 | 3.3 | 3.3 | 3.3 |
| Current Assets | 140.6 | 142.3 | 217.5 | 214.7 |
| Stocks | 20.8 | 23.9 | 18.7 | 22.1 |
| Debtors | 31.6 | 27.1 | 17.8 | 24.1 |
| Cash | 88.2 | 91.3 | 111.1 | 98.4 |
| Other | 0.0 | 0.0 | 70.0 | 70.0 |
| Current Liabilities | (145.1) | (208.7) | (177.5) | (198.1) |
| Creditors | (136.4) | (154.1) | (122.9) | (143.5) |
| Leases | 0.0 | (48.8) | (48.8) | (48.8) |
| Short term borrowings | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | (8.7) | (5.8) | (5.8) | (5.8) |
| Long Term Liabilities | (13.8) | (233.3) | (385.0) | (310.0) |
| Long term borrowings | 0.0 | 0.0 | (150.0) | (75.0) |
| Leases | 0.0 | (226.9) | (226.9) | (226.9) |
| Other long-term liabilities | (13.8) | (6.4) | (8.1) | (8.1) |
| Net Assets | 329.2 | 346.8 | 289.9 | 346.4 |
| CASH FLOW | | | | |
| Operating Cash Flow | 152.2 | 246.0 | 41.9 | 205.9 |
| Net Interest | 0.2 | (6.3) | (11.1) | (11.7) |
| Tax | (16.1) | (20.3) | 13.9 | (12.5) |
| Capex | (64.9) | (87.7) | (58.0) | (73.0) |
| Acquisitions/disposals | 0.0 | 0.0 | 0.0 | 0.0 |
| Equity financing | 5.3 | 4.9 | 5.4 | 5.4 |
| Dividends | (33.1) | (72.1) | 0.0 | 0.0 |
| Borrowings | 0.0 | 0.0 | 150.0 | (75.0) |
| Other | (9.9) | (61.4) | (122.3) | (51.8) |
| Net Cash Flow | 33.7 | 3.1 | 19.8 | (12.7) |
| Opening cash | 54.5 | 88.2 | 91.3 | 111.1 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 |
| Closing cash | 88.2 | 91.3 | 111.1 | 98.4 |
| Closing net debt/(cash) | (88.2) | (91.3) | (31.1) | (93.4) |
| Closing net debt/(cash) including leases | (88.2) | 184.4 | 314.6 | 252.3 |

Source: Company accounts, Edison Investment Research

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