

Greggs

FY20 results

Looking forward

Greggs' FY20 results were in line with expectations and highlight a year of two halves from a profit perspective. COVID-19 wrought the most damage in H120 before 'better' revenue and cost management restored the H220 operating margin back to normal levels (10.8%). Although current trading remains negative (-28.8% for the first 10 weeks of FY21), it is better than we and management expected and momentum is improving, leading us to increase our FY21 PBT forecast by c 5%. There is a very clear message that management is looking to the future by re-activating the store opening pipeline, accelerating multi-channel distribution and investing further in the supply chain, with more investment likely as management targets a presence in 3,000 locations, 44% more than today.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/19	1,167.9	114.2	89.7	11.9	25.3	2.1
12/20**	811.3	(12.9)	(12.1)	0.0	N/A	N/A
12/21e	1,053.7	65.0	52.1	20.0	43.6	0.9
12/22e	1,144.7	103.5	85.1	34.0	26.7	1.5

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **53-week accounting period.

FY20: H2 operating profit despite tough environment

FY20 revenue declined by 30.5%, due to a 36.2% decline in like-for-like sales growth leading to a clean operating loss of £6.2m and loss before tax of £12.9m. Following the weak first half (see our [note of 4 August 2020](#)), and despite a further year-on-year revenue decline of c 18% in H220, Greggs reported an operating profit of £55.3m (10.8% margin) due to a combination of higher gross margin (+110bps y-o-y to 65.3%) and cost control (opex -14% y-o-y), helped by government financial support. Consistent operating cash generation during H220 and capex savings (both relative to sales) restored the balance sheet to a net cash position of £36.8m at the year-end.

FY21: PBT upgraded by c 5%

The more encouraging current trading statement leads us to increase our FY21 clean PBT estimate by c 5% to £65.0m. We assume gradual revenue recovery through FY21 such that during Q421 like-for-like revenue is back to 90% of FY19 levels. Our new FY22 revenue estimate includes c 9% revenue growth, with similar contributions from new space and like-for-like growth (versus 9% l-f-l growth in FY19), leading to c 59% growth in clean PBT of £103.5m. With improving trading and cash flow we assume a higher dividend than previously (20p/share versus 15p).

Valuation: Sales multiple recovered

The share price has performed strongly as a recovery in trading has been anticipated. On our new forecasts, with FY22e revenue marginally below that of FY19, the EV/sales multiple is 2.0x, marginally below the previous highest multiple (2.1x) achieved in FY19, pre-COVID-19. A faster rate of recovery than we model and continued progress with the strategic growth plan could lead to further upside.

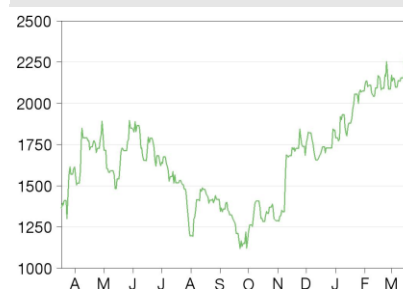
Retail

17 March 2021

Price 2,271p
Market cap £2,300m

Net cash (£m) at 31 December 2020 (ex IFRS 16 liabilities)	36.8
Shares in issue	101.3m
Free float	100%
Code	GRG
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	5.5	34.6	55
Rel (local)	4.4	28.7	13.8
52-week high/low	2,278p		1,119p

Business description

With 2,078 shops, and eight manufacturing and distribution centres, Greggs is the leading UK 'food-on-the-go' retailer. It uses vertical integration to offer differentiated products at competitive prices.

Next events

Q121 trading update	18 May 2021
H121 results	3 August 2021
Q3 21 trading update	5 October 2021

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Exhibit 1: Financial summary

£m	2018	2019	2020	2021e	2022e
Year-end December	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	1,029.3	1,167.9	811.3	1,053.7	1,144.7
Cost of Sales	(373.5)	(412.2)	(299.6)	(384.2)	(412.4)
Gross Profit	655.9	755.7	511.7	669.5	732.3
EBITDA	145.7	231.9	115.4	186.0	226.3
Operating Profit (before amort. and except.)	89.8	120.7	(6.2)	71.7	110.2
Intangible Amortisation	0.0	0.0	0.0	0.0	0.0
Exceptionals	(7.2)	(5.9)	(0.8)	0.0	0.0
Operating Profit	82.6	114.8	(7.0)	71.7	110.2
Net Interest	(0.0)	(6.5)	(6.7)	(6.7)	(6.7)
Profit Before Tax (norm)	89.8	114.2	(12.9)	65.0	103.5
Profit Before Tax (FRS 3)	82.6	108.3	(13.7)	65.0	103.5
Tax	(18.2)	(22.4)	0.7	(12.3)	(17.6)
Profit After Tax (norm)	71.6	91.8	(12.2)	52.6	85.9
Profit After Tax (FRS 3)	65.7	87.0	(13.0)	52.6	85.9
Average Number of Shares Outstanding (m)	100.7	100.8	101.0	101.0	101.0
EPS - normalised fully diluted (p)	70.3	89.7	(12.1)	52.1	85.1
EPS - (IFRS) (p)	65.3	86.3	(12.9)	52.1	85.1
Dividend per share (p)	35.7	11.9	0.0	20.0	34.0
Gross Margin (%)	63.7	64.7	63.1	63.5	64.0
EBITDA Margin (%)	14.2	19.9	14.2	17.7	19.8
Operating Margin (before GW and except.) (%)	8.7	10.3	(0.8)	6.8	9.6
BALANCE SHEET					
Fixed Assets	347.5	646.5	631.0	641.6	670.4
Intangible Assets	16.9	16.8	15.6	14.9	14.3
Tangible Assets	330.5	353.7	345.3	356.6	386.0
Right-of-Use Assets	0.0	272.7	270.1	270.1	270.1
Other	0.2	3.3	0.0	0.0	0.0
Current Assets	140.6	142.3	98.7	160.8	201.0
Stocks	20.8	23.9	22.5	22.6	24.3
Debtors	31.6	27.1	39.4	28.9	31.4
Cash	88.2	91.3	36.8	109.3	145.4
Other	0.0	0.0	0.0	0.0	0.0
Current Liabilities	(145.1)	(208.7)	(144.1)	(179.3)	(188.6)
Creditors	(136.4)	(154.1)	(91.1)	(126.3)	(135.6)
Leases	0.0	(48.8)	(48.6)	(48.6)	(48.6)
Short term borrowings	0.0	0.0	0.0	0.0	0.0
Other	(8.7)	(5.8)	(4.4)	(4.4)	(4.4)
Long Term Liabilities	(13.8)	(233.3)	(264.0)	(261.7)	(261.7)
Long term borrowings	0.0	0.0	0.0	0.0	0.0
Leases	0.0	(226.9)	(243.1)	(243.1)	(243.1)
Other long term liabilities	(13.8)	(6.4)	(20.9)	(18.6)	(18.6)
Net Assets	329.2	346.8	321.6	361.3	421.1
CASH FLOW					
Operating Cash Flow	152.2	246.0	61.6	232.6	235.4
Net Interest	0.2	(6.3)	(5.9)	(6.3)	(6.2)
Tax	(16.1)	(20.3)	(10.7)	(12.3)	(17.6)
Capex	(64.9)	(87.7)	(59.8)	(73.0)	(93.0)
Acquisitions/disposals	0.0	0.0	0.0	0.0	0.0
Equity financing	5.3	4.9	3.7	3.7	3.7
Dividends	(33.1)	(72.1)	0.0	(20.2)	(34.4)
Borrowings	0.0	0.0	0.0	0.0	0.0
Other	(9.9)	(61.4)	(43.4)	(51.9)	(51.9)
Net Cash Flow	33.7	3.1	(54.5)	72.5	36.1
Opening cash	(54.5)	(20.8)	(17.7)	(72.2)	0.3
Other	0.0	0.0	0.0	0.0	0.0
Closing cash	(20.8)	(17.7)	(72.2)	0.3	36.4
Closing net debt/(cash)	(88.2)	(91.3)	(36.8)	(109.3)	(145.4)
Closing net debt/(cash) including leases	(88.2)	184.4	254.9	182.4	146.3

Source: Greggs accounts, Edison Investment Research

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