

# Greggs

Trading update

## Robust trading performance - earnings upgrade

An unscheduled trading update confirming exceptional 11.1% like-for-like (l-f-l) sales growth in the first 19 weeks of FY19, and a fourth earnings upgrade in six months is testament to Greggs' outstanding progress on the repositioning of the brand as a leading food-on-the-go-format. We increase our FY19 and FY20 underlying PBT forecasts by 9%. The company is highly cash generative and likely to distribute part of the substantial cash balance (FY19e: £102.6m) with the H119 dividend.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/17	960.0	81.8	64.5	32.3	31.3	1.6
12/18	1,029.3	89.8	71.1	35.7	28.4	1.8
12/19e	1,159.5	107.7	84.8	44.2	23.8	2.2
12/20e	1,234.2	116.6	92.7	48.5	21.8	2.4

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

### Outstanding momentum in l-f-l sales growth

Greggs has delivered exceptional 11.1% like-for-like sales growth in the first 19 weeks of FY19, a further improvement on impressive growth of 9.6% in the first seven weeks of the year. This builds on a strong finish to FY18, which saw overall Q4 like-for-like sales growth of 5.2% strengthening to c 6–7% in the final weeks. Sales have been boosted by the phenomenal success of the vegan-friendly sausage roll, which has been made more widely available across all stores, and ongoing strong demand for hot drinks and breakfast ranges and the post-4pm pizza deal.

### Accelerating plans to extend opening hours

Greggs remains on track with strategic investments in the supply chain and IT systems, and the vision for brand repositioning continues to evolve apace. Given the strength of trading, management intends to accelerate investment in strategic initiatives in H2, including a significant opportunity to extend opening hours beyond the traditional breakfast and lunchtime dayparts, into the early evening.

### Fourth earnings upgrade since late November

We upgrade our FY19 and FY20 underlying PBT forecasts by 9%. Based on current trends, we raise our H1 and H2 l-f-l sales growth assumptions to 9.5% and 5% (previously 6% and 1%) in the current year, offset in part by investment in strategic initiatives, including higher spending on labour and digital marketing, in H2. We make no changes to our FY20 underlying assumptions, including 2% l-f-l sales growth, at this stage.

### Valuation: Cautious assumptions; cash distribution

Greggs' shares trade marginally below our updated DCF valuation of 2,059p (previously 1,897p), which assumes revenue growth beyond FY21e of 6% cautiously fading to 2% and a perpetuity EBITDA margin of 16% (2021e:15.1%). The company is highly cash generative and is expected to distribute surplus cash in excess of £40m (FY19e: £102.6m) in the form of a special dividend in addition to the H119 dividend.

Retail

14 May 2019

**Price** 2,020p  
**Market cap** £2,043m

Net cash (£m) at 31 December 2018	88.2
Shares in issue	101.2m
Free float	100%
Code	GRG
Primary exchange	LSE
Secondary exchange	N/A

#### Share price performance



%	1m	3m	12m
Abs	(2.8)	15.2	70.0
Rel (local)	0.7	15.3	83.5
52-week high/low		1861p	942p

#### Business description

With 1,969 shops, eight manufacturing and distribution centres and 23,000 employees, Greggs is the UK's leading 'food-on-the-go' retailer. It uses vertical integration to offer differentiated products at competitive prices.

#### Next events

Interim results	30 July 2019
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**Exhibit 1: Financial summary**

	£m	2017	2018	2019e	2020e
Dec		IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue		960.0	1,029.3	1,159.5	1,234.2
Cost of Sales		(348.1)	(373.4)	(419.5)	(444.0)
Gross Profit		611.9	655.9	740.0	790.1
EBITDA		135.7	145.7	223.5	240.8
Operating Profit (before amort. and except.)		82.2	89.8	114.5	124.5
Intangible Amortisation		0.0	0.0	0.0	0.0
Exceptionals		(9.9)	(7.2)	(4.3)	(2.2)
Other		0.0	0.0	0.0	0.0
Operating Profit		72.3	82.6	110.2	122.3
Net Interest		(0.4)	(0.0)	(6.8)	(7.9)
Profit Before Tax (norm)		81.8	89.8	107.7	116.6
Profit Before Tax (FRS 3)		71.9	82.6	103.4	114.4
Tax		(16.9)	(18.2)	(22.6)	(23.6)
Profit After Tax (norm)		64.9	71.6	85.1	93.0
Profit After Tax (FRS 3)		56.9	65.7	81.7	91.3
Average Number of Shares Outstanding (m)		100.6	100.7	100.7	100.7
EPS - normalised (p)		64.5	71.1	84.8	92.7
EPS - (IFRS) (p)		56.5	65.3	81.1	90.6
Dividend per share (p)		32.3	35.7	44.2	48.5
Gross Margin (%)		63.7	63.7	63.8	64.0
EBITDA Margin (%)		14.1	14.2	19.3	19.5
Operating Margin (before GW and except.) (%)		8.6	8.7	9.9	10.1
<b>BALANCE SHEET</b>					
Fixed Assets		334.7	347.5	654.7	700.2
Intangible Assets		14.7	16.9	18.2	18.8
Tangible Assets		319.2	330.5	636.3	681.2
Investments		0.8	0.2	0.2	0.2
Current Assets		106.6	140.6	164.0	186.1
Stocks		18.7	20.8	23.3	25.4
Debtors		33.4	31.6	38.1	42.3
Cash		54.5	88.2	102.6	118.4
Other		0.0	0.0	0.0	0.0
Current Liabilities		(127.9)	(145.1)	(204.9)	(206.9)
Creditors		(127.9)	(145.1)	(204.9)	(206.9)
Short term borrowings		0.0	0.0	0.0	0.0
Long Term Liabilities		(14.0)	(13.8)	(237.8)	(257.3)
Long term borrowings		0.0	0.0	0.0	0.0
Other long term liabilities		(14.0)	(13.8)	(237.8)	(257.3)
Net Assets		299.4	329.2	376.0	422.1
<b>CASH FLOW</b>					
Operating Cash Flow		134.5	152.2	163.2	174.3
Net Interest		0.2	0.2	0.0	0.0
Tax		(17.6)	(16.1)	(21.7)	(23.2)
Capex		(72.6)	(66.6)	(90.0)	(88.0)
Acquisitions/disposals		2.2	1.7	0.0	0.0
Financing		(6.0)	(4.7)	0.0	0.0
Dividends		(32.2)	(33.1)	(37.1)	(47.3)
Net Cash Flow		8.5	33.7	14.4	15.8
Opening net debt/(cash)		(46.0)	(54.5)	(88.2)	(102.6)
HP finance leases initiated		0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0
Closing net debt/(cash)		(54.5)	(88.2)	(102.6)	(118.4)

Source: Greggs accounts, Edison Investment Research

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