

Greggs

Q420 trading update

New national lockdown tempers outlook

Greggs' Q420 sales performance was better than we expected due to (in descending order) a faster recovery in sales despite ongoing and variable COVID-19 restrictions; a strong contribution from the new delivery initiative; and more net new store openings (28) for FY20 versus management's prior guidance (20). The sales performance, improved profitability and a stronger financial position gives management the confidence to return to prior levels of space expansion. The new national lockdown limits our FY21 PBT forecast increase to c 2%.

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	27.3	1.9
12/19	1,167.9	114.2	89.7	46.9***	21.4	2.4
12/20e	811.0**	(15.0)**	(12.9)	0.0	N/A	N/A
12/21e	1,042.6	62.0	48.9	15.0	39.2	0.8

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

Q420: Sales and profit better than expected

Greggs' like-for-like Q420 sales from company-managed stores at 81% of FY19 was a strong improvement from Q320's 71%. There was a general improvement from 80% in October to 86% in December, but new COVID-19 lockdowns and restrictions led to a lower 77% in November. The new national delivery offering, available from 600 (c 29%) Greggs shops, is producing good and mostly incremental growth, representing 6% of company-managed sales. The encouraging performance means delivery will roll out to a further 200 shops in FY21. Lower year-on-year commodity price inflation and cost control produced underlying H220 PBT of c £20m, which was helped by government financial assistance of c £30m, to give total H220 PBT of c £50m, versus the £65m loss in H120. The improved profitability has enabled the repayment of the Bank of England CCF facility, replaced by a three-year £100m RCF, while returning Greggs to a net cash position of £37m from net debt of £26m at H120.

FY21: PBT modest upgrade given uncertainty

The recently announced third national lockdown has an unknown end date and, with ongoing macroeconomic uncertainty, this leads to no management guidance for FY21. It expects pre-COVID-19 levels of profitability will not be achieved until at least FY22, but could be reached on a lower sales base given cost savings (property and recent headcount reduction of c 3%). Our FY21 PBT forecast increases from £60.8m to £62.0m as higher space growth (100 net new stores) is offset by lower expectations for sales early in the year (January/February) at 70% of FY20 due to the lockdown and a gradual build to 90% of FY19 levels by Q421.

Valuation: Share price re-rated but below peak

On our new forecasts, the EV/sales multiple for FY21 is 1.8x, a premium to the average multiple of 1.4x since the new strategy has been in place (FY15). This reflects the depressed level of sales but is at a discount to the previous peak multiple of 2.1x.

Retail

7 January 2021

Price 1,940p
Market cap £1,943m

Net cash (£m) at 2 January 2021	37
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	5.5	45.8	(19.2)
Rel (local)	1.1	26.0	(12.0)
52-week high/low	2,442p		1,119p

Business description

With 2,078 shops, 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

FY20 results	16 March 2021
AGM	18 May 2021
H121 results	3 August 2021

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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	811.0	1,042.6
Cost of Sales	(373.5)	(412.2)	(310.4)	(380.7)
Gross Profit	655.9	755.7	500.6	661.8
EBITDA	145.7	231.9	109.0	188.1
Operating Profit (before amort. and except.)	89.8	120.7	(8.9)	68.1
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	(9.6)	68.1
Net Interest	(0.0)	(6.5)	(6.1)	(6.1)
Profit Before Tax (norm)	89.8	114.2	(15.0)	62.0
Profit Before Tax (FRS 3)	82.6	108.3	(15.7)	62.0
Tax	(18.2)	(22.4)	2.0	(12.7)
Profit After Tax (norm)	71.6	91.8	(13.0)	49.3
Profit After Tax (FRS 3)	65.7	87.0	(13.7)	49.3
Average Number of Shares Outstanding (m)	100.7	100.8	100.8	100.8
EPS - normalised fully diluted (p)	70.3	89.7	(12.9)	48.9
EPS - (IFRS) (p)	65.3	86.3	(13.6)	48.9
Dividend per share (p)	35.7	46.9	0.0	15.0
Gross Margin (%)	63.7	64.7	61.7	63.5
EBITDA Margin (%)	14.2	19.9	13.4	18.0
Operating Margin (before GW and except.) (%)	8.7	10.3	(1.1)	6.5
BALANCE SHEET				
Fixed Assets	347.5	646.5	636.7	641.5
Intangible Assets	16.9	16.8	15.6	14.1
Tangible Assets	330.5	353.7	348.9	355.2
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	72.7	152.1
Stocks	20.8	23.9	17.2	21.2
Debtors	31.6	27.1	18.8	34.3
Cash	88.2	91.3	36.6	96.6
Other	0.0	0.0	0.0	0.0
Current Liabilities	(145.1)	(208.7)	(133.6)	(160.3)
Creditors	(136.4)	(154.1)	(79.0)	(105.7)
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)	(235.0)	(235.0)
Long term borrowings	0.0	0.0	0.0	0.0
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	340.8	398.3
CASH FLOW				
Operating Cash Flow	152.2	246.0	56.3	198.3
Net Interest	0.2	(6.3)	(6.1)	(6.1)
Tax	(16.1)	(20.3)	2.0	(12.7)
Capex	(64.9)	(87.7)	(60.0)	(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	0.0	0.0
Other	(9.9)	(61.4)	(52.3)	(51.8)
Net Cash Flow	33.7	3.1	(54.7)	60.1
Opening cash	54.5	88.2	91.3	36.6
Other	0.0	0.0	0.0	0.0
Closing cash	88.2	91.3	36.6	96.6
Closing net debt/(cash)	(88.2)	(91.3)	(36.6)	(96.6)
Closing net debt/(cash) including leases	(88.2)	184.4	239.1	179.1

Source: Company accounts, Edison Investment Research

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