

Greggs

Medium-term growth ambition quantified

Gregg's Q321 trading statement (to 2 October) indicated improved revenue momentum despite recent supply chain and staffing disruptions and an increase in FY21 profit expectations, although rising inflationary pressures (ingredients, staff and utilities) are expected from Q421. This suggests a more challenging FY22 from a cost perspective. Management set a new 'ambitious' five-year target (to the end of FY26) to double revenue to £2.4bn (CAGR of 14–15%) from an equal combination of accelerated space growth (number and average size of stores) to reach at least 3,000 stores and space productivity from both ongoing (delivery and evening day part) and new (enhanced loyalty and marketing) initiatives. Simply put, the ambition is to extend Greggs' strength from daytime retail to an all-day multichannel. Our forecasts are under review.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
12/19	1,167.9	114.2	89.7	11.9	33.4	0.4
12/20	811.3	(12.9)	(12.1)	0.0	N/A	N/A
12/21e	N/A	N/A	N/A	N/A	N/A	N/A
12/22e	N/A	N/A	N/A	N/A	N/A	N/A

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

Greggs' two-year like-for-like revenue growth accelerated to c 6% in August and c 3% in September following a weather-affected July, to give total growth of 3.5% for Q321. Management estimates that the ongoing phased recovery in VAT on takeaway hot food and drinks, reduced during COVID-19, boosted the rate of growth by c 2%, and also highlighted the contributions of menu development and delivery sales.

The key drivers to Greggs' medium-term growth were highlighted at the [H121 results](#) but the trading statement and accompanying capital markets day presentation were the first quantification of management's ambition. In descending order, management expects the contributors to revenue growth will be estate growth (50%), delivery and evening day part (23%), further COVID-19 recovery and wholesale (15%), loyalty and customer relationship management (12%). The revenue growth is not expected to be linear as, say, the relatively untested loyalty and CRM initiatives will take longer to come through than the more visible accelerated space growth (150 net new stores per year versus 100 previously).

The revenue growth will be supported by five-year capital investment of c £890m, with a peak in FY24, which compares with more recent pre-COVID-19 annual capex of £70–90m. Management is confident of remaining cash positive through the investment phase so special dividends could be considered by the end of the five-year plan, and potentially for FY21, after the resumption of the ordinary dividend at H121.

There is no quoted profitability target to accompany the new revenue ambition due to the inherent cost uncertainties, but management expects to at least sustain the profit margin as operational efficiencies will fund the typical price investment and new/enhanced sustainability requirements (0.5–1.0 margin point per year).

Q321 trading update and strategy update

Retail

7 October 2021

Price 2,999p
Market cap £3,053m

Net cash (£m) at 3 July 2021 (ex IFRS 16 liabilities)	118.3
Shares in issue	101.8m
Free float	100%
Code	GRG
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



Business description

With 2,146 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. The ambition is to grow revenue to £2.4bn by FY26.

Analysts

Russell Pointon	+44 (0)20 3077 5700
Sara Welford	+44 (0)20 3077 5700

consumer@edisongroup.com

[Edison profile page](#)

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