

Sector Report

Bakery Product Production Industry





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Overview of the Market

The UK Bread and Bakery Goods Production industry is estimated to be worth approximately £8.3bn with an annual growth rate of 2.1% between 2014 and 2019. The industry has been under pressure recently, as changing tastes has led to reduced demand for traditional loaves of bread. As a result, large bakeries that specialise in loaf production have had to diversify product offerings. However, smaller specialist bakeries have proliferated and have been popular with customers. Businesses in the sector also have had to manage fluctuations in input costs, principally wheat, which spiked in 2011 due to pressure on global suppliers. Wheat prices then dramatically fell in 2015 due to a particularly good harvest.

Uncertainty from the EU referendum is likely to reduce consumer confidence and could result in consumers spending less on discretionary items. This could help to support the supermarkets that sell traditional loaves of bread from brands that are cheaper than artisanal bread.

Exports are expected to continue being supported by the weakness of the pound, particularly in the short term. If this continues and wheat prices rise, industry operators will have reduced margins and will struggle to grow. Industry revenue is forecast to grow at an annual rate of 0.7%, slower than previously, largely due to the referendum.

Market Share

The four major players in the market are as follows (Estimated):

- Warburtons Limited: 6.6%
- ABF Grain Products Ltd: 5.9%
- Hovis Ltd: 4.0%
- Finsbury Foods Group Plc: 3.9%

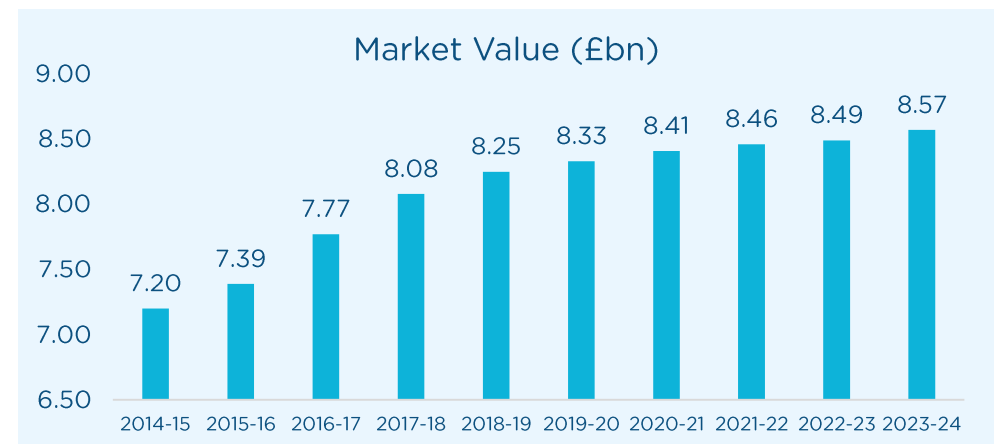
Source
IBISWorld (August 2018)
Plimsoll (October 2018)

Bakery Companies

A profitability analysis on the sector from a pool of 798 leading UK-based Bakery companies revealed the following points:

- The most profitable 354 companies benefitted from an average profit margin of 6.2%
- The least profitable 444 companies made an average profit margin of (0.2%); the industry average is 2.7%
- 298 of companies increased in value over the year with 132 companies increasing by more than 25%
- 339 companies decreased in value, 119 fell by more than 25%
- 107 companies have made a loss for two consecutive years

Based on analysis, companies were rated on their 'takeover attractiveness'. A total of 305 companies were given a 'Strong' rating whereas 237 companies were given the lowest rating, 'Danger'. 164 companies in the industry were highlighted to be highly attractive takeover prospects. London was the most attractive region for takeover prospects.





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M&A Activity in the Sector

Market IQ data indicates a total of 143 significant deals in the industry from January 2011 to September 2018, with UK targets. Deals are only reported over a certain value threshold (c.£500k), therefore, it is likely that not all deals have been captured.

Upon breaking down the deal type, M&A, activity within the sector is mainly categorised by acquisitions, with 115 since January 2011. There were also 27 investments and a single merger. A geographical breakdown of the deals shows that the South East dominates M&A activity, benefitting from 20 deals in the time frame. London and the North West were close behind with 20 and 17 deals being completed.

Deal flow has suffered a significant reduction to pre-recession levels. Deal levels fell drastically from 2011 to 2014 by over 50% due to post-recession effects. M&A activity then grew by a single deal in 2015, then almost doubled in 2016. This growth was short lived as the EU referendum result had a negative effect on M&A activity as deals fell back to post-recession levels. This is a sign of business confidence being at a low level as uncertainty about the future is high. However, the YTD figure for 2018 when forecasted to the end of the year, gives an estimated 20 deals.

Industry Benchmarking Information - September 2018

Hallidays' client base consists of small to lower mid-market enterprises. Our benchmarking analysis reflects businesses with turnover below £10m, in line with the majority of our clients in this sector.

Bakery Product Benchmarking Data	Mean	Median	Lower Quartile	Upper Quartile
Turnover Growth/Decline (%)	7.75	6.65	-2.26	17.42
EBIT Margin (%)	4.06	3.21	0.12	8.54
EBIT Growth/Decline (%)	-12.61	-13.68	-58.78	27.76
EBITDA Margin (%)	6.46	5.09	1.75	11.47
EBITDA Growth/Decline (%)	-5.27	-7.97	-47.51	22.42
Total Net Assets Growth/Decline (%)	5.46	5.01	-8.82	19.75
Current Ratio	3.58	1.54	1.01	2.87
Acid Test	3.16	1.17	0.69	2.30

Bakery Product Production Benchmarking

Using full company accounts filed in the last two years under the SIC-Codes "1071 - Manufacture of bread, fresh pastry goods and cakes." or "1072 - Manufacture of rusks and biscuits, preserved pastry good and cakes". Excluding companies with nil turnover in either period, we have summarised key benchmarking information for businesses under £10m turnover in the table above. September 2018.

Source

Experian Market IQ (October 2018)

Search Criteria: SIC-Code "1071 - Manufacture of bread, fresh pastry goods and cakes." or "1072 - Manufacture of rusks and biscuits, preserved pastry good and cakes".



Funding

Do you know all of the funding solutions available to help you grow your business?

There is a wide range of funding solutions available to you, many of which you may not have heard of, or even considered which we can help you with. It might be worth asking yourself...

Are you keen to find funding to support your innovative plans?
Do you have funding, but you're not sure if it's the right type?

As a registered credit broker, we can answer all of these questions and make accessing funding simple and straightforward. So, if you need a better facility for working capital, or if you're looking for a larger chunk of cash for investing in machinery, marketing or a new product line, then let us know.

Our collaborations with high street banks, Funding Circle, Funding Options and numerous other funders can help you find the funding you need.

If you wish to enquire further about funding, please contact:

Michael Berger - Corporate Finance Manager - michaelb@hallidays.co.uk - 0161 476 8276

Cashflow or Asset Finance

As a Funding Circle Introducer and with our network of funders, we can provide cashflow loans, where this is the right type of finance for your business.

Growth Funds, Venture Capital & Private Equity

If you have a high growth or innovative business, we can help you to secure the right equity and debt investment to reach the next stage in your business' evolution.

Stockport Business Angels

We are the Stockport Business Angels (affiliate of NWBA) and link businesses with the right collaboration and funding from business angels investors.

Invoice Finance (discounting/factoring) / Construction / Trade Finance

Invoice finance is becoming a more attractive option to a bank overdraft, this can ease cash flow, whilst providing a flexible facility.

Funding Success Stories

Hallidays has had a number of successes when it comes to obtaining growth funding for our clients:

- **ABN Amro Bank** £100k invoice finance facility (IFF) - To improve working capital for a seasonal company.
- **Aldermore Bank** £150k IIF - For a creative design studio requiring cash to expand.
- **RBS Invoice Finance** £100k IFF - For an engineering company to purchase bespoke machinery enabling them to fulfil a contract.
- **Lombard** £130k asset finance - For fittings and electronic equipment in a hospitality business.
- **FW Capital** - Growth funding of between £100k-£750k for multiple clients.



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