THE OC&C FOOD & DRINK TOP 150 2020

The true cost of upheaval

Suppliers are counting their costs as coronavirus, recession and Brexit are offset against one another

The food and drink industry's 2020 was meant to be defined by Brexit. Then along came a global pandemic. Suddenly the focus shifted to keeping shelves stocked. The industry rose to the task, enhanced its reputation and in many cases grew sales substantially. But it's certainly not been plain sailing. And looking ahead, the picture only gets murkier.

With a huge recession, more lockdowns and restrictions, and the upheaval of potential Brexit tariffs and disruption to the supply of goods, the uncertainty plaguing the industry has multiplied.

So how will the UK's top suppliers be affected?

Food and drink producers were already under pressure before the pandemic hit. The 2020 OC&C Top 150 shows momentum across leading UK suppliers had slowed markedly in 2019.

Aggregate revenue growth across the country's largest food and drink suppliers fell back to 1.9%, from 4.3% in 2018 and well below the long-term average of 4.9%. Except for the zero growth of 2015 and 2016, that's the weakest overall growth figure for 20 years.

However, the industry was probably in better shape than the headline figures suggest. Growth relative to inflation improved, as consumer price inflation weakened to 0.9%. That means the industry's 1.9% growth outperformed the wider inflation rate to a greater extent than the 0.7 percentage point differential in 2018.

Importantly, margins also remained stable. Aggregate 2019 profit margins ticked back up to 6.1% from 6% in 2018 and remained well above the depressed rates of the five years following the last recession.

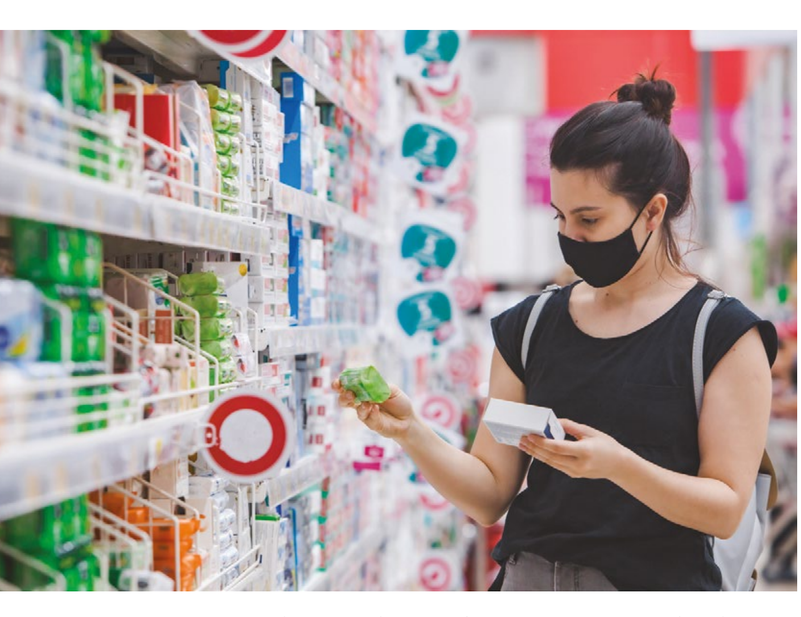
"Overall economic conditions last year weren't spectacular," says OC&C UK managing partner Will Hayllar. "But the relative economic stability and benign commodity prices have meant businesses have been able to make progress to drive growth and profitability."

As such, these conditions represent a period of calm for suppliers, in between pressure from the rise of the discounters and the UK's exit from the EU. That calm has, of course, been dismantled with the coronavirus and resulting changes to consumer behaviour.

The UK-wide lockdown in spring immediately shifted spend into grocery retail, which experienced unprecedented demand – up as much as 18.9% in June and still up almost 10% year on year [Kantar].

Sales of the listed food players demonstrate the effect of this huge transference of spend. First-half revenues in those who primarily supply supermarkets have grown. Tesco meat supplier Hilton Food Group is up 39%, pork supplier Cranswick is up 21% and Premier Foods is up 15%. Meanwhile, those with out-of-home exposure have seen a sharp fall, with Vimto producer Nichols down 17% and Fever-Tree falling 11%.

That has created expensive challenges on both sides. Those supplying the supermarkets have had to rapidly scale up production, focusing on core product lines as retailers cut SKUs. At the same time, they have incurred significant extra costs related to social distancing, staff absences and PPE.



Businesses primarily supplying supermarkets have seen sales soar during the pandemic, while those exposed to foodservice struggled, but there are further nuances with current trading as footfall in city centres and travel locations has plummeted

On the flip side, those supplying out-of-home sectors were forced to scale back production destined for food to go and prioritise at-home consumption.

Suntory Beverage & Food has seen both sides of the coin. Its offer was "no longer a match for consumer needs" in the wake of the virus, says GB & Ireland COO Carol Robert. "We had to quickly pivot, producing larger packs and bigger bottles. That required a speed to market we had never achieved in the past."

Those new patterns look likely to continue for the foreseeable. Despite the easing of the lockdown over summer OC&C found 59% of foodservice and accommodation businesses were still underperforming. As further restrictions come in, that figure is likely to rise.

Plus, Global Workplace Analytics estimates 25%-30% of the workforce will still be working from home on multiple days a week by the end of 2021. "This is the new normal," says Suntory's Robert. "This shift to at-home consumption is here to stay."

That could present more problems for some than others. "If a supplier is heavily exposed to central London or travel retail, they will be less positive than those focused on more suburban areas," points out Hayllar.

Still, no one can afford to stand still. Jefferies consumer goods analyst Martin Deboo foresees "the emergence of new business models". A food assembly specialist such as Greencore, he suggests, could use its expertise to shift from ready-to-eat categories like sandwiches to meal kits.

Online growth is another area forcing suppliers to adapt. Its share of grocery has risen from 7% pre-pandemic up to 14% over the summer, according to Nielsen. So many suppliers are now tailoring their marketing and promotions strategies to the online shopper.

Premier Foods, for example, grew online sales by 115% in its Q1. "Online is an area we've been doing a lot of work on this year," says chief customer officer Richard Martin. "We've tried to focus on getting the basics right, making sure products have the right hero image that works on mobile, for example, or that the product descriptions contain the right keywords."

OC&C suggests suppliers can also become more creative around basket matching or bidding for banner ads.

Or they could go one step further and go directly to consumers. That's been an area of huge growth during the crisis, says Houlihan Lokey co-head of UK corporate finance Shaun Browne. "The virus has accelerated trends we already had and in particular some of the growth of DTC consumer businesses," he says.

As well as providing a sales spike for existing DTC specialists like Mindful Chef, Abel & Cole and Allplants, a number of traditional brands such as Heinz have launched successful home delivery services.

Akeel Sachak, Rothschild & Co's global head of consumer, doubts DTC will be a game-changer for brand owners, however. "I just don't think the volume is there to make home delivery cost-effective for an individual branded supplier," he says. "People going online for food and drink want to bundle purchases together."

Recession

Ultimately, perhaps the most notable market dynamic shift triggered by Covid is a UK recession. Last month, the Office for National Statistics revealed the UK was in its worst recession since quarterly records began 65 years ago, with second quarter GDP down 19.8%. Consensus estimates suggest the economy will not recover to pre-Covid levels until 2022-23.

It's already having an impact. Asda's income tracker suggests a 3.6% drop in disposable incomes, despite the furlough scheme so far limiting job losses.

The mainstream grocers seem determined not to be caught out by this recessionary cycle, which last time ushered in the growth of the discounters. Tesco led the way, launching a price-matching scheme against Aldi as early as March, and as it's scaled it up over the summer, others have followed, which could squeeze supplier margins once more.

Suntory's Robert, for one, is in favour of the move towards everyday low pricing. "During the last recession there was a trend to shift focus to volume ahead of value, she says. "That's a dangerous game and most of us have learned the lesson, to focus on everyday value rather than spikes of high and low pricing."

However, Sachak points out this recession is different, in that it has been "artificially induced" by lockdowns and the virus. Some therefore expect there will be opportunities to drive consumers up the value curve towards high-margin, added-value products.

Hayllar adds: "There is a risk that if you jump straight into the value agenda you miss the opportunity to capture a higher share of consumer spending."

THE TOP 150

RANK & YEAR CHANGE		COMPANY NAME & OWNERSHIP		ACTIVITY	ANNUALISED TURNOVER (£M)			OPERATING PROFIT (£M)			OPERATING MARGIN (%)			ROCE (%)		YEAR END
					Current	Previous	y-o-y (%)	Current	Previous	y-o-y (%)	Current	Previous	Delta	Current	Previous	
1	► –	Associated British Foods	Sub	B	3,530	3,429	2.9	385	339	13.3	10.9	9.9	1.0	12.3	11.5	09/19
2	► –	Boparan Holdings	Family	O/L	2,748	3,348	-17.9	-4	-11	N/A	-0.2	-0.3	0.2	-0.8	-1.8	07/19
3	► –	Arla Foods	Sub	O/L	2,621	2,530	3.6	-31	29	N/A	-1.2	1.2	-2.3	-3.3	3.3	12/18
4	▲1	Coca-Cola Enterprises	Sub	B	2,163	2,064	4.8	371	303	22.3	17.2	14.7	2.5	39.9	36.2	12/19
5	▼1	Müller UK & Ireland	Sub	B	1,932	2,104	-8.2	-15	36	N/A	-0.8	1.7	-2.5	-2.9	8.2	12/18
6	▲1	Bakkavor	Listed	O/L	1,891	1,862	1.5	69	91	-23.6	3.7	4.9	-1.2	19.8	39.5	12/19
7	▼1	Unilever (UK)	Sub	B	1,869	1,858	0.6	103	85	21.1	5.5	4.6	0.9	8.9	7.7	12/18
8	▲1	Hilton Food Group	Listed	O/L	1,820	1,654	10.0	58	49	19.2	3.2	3.0	0.2	15.3	24.0	12/19
9	▼1	Mondelez (UK)	Sub	B	1,682	1,661	1.3	45	48	-6.1	2.7	2.9	-0.2	1.8	1.8	12/18
10	▲1	Nestlé (UK)	Sub	B	1,675	1,632	2.7	202	256	-21.2	12.1	15.7	-3.6	10.6	9.6	12/19
11	▲4	Cranswick	Listed	O/L	1,663	1,437	15.7	110	89	22.6	6.6	6.2	0.4	21.5	23.3	03/20
12	▲1	Moy Park	Sub	O/L	1,572	1,576	-0.3	75	75	-0.6	4.7	4.8	-0.0	21.4	22.3	12/19
13	▼1	Britvic	Listed	B	1,549	1,508	2.8	163	193	-15.4	10.5	12.8	-2.3	25.1	26.8	09/19
14	▼4	Princes	Sub	B	1,519	1,618	-6.1	16	9	74.0	1.1	0.6	0.5	2.5	1.5	03/19
15	▼1	Greencore Convenience Foods	Listed	O/L	1,450	1,503	-3.5	77	54	43.9	5.3	3.6	1.8	6.4	6.4	09/19
16	► –	Mars (UK)	Sub	B	1,334	1,064	25.4	158	121	30.9	11.9	11.4	0.5	20.3	14.3	12/18
17	▲5	Avara Foods	Sub	O/L	1,143	902	26.7	14	21	-35.5	1.2	2.3	-1.2	4.4	9.2	05/19
18	NEW	Eight Fifty Food Group	PE	B	1,122	1,112	1.0	-3	19	N/A	-0.2	1.7	-2.0	-0.5	3.7	12/18
19	► –	Dunbia	Family	O/L	1,093	905	20.9	7	13	-43.3	0.7	1.4	-0.8	3.1	6.5	12/18
20	▼3	Pilgrim's Pride	Sub	O/L	1,068	1,062	0.5	-17	-37	N/A	-1.6	-3.5	1.9	-5.0	-10.5	09/19
21	▼3	Samworth Brothers	Family	O/L	1,007	1,023	-1.6	22	30	-27.1	2.2	3.0	-0.8	6.3	8.5	12/18
22	▼1	Premier Foods	Listed	B	849	827	2.8	98	14	597.9	11.5	1.7	9.8	40.7	8.4	03/20
23	▼3	United Biscuits	Sub	B	831	828	0.4	80	84	-5.0	9.6	10.2	-0.5	2.5	2.7	12/19
24	► –	HJ Heinz Foods	Sub	B	757	753	0.6	123	103	18.9	16.2	13.7	2.5	5.9	5.4	12/19
25	► –	Fletcher Bay Group	Family	O/L	747	735	1.6	8	11	-24.0	1.1	1.5	-0.4	8.7	10.6	12/19
26	▼3	Kellogg's	Sub	B	733	725	1.1	23	20	13.4	3.2	2.8	0.3	14.9	9.9	12/18
27	▲46	IPL	Sub	O/L	696	728	-4.4	15	15	-0.3	2.1	2.0	0.1	13.3	15.8	12/18
28	▼2	Farmers Boy	Sub	O/L	676	667	1.4	25	22	11.1	3.7	3.4	0.3	3.1	3.6	12/19
29	▼2	Woodhead Bros	Sub	O/L	636	606	5.0	24	15	59.9	3.8	2.5	1.3	3.6	3.3	02/19
30	► –	Wm Morrison Produce	Sub	O/L	555	557	-0.4	17	12	38.5	3.0	2.2	0.9	4.4	3.3	02/19
31	▲1	McCain Foods (GB)	Sub	B	510	512	-0.3	21	58	-63.0	4.2	11.3	-7.1	9.2	31.4	06/19
32	▲1	Warburtons	Family	B	505	508	-0.5	19	-13	N/A	3.8	-2.5	6.3	4.3	-2.9	09/19
33	▲2	G's Group Holdings	Family	O/L	498	474	4.9	10	4	178.0	2.0	0.8	1.2	5.5	2.0	05/19
34	► –	Kerry Foods	Sub	B	486	488	-0.3	45	43	5.9	9.3	8.7	0.5	13.9	5.6	12/18
35	▲1	Dairy Crest Group	Sub	B	480	457	5.1	38	60	-37.1	7.8	13.0	-5.2	8.0	13.3	03/19
36	▼8	Hain Celestial Group (excl Tilda)	Sub	B	462	475	-2.8	N/A	N/A	N/A		N/A	N/A	N/A	N/A	06/19
37	▲1	Dale Farm	Sub	O/L	446	426	4.8	14	11	28.5	3.2	2.6	0.6	10.1	8.7	03/19
38	▼1	Danish Crown (UK)	Sub	O/L	444	451	-1.5	6	7	-4.0	1.4	1.4	-0.0	19.8	21.5	09/19
39	▲2	Birds Eye	Sub	B	431	407	5.9	12	20	-38.0	2.9	4.9	-2.0	6.0	10.0	12/18
40	► –	Suntory Beverage & Food	Sub	B	426	412	3.2	78	73	6.2	18.3	17.8	0.5	47.8	33.8	12/19
41	▲1	James Finlay	Sub	O/L	419	389	7.8	15	25	-39.0	3.6	6.4	-2.8	2.2	4.0	12/18
42	▼3	Ferrero UK	Sub	B	392	420	-6.6	8	11	-22.8	2.2	2.6	-0.5	8.1	11.4	08/19
43	▲5	KP Snacks	Sub	B	378	347	9.1	68	51	32.3	17.9	14.8	3.1	37.3	53.2	12/18
44	▲2	Foyle Food Group	Sub	O/L	371	361	2.6	7	4	71.6	2.0	1.2	0.8	8.6	5.0	12/19
45	▲2	JW Galloway	Family	O/L	369	350	5.2	8	8	3.0	2.3	2.3	-0.0	13.5	14.7	12/19
46	▼1	Fresca Group	Family	O/L	365	354	3.4	6	5	11.5	1.6	1.5	0.1	7.4	7.6	04/19
47	▲6	Refresco Beverages	Sub	O/L	363	336	7.8	-8	8	N/A	-2.2	2.5	-4.7	-7.6	8.5	12/18
48	▲8	Ornua Foods	Sub	B	357	321	11.2	8	10	-23.2	2.1	3.1	-1.0	6.6	9.7	12/19
49	▼5	Jacobs Douwe Egberts	Sub	B	349	357	-2.4	12	17	-31.5	3.3	4.7	-1.4	25.3	46.8	12/18
50	▲5	Innocent	Sub	B	344	326	5.7	18	15	18.7	5.3	4.7	0.6	26.3	21.1	12/18

Methodology: The Top 150 Food & Drink Suppliers survey is produced by OC&C, a consultancy offering strategic advice to top management on the most complex issues in fmcg. In some cases (e.g. PepsiCo) it has not been possible to provide fully consolidated group accounts. Some companies include returns from international (e.g. ABF, Hilton Food Group) and non–food (e.g. Unilever) operations where it was not possible to separate based on accounts.
Ownership: Listed (publicly listed), PE (private equity), Sub (subsidiary of a larger group), Family (family/closely owned). **Main activity:** B (branded), O/L (own label).
Notes: 29 Woodhead Bros: trading as Neerock; 50 Innocent: trading as Fresh Trading; 98 Haribo: trading as Dunhills.
Contact: to find out more about the Top 150 study contact OC&C on 020 7010 8000 or visit occstrategy.com

2020 top performers

Premier Foods

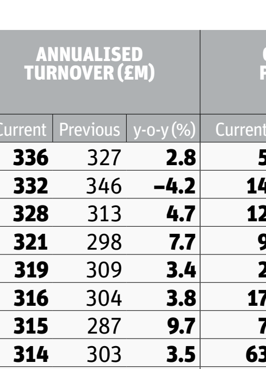
Turnover: £849m (+2.8%)
Operating margin: 11.5% (+2.4ppts)
Premier Foods had already made strong progress driving branded growth before coronavirus – recently posting its 12th successive quarter of UK revenue growth, fuelled by innovation. The Mr Kipling and Batchelors maker has grown NPD as a percentage of branded revenue from 2.5% in 2015 to 6.5% in 2020 and doubled media spend this year to back its biggest brands. Tight cost controls have also boosted margins.

Suntory Beverage & Food GB&I

Turnover: £426m (+3.2%)
Operating margin: 18.3% (+0.5ppts)
The Ribena and Lucozade producer has overcome the regulatory disruption of 2018's soft drinks levy to grow margins through new product development while pushing wholesale reformulation across its portfolio. Amid modest sales growth, investment in its manufacturing base at Coleford in 2020 drove operational efficiencies while improving its sustainability credentials by cutting emissions.

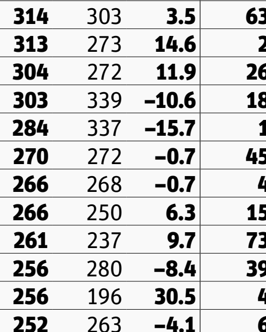
Bettys & Taylors Group

Turnover: £227m (+9.3%)
Operating margin: 7.3% (+1.5ppts)
Stellar sales growth for Yorkshire Tea has enabled the company to invest heavily behind international growth as well as sustainability initiatives. A major 2018 investment in its coffee and tea manufacturing site in Harrogate has driven operational improvements, while allowing it to scale up to meet increased demand. Bettys & Taylor also moved into DTC with more than 120k mail order users in 2019.



Lindt

Turnover: £210m (+10.1%)
Operating margin: 11.4% (+2.5ppts)
The Swiss chocolatier has benefited from its premium position with double digit sales growth. Significant growth in its Lindor brand, as well as seasonal and snacking products, has increased its market share in the growing premium confectionery category. It has also continued innovating in its core chocolate range with the launch of Lindt Excellence 'Supermilk' – a new blend of dark chocolate and smooth milk.



David Wood Foods

Turnover: £113m (+15.6%)
Operating margin: 3.2% (+2.1ppts)
Own-label baked goods supplier David Woods has achieved annualised sales growth of almost 14% per year since 2014, despite intense competition. Its £5m spend on R&D, up 25% on 2018, has enabled DWF to improve products in core categories like bread, confectionery and pies. It has a record of acquiring and turning round factories in the bakery space and it's recently moved into the high-growth vegan market.

THE TOP 150

RANK & YEAR CHANGE		CO NAME & OWNERSHIP		ACTIVITY	ANNUALISED TURNOVER (£M)			OPERATING PROFIT (£M)			OPERATING MARGIN (%)			ROCE (%)		YEAR END
					Current	Previous	y-o-y (%)	Current	Previous	y-o-y (%)	Current	Previous	Delta	Current	Previous	
51	▲3	Hovis	PE	B	336	327	2.8	5	-2	N/A	1.6	-0.5	2.1	5.7	-1.8	12/18
52	▼3	Noble Foods	Family	O/L	332	346	-4.2	14	15	-4.0	4.2	4.2	0.0	7.6	8.7	09/19
53	▲4	LDH (La Doria)	Sub	O/L	328	313	4.7	12	10	28.5	3.7	3.0	0.7	15.3	12.7	12/18
54	▲6	Oscar Mayer	PE	O/L	321	298	7.7	9	9	-7.4	2.7	3.1	-0.4	11.9	13.1	03/19
55	▼4	Berry Gardens	Family	O/L	319	309	3.4	2	4	-44.6	0.7	1.4	-0.6	10.3	22.1	12/19
56	▲2	Finsbury Food Group	Listed	B	316	304	3.8	17	6	164.4	5.3	2.1	3.2	24.1	11.0	06/19
57	▲6	General Mills (UK)	Sub	B	315	287	9.7	7	7	3.5	2.3	2.4	-0.1	11.8	9.1	05/19
58	▲1	Weetabix	Sub	B	314	303	3.5	63	59	7.7	20.1	19.3	0.8	23.8	17.3	09/19
59	▲6	Addo Food Group	PE	O/L	313	273	14.6	2	4	-46.4	0.6	1.4	-0.7	3.8	6.3	03/19
60	▲6	Red Bull Company	Sub	B	304	272	11.9	26	23	12.1	8.5	8.5	0.0	109.4	67.7	12/18
61	▼11	Baxters Food Group	Family	B	303	339	-10.6	18	19	-7.1	5.8	5.6	0.2	13.4	13.6	03/19
62	▼10	Fyffes Group	Sub	B	284	337	-15.7	1	2	-42.5	0.5	0.7	-0.2	2.1	3.5	12/18
63	▲9	Froneri UK (R&R Ice Cream)	PE	O/L	270	272	-0.7	45	52	-12.7	16.8	19.1	-2.3	43.2	38.1	12/19
64	▲3	KTC (Edibles)	Family	O/L	266	268	-0.7	4	4	-3.7	1.5	1.6	-0.0	8.0	9.6	12/18
65	▲5	McCormick UK	Sub	B	266	250	6.3	15	35	-57.0	5.7	14.1	-8.4	3.5	20.6	11/18
66	▲9	Fever-Tree	Listed	B	261	237	9.7	73	75	-2.9	27.9	31.5	-3.6	42.7	72.9	12/19
67	▼3	AG Barr	Listed	B	256	280	-8.4	39	46	-15.6	15.3	16.6	-1.3	28.7	35.9	01/20
68	▲23	Direct Produce Supplies	Family	O/L	256	196	30.5	4	3	17.2	1.6	1.8	-0.2	32.5	48.9	09/19
69	► –	CSM (UK)	PE	O/L	252	263	-4.1	6	-7	N/A	2.5	-2.7	5.2	8.6	-10.9	12/18
70	▲7	Stateside Foods	Sub	O/L	252	230	9.2	8	9	-7.6	3.3	3.9	-0.6	17.2	20.5	02/9
71	▼10	Yeo Valley	Family	B	250	252	-0.8	3	4	-28.6	1.3	1.8	-0.5	5.1	6.3	06/19
72	▲10	Country Style Foods	Family	O/L	245	210	16.8	1	4	-79.8	0.3	1.9	-1.6	1.6	9.1	04/19
73	▼30	Sun Valley Foods	Sub	O/L	243	382	-36.2	-12	4	N/A	-5.1	1.1	-6.2	-17.9	4.7	05/19
74	▼12	William Jackson Foods	Family	B	242	287	-15.8	-15	13	N/A	-6.2	4.6	-10.8	-11.1	11.5	04/19
75	▲1	Burton's Foods	PE	B	236	233	1.0	-5	-11	N/A	-2.1	-4.5	2.4	-1.3	-2.6	12/18
76	▼8	Walkers Snack Foods	Sub	B	231	257	-9.8	15	21	-27.2	6.6	8.2	-1.6	3.9	5.4	12/18
77	▲4	Quorn Foods	Sub	B	230	220	4.5	24	28	-14.2	10.3	12.5	-2.2	10.1	18.0	12/19
78	► –	Barry Callebaut	Family	B	227	217	4.8	2	1	81.5	1.0	0.6	0.4	2.8	1.9	08/18
79	▲4	Bettys & Taylors Group	Family	B	227	208	9.3	17	12	37.4	7.3	5.8	1.5	12.5	9.2	10/19
80	▲8	Lactalis McLelland	Sub	O/L	223	200	11.6	8	17	-53.0	3.6	8.4	-4.9	6.2	12.9	12/18
81	▲4	CP Foods (UK)	Sub	O/L	220	206	6.9	5	6	-11.3	2.4	2.9	-0.5	7.5	8.6	12/18
82	▲10	Produce Investments	PE	O/L	219	189	16.1	5	15	-68.1	2.2	8.1	-5.9	7.3	19.8	08/19
83	▲13	Alpro UK	Sub	B	210	183	14.8	9	8	13.3	4.4	4.4	-0.1	12.8	14.6	12/18
84	▲18	Lindt & Sprüngli (UK)	Sub	B	210	191	10.1	24	17	41.5	11.4	8.8	2.5	66.1	61.8	12/19
85	▲9	Tayto Group	Family	B	208	186	12.2	4	4	9.6	2.0	2.1	-0.0	3.7	3.4	06/19
86	▼7	Noon Products	Sub	O/L	208	222	-6.3	2	7	-65.5	1.1	3.1	-2.0	2.0	3.5	12/18
87	▲3	Greencell	Family	O/L	206	196	5.0	5	5	5.6	2.6	2.5	0.0	34.2	34.2	12/19
88	▲1	Danone	Sub	B	202	196	2.8	13	12	10.7	6.6	6.2	0.5	35.7	26.6	12/18
89	▼5	Linden Foods	Sub	O/L	201	207	-2.9	2	2	2.4	1.1	1.0	0.1	5.5	5.4	09/19
90	▲11	S H Pratt & Company	Family	O/L	197	176	12.2	2	3	-26.7	1.0	1.6	-0.6	11.3	18.3	10/19
91	▼5	Danone Waters (UK & Ireland)	Sub	B	196	189	3.6	11	11	-0.7	5.7	5.9	-0.2	57.2	55.7	12/18
92	▲1	Bernard Matthews Holdings	Sub	B	194	188	3.0	-24	-14	N/A	-12.4	-7.3	-5.0	-39.9	-24.4	12/18
93	▲5	Natures Way Foods	Family	O/L	191	183	4.5	-2	3	N/A	-1.0	1.8	-2.9	-4.2	7.6	03/19
94	▼7	Scottish Sea Farms	Sub	O/L	190	200	-4.9	58	63	-7.2	30.6	31.4	-0.8	46.2	59.5	12/18
95	▲5	Winterbotham Darby &Co	PE	O/L	188	173	8.2	3	4	-20.5	1.6	2.2	-0.6	1.9	3.1	03/19
96	▼16	John West Foods	Sub	B	186	221	-15.7	12	2	524.2	6.4	0.9	5.5	14.8	2.3	12/18
97	► –	Upfield Foods (Unilever BCS UK)	PE	B	186	183	1.2	6	8	-28.5	3.0	4.3	-1.3	9.7	12.7	12/18
98	▲1	Haribo	Sub	B	184	182	1.3	24	22	10.6	13.0	11.9	1.1	15.1	13.4	12/19
99	▲16	The Scottish Salmon Company	Family	O/L	180	151	19.3	48	30	60.8	26.4	19.6	6.8	35.8	27.1	12/18
100	▼5	Zetar	Sub	B	180	184	-2.4	5	5	1.2	2.7	2.6	0.1	7.0	6.5	12/19

Methodology: The Top 150 Food & Drink Suppliers survey is produced by OC&C, a consultancy offering strategic advice to top management on the most complex issues in fmcg. In some cases (e.g. PepsiCo) it has not been possible to provide fully consolidated group accounts. Some companies include returns from international (e.g. ABF, Hilton Food Group) and non–food (e.g. Unilever) operations where it was not possible to separate based on accounts.
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Notes: 29 Woodhead Bros: trading as Neerock; 50 Innocent: trading as Fresh Trading; 98 Haribo: trading as Dunhills.
Contact: to find out more about the Top 150 study contact OC&C on 020 7010 8000 or visit occstrategy.com

RECESSION IMPACT ON SHARE CHANGE

Notes: (%pts change)

	2008-10 RECESSION	2017-19 STABILITY	MULTIPLE OF SHARE CHANGE IN RECESSION
Fmcg average	6.1	2.5	2.4X
Hot cereal/porridge	7.0	0.7	9.7X
Juice	6.2	1.6	3.8X
Crisps, snacks & nuts	3.2	1.2	2.7X
Sugar confectionery	6.3	3.3	1.9X
Jams & spreads	10.6	5.9	1.8X
Cold/RTE cereal	2.4	1.8	1.3X
Sweet biscuits	4.0	3.6	1.1X

Indeed, Covid-19 has dramatically dampened other areas of spend, such as holidays, travel expenses and eating out. That potentially leaves consumers with more room for affordable luxuries in food and drink.

For that reason, Deboo doubts there will be "much recessionary impact" on UK food spend. "And when you overlay Covid on that to keep the focus on the at-home market, you could see plenty of opportunity for quite aggressive premiumisation," he adds.

Premier's Martin similarly spots an opportunity here. "Consumers spending more time at home will get bored of having the same meals all the time," he says. "We're thinking carefully about how we can offer inspiration through the innovation we're bringing to market".

Covid is also a tailwind behind another typically margin-accretive trend: healthy eating. Boris Johnson has unveiled his obesity strategy, and the public is paying attention. "People have seen the link between obesity and illness," says Browne. "It's inevitable there will be an acceleration in demand for healthier and better-for-you products."

To succeed in the recession, OC&C associate partner Nilpesh Patel says suppliers need to ensure they are positioned to tap into these areas of consumer demand. "If you are on the right side of some of those trends, such as affordable luxuries and healthier products, there is certainly an ability to benefit," he adds.

So far, it seems Covid will be a surmountable threat. But let's not forget the ongoing threat facing suppliers, even before the virus hit: the rising cost of labour. At present it is unclear how Covid has affected this picture. The extra costs associated with factory operations during the virus were perhaps mitigated by range simplification and a dialling back of promotions.

Brexit costs

The industry is now facing those extra costs alongside Brexit. Until now, the UK's delayed exit from the EU has punted the potential labour crisis down the road. The 7.3% reduction in EU immigration in the three years to March 2020 was in effect replaced by a 13.5% uptick in non-EU immigration. So costs have been relatively stable. Last year, revenue per employee grew by 2%, though staff costs per employee rose 3%.

The upcoming direction of movement on labour costs – given the national minimum wage and likely Brexit impact – is likely to produce much more dramatic change. With that in mind, producers have continued to invest in production and automation.

That is evidenced by the Top 150 report, which shows capex as a proportion of revenues rose again last year to 3.6% – from 3.5% in 2018 and 3.1% in 2017. Suntory is a case in point. Roberts points to a £13m investment in its Coleford factory "to drive value and take costs out".

Browne believes the movement towards capex instead of spend on people will "probably happen as a result of Brexit, as cheap labour will be harder to come by. But Covid could switch everything on its head and make cheap labour available domestically."

Indeed, an uptick in unemployment could relax the UK labour market, giving the industry more opportunity to recruit British workers.

It's a good thing, considering the biggest threat of Brexit – punishing tariffs and border disruption – is getting very real. As The Grocer went to press, Boris Johnson claimed to have walked away from talks and has called on UK business to prepare for a 'no-deal'.

Luckily, businesses have had plenty of experience in preparing over the past year. "The transition period has give us more time to get this right and we feel we've planned for every eventuality," Robert says.

There have already been industry efforts to increase stocks and diversify transport routes away from Dover, says Hayllar. That suggests – other than specific cases such as the import of fresh fruit & vegetables – suppliers are fairly confident in handling border disruption.

Of more concern is uncertainty around tariffs, which will affect over 85% of food imports. Average tariffs are likely to be around 20% but could hit 57% on cheddar and 48% on beef mince in a no deal. Exports are likely to face EU tariffs of similar magnitudes.

That uncertainty already appears to have had an effect on trade. First-half food and drink exports have slumped 14%, while total Top 150 export growth was 2.8% in 2019 compared with domestic growth of 1.1%, this was heavily driven by international M&A.

Food price inflation

The most notable effect of tariffs would be to supercharge food price inflation amid more pressure on the pound. Hayllar says producers have little headroom to absorb these extra costs, meaning "it is either passed on or major efficiencies have to be found elsewhere".

Any structural input inflation would conflict with the grocers' desire to compete with the discounters, and could put supplier margins under pressure. "Pushing through price increases in this political environment will be challenging to say the least," he adds.

Still, the overriding message amid all this turmoil is one of optimism. "There is an opportunity here to reappraise how important this sector is in UK life," says Hayllar. "We have seen such an impressive effort to adapt under all sorts of pressure and there is a real chance to capitalise on that in relations with government and to boost the level of talent coming into the industry." Because if the food and drink industry has proven one thing over the past 12 months, it's that it knows how to rise to a challenge.

Saputo's acquisition of Dairy Crest was the biggest deal of last year

How Covid has affected M&A

Merger and acquisition activity among the UK's Top 150 food and drink firms was weak in 2019, and even weaker in the first half of 2020 as Covid hit. But there are hopes that emergence from the coronavirus will drive an uptick in deal-making.

Last year's figures were underwhelming. There were 12 deals with known deal values involving the Top 150 last year, a drop from 18 in 2018.

In terms of valuations, the drop-off was steeper still, with those deals worth just £2.4bn last year compared with £6.8bn in 2018 and £7bn in 2019. Only the acquisition of Dairy Crest by Canadian dairy group Saputo topped £1bn during the year.

Including undisclosed deal values, there were 21 deals in the second half of 2019, but that had slowed to just nine announced deals in the first half of 2020 as the coronavirus outbreak froze the M&A market.

"2019 was a poor year for UK M&A because of Brexit and the General election," says Houlihan Lokey's Shaun Browne. "This year's dampener has been Covid, but the combined impact of the two means there is something of a backlog of pent-up desire to get deals done."

OC&C suggests the relative weakness of the pound continues to make the price of UK assets attractive to overseas buyers, with non-UK acquirers accounting for 85% of deal value in 2018 including some notable post-lockdown acquisitions.

Since the summer, Italian chocolatier Ferrero has bought Fox's Biscuits for £246m, while dogfood supplier Forthglade was sold for £50m to European investment firm IK Investment Partners.

"We've seen a real step up in M&A activity since last summer as acquirers are now getting comfortable looking at those businesses that have been shown to be able to manage what shifts Covid has driven in consumer behaviour," says OC&C's Hayllar.

Indeed, the stratification of winners and losers created by Covid and the recession creates supportive conditions for M&A – be that buyers looking to acquire pockets of growth in a downturn or distressed businesses needing new ownership.

Rothschild's Akeel Sachak adds: "Those with strong balance sheets prepared to look beyond Covid-19 could see this as a good time to go shopping as valuations are depressed relative to pre-Covid levels, but similarly some vendors will think it's a good time to sell as they have been beneficiaries of pantry loading and more home consumption."

THE TOP 150

RANK & YEAR CHANGE		CO NAME & OWNERSHIP		ACTIVITY	ANNUALISED TURNOVER (£M)			OPERATING PROFIT (£M)			OPERATING MARGIN (%)			ROCE (%)		YEAR END
					Current	Previous	y-o-y (%)	Current	Previous	y-o-y (%)	Current	Previous	Delta	Current	Previous	
101	▲7	Angus Soft Fruits	Family	O/L	179	160	12.5	1	1	51.4	0.8	0.6	0.2	10.9	8.6	04/19
102	▲20	Kolak Snack Foods	PE	O/L	176	156	12.2	9	12	-27.1	5.0	7.7	-2.7	4.4	20.2	01/20
103	NEW	Monaghan Mushrooms	Sub	O/L	173	179	-3.6	2	1	91.1	1.0	0.5	0.5	3.0	1.7	06/19
104	▲3	Dr Oetker (UK)	Sub	B	172	161	6.6	24	19	29.6	14.1	11.6	2.5	28.7	24.5	12/18
105	▲1	Browns Food Group	Family	O/L	172	164	5.0	11	8	36.8	6.6	5.0	1.5	26.8	21.0	12/18
106	▲2	Park Cakes	PE	O/L	169	171	-0.9	-0	1	N/A	-0.3	0.5	-0.7	-2.1	3.7	03/19
107	▲9	Mowi Consumer Product UK	Sub	O/L	167	145	15.4	10	9	13.4	6.2	6.3	-0.1	18.5	16.8	12/18
108	▲2	Direct Table Foods	Sub	O/L	167	156	6.6	8	5	86.5	5.1	2.9	2.2	16.6	10.0	12/18
109	▲5	JBS (UK)	Sub	O/L	165	152	8.6	4	4	11.7	2.7	2.6	0.1	7.9	7.3	12/19
110	NEW	Banham Poultry (2018)	Family	O/L	165	N/A	N/A	-4	N/A	N/A	-2.6	N/A	N/A	N/A	N/A	06/19
111	► –	International Seafoods	Sub	O/L	165	155	6.2	7	4	81.8	4.5	2.6	1.9	28.9	19.1	02/19
112	▼9	Dovecote Park	Family	O/L	164	171	-4.3	2	3	-16.5	1.5	1.7	-0.2	7.5	10.0	09/19
113	▼4	Barfoots of Botley	Family	O/L	162	158	2.9	8	8	1.8	5.0	5.1	-0.1	15.6	26.0	12/18
114	▼2	New England Seafood	Family	O/L	161	155	4.0	2	3	-28.7	1.5	2.2	-0.7	9.9	13.3	10/19
115	▲2	Fayrefield Foods	Family	O/L	158	155	2.0	2	2	-0.1	1.1	1.2	-0.0	4.6	4.6	12/18
116	▲11	Greenyard Fresh UK	Sub	O/L	154	166	-7.0	-2	2	N/A	-1.6	1.2	-2.7	-36.1	29.3	03/19
117	▲8	Branston Holding	Family	O/L	153	134	14.1	5	5	2.5	3.1	3.5	-0.4	10.4	11.3	07/19
118	▲3	Lantmannen Unibake UK	Sub	O/L	151	140	8.2	5	-1	N/A	3.0	-0.6	3.7	8.3	-1.5	12/18
119	▲7	Albert Bartlett & Sons (Airdrie)	Family	O/L	149	130	14.2	5	6	-18.8	3.4	4.7	-1.4	6.3	8.8	05/19
120	▲10	Northcoast Seafoods	Family	B	147	127	16.2	4	3	20.5	2.6	2.5	0.1	7.1	6.8	12/18
121	▼2	Nichols	Listed	B	147	142	3.5	34	32	6.2	23.0	22.4	0.6	29.3	31.1	12/19
122	▼5	Walkers Shortbread	Family	B	147	143	2.7	7	6	28.3	5.0	4.0	1.0	7.9	6.2	12/18
123	► –	Kettle Produce	Family	O/L	138	136	1.4	3	5	-29.6	2.4	3.4	-1.0	12.3	19.3	06/19
124	► –	Rowse	Sub	B	137	135	1.9	18	25	-27.4	13.1	18.3	-5.3	5.1	9.5	03/19
125	▼5	Tata Global Beverages	Sub	B	135	140	-3.9	11	8	46.4	8.2	5.4	2.8	7.2	4.7	03/19
126	▲3	Flamingo Produce	Family	O/L	127	123	2.9	7	3	93.6	5.3	2.8	2.5	59.5	43.1	12/18
127	▲9	Tangerine Confectionery	Sub	O/L	122	120	1.9	-2	2	N/A	-1.3	1.8	-3.0	-1.9	2.7	03/19
128	► –	Lactalis Nestlé (Chilled Dairy Co)	Sub	B	122	127	-4.5	6	3	105.4	4.9	2.3	2.6	15.4	11.1	12/18
129	▲9	Chesterfield Poultry	Family	O/L	121	99	21.9	3	3	-25.1	2.1	3.5	-1.3	14.9	21.2	06/19
130	▲13	Lyons Seafood	Sub	O/L	120	113	6.8	7	6	8.5	5.5	5.4	0.1	14.3	13.4	06/19
131	▲8	Randall Parker Foods	Family	O/L	119	123	-2.9	-0	1	N/A	-0.2	1.1	-1.3	-1.5	8.8	09/18
132	▼14	Whitworths	Sub	O/L	117	118	-0.6	-1	-2	N/A	-0.9	-2.1	1.2	-5.5	-13.9	12/19
133	▲4	Greenyard Frozen UK	Sub	O/L	116	120	-3.1	2	7	-75.8	1.5	5.9	-4.4	2.1	8.6	03/19
134	NEW	Tilda Limited	Sub	B	116	109	6.2	N/A	N/A	N/A		N/A	N/A	N/A	N/A	06/19
135	▼2	Pritchitts	Sub	O/L	115	121	-5.3	-0	2	N/A	-0.1	1.6	-1.7	-0.3	8.4	12/18
136	▲5	Dairygold Food Ingredients	Sub	O/L	114	113	1.2	2	2	7.1	1.7	1.6	0.1	4.8	4.6	12/18
137	▲13	Signature Flatbreads UK	Family	O/L	114	105	8.5	11	9	21.4	9.8	8.8	1.0	26.4	23.3	07/19
138	▼3	Yoplait UK	Sub	B	114	121	-5.8	15	19	-17.8	13.5	15.4	-2.0	29.2	25.4	05/19
139	NEW	David Wood Foods	Family	O/L	113	98	15.6	4	1	238.8	3.2	1.1	2.1	11.4	3.6	11/19
140	▲8	Vitacress	Sub	O/L	113	104	9.2	5	5	1.4	4.3	4.6	-0.3	7.7	7.4	12/18
141	▲3	Harvey & Brockless	Family	B	111	100	11.3	1	2	-37.3	1.3	2.3	-1.0	20.5	55.8	09/18
142	▲3	Highland Spring	Family	B	111	110	0.4	2	4	-59.5	1.6	3.9	-2.3	3.7	10.4	12/18
143	▲3	Green Label Foods	Family	B	110	109	0.9	1	6	-75.2	1.3	5.3	-4.0	3.7	16.8	02/19
144	NEW	Graham's The Family Dairy	Family	O/L	109	104	4.7	3	2	67.2	2.8	1.7	1.0	15.4	9.5	03/19
145	▲2	Blue Skies	Family	O/L	109	99	10.0	5	2	189.3	4.6	1.7	2.8	21.1	8.3	12/18
146	NEW	Bel UK	Sub	B	109	102	6.5	8	6	24.3	7.0	6.0	1.0	29.2	8.9	12/19
147	▼13	Symington's	Sub	B	108	121	-10.6	-1	8	N/A	-0.5	6.5	-7.0	-1.2	18.1	09/19
148	▼6	Farne Salmon & Trout	Sub	O/L	108	113	-4.5	-0	1	N/A	-0.2	1.2	-1.3	-0.8	6.9	06/19
149	▼17	Alliance Group (NZ)	Sub	O/L	107	122	-11.7	2	1	59.7	2.2	1.2	1.0	10.7	4.7	09/19
150	NEW	AJ & RG Barber	Family	O/L	107	105	1.7	7	9	-17.3	6.6	8.1	-1.5	8.2	11.2	03/19

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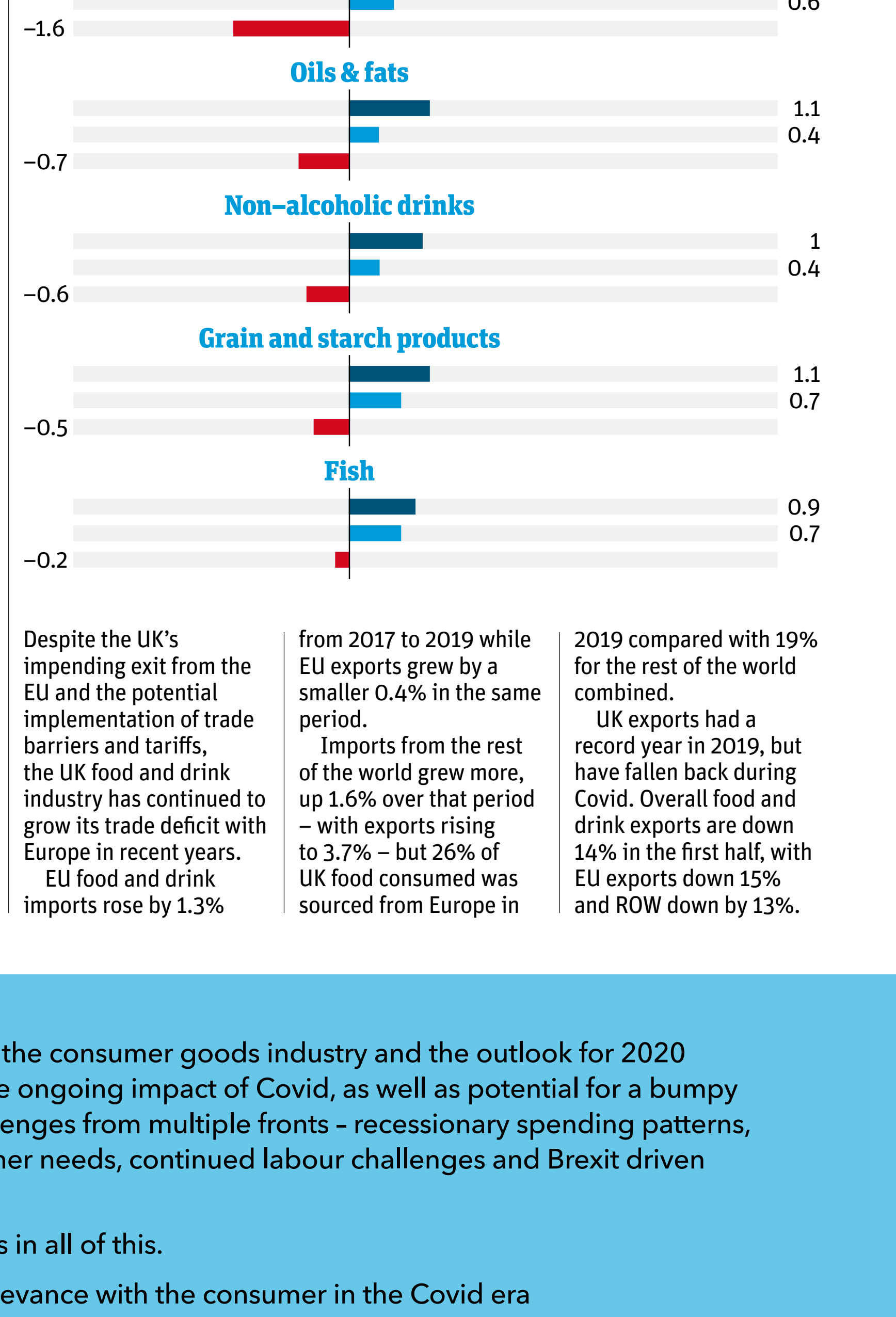
UK/EU balance of trade (£bn)



Despite the UK's impending exit from the EU and the potential implementation of trade barriers and tariffs, the UK food and drink industry has continued to grow its trade deficit with Europe in recent years.

EU food and drink imports rose by 1.3% from 2017 to 2019 while EU exports grew by a smaller 0.4% in the same period.

Imports from the rest of the world grew more, up 1.6% over that period – with exports rising to 3.7% – but 26% of UK food consumed was sourced from Europe in 2019 compared with 19% for the rest of the world combined.

UK exports had a record year in 2019, but have fallen back during Covid. Overall food and drink exports are down 14% in the first half, with EU exports down 15% and ROW down by 13%.

Covid-19 has driven huge changes across the consumer goods industry and the outlook for 2020 and year ahead remains turbulent, with the ongoing impact of Covid, as well as potential for a bumpy Brexit. Suppliers will continue to face challenges from multiple fronts – recessionary spending patterns, grocer emphasis on value, shifting consumer needs, continued labour challenges and Brexit driven inflation to name but a few.

However, there is opportunity for suppliers in all of this.

- Food and drink at home is regaining relevance with the consumer in the Covid era
- Aspirational but accessible products stand to do well, particularly when positioned behind key trends, such as healthy eating, scratch cooking or affordable indulgence
- Disruption provides catalyst for change, creating larger than ever gaps between winners and losers

The question is, are you positioned to be one of the winners?

If you would like to discuss any of the themes covered in the Top 150 report we'd be delighted to talk.

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The Grocer

OC&C Strategy consultants

uncommon sense

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