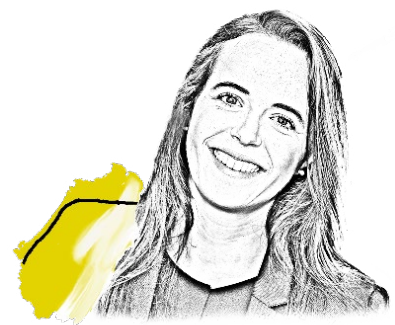


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THE NOT-SO-HUMBLE SAUSAGE ROLL

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Greggs is a British institution. Its sausage roll has become part of our national culture. Despite marked inflation in input costs, a tough environment for the UK consumer and the pressures of what is a highly competitive sector, this bakery and convenience food chain has continued to grow. Its customers have enjoyed the wider menu, taken advantage of longer opening hours and made the most of the delivery options. And they are still prepared to queue.



ASHLEY-JANE KYLE
Investment Manager

GROWTH DESPITE THE ECONOMIC ODDS

At the end of July, a company within our European equity universe announced half-year results that showed a 14% increase in sales and 16% uplift in pre-tax profits. Given the economic climate, a first guess at the name of this company might be that it is one that is sufficiently well-positioned, and well-capitalised, to seize growth in dynamic sectors such as healthcare or technology.

“Founded in 1939, it is one of the UK’s most loved retail brands”

It is however a consumer-facing company, one that also reported 7% like-for-like sales growth alongside 99 shop openings over the first half. Again, given poor consumer confidence and widespread cost of living pressures, it would be reasonable to guess that this company might be one of Europe’s longstanding leaders in the luxury sector. The best of these companies continue to leverage brand expertise and consumer appeal to tap into demand around the world. Hermès or LVMH might come to mind.

Again, that guess would be far from the mark. This company stands at the other end of the retail experience, being arguably best known for the humble sausage roll. The company is Greggs. Founded in 1939, it is one of the UK’s most loved retail brands. With over 2,100 stores and a 5% market share of the UK food-to-go market, Greggs now sells a growing range of sandwiches, drinks and savoury products alongside its traditional bakery goods. YouGov’s 2024 UK brand index again placed Greggs top in the takeaway and casual dining category, ahead of international giants McDonald’s, KFC, Domino’s Pizza, Subway and Burger King.

ASSESSING FUTURE PROSPECTS

The perhaps obvious question is how Greggs plans to maintain its profitable growth in what is a competitive marketplace and one where the customer base is very much under pressure economically. The company’s loyal customer base together with a track record of operational efficiency and sensible strategic steps are factors that are central to our investment case. A meeting in our offices in August with the company’s CEO Roisin Currie and CFO Richard Hutton gave us the opportunity to challenge those assumptions and test our analysis.

Greggs’ management did not shy away from discussions about the challenging UK consumer environment. Few companies can give such an informed read on the UK consumer and there was acknowledgement that, in the face of a tough market, competitive pressures might heat up as others double down on value and cut prices. But that realism was far from defeatism and instead we heard a confident re-iteration of the company’s growth strategy.

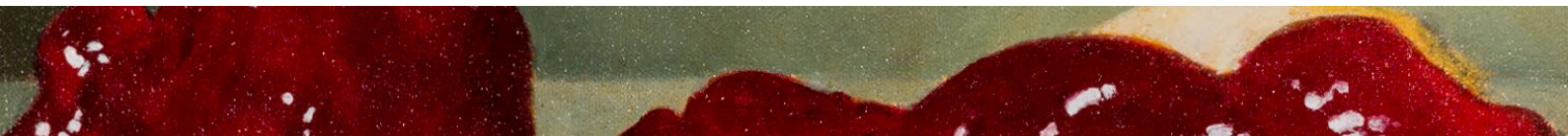
“Few companies can give such an informed read on the UK consumer”

Within its shops, careful extensions in the Greggs’ menu have proved successful. The introduction of chicken goujons and pizza slices has been well received. Likewise, the introduction of iced versions of its hot drinks something so ubiquitous amongst its competitors has also been a success. The TikTok-fuelled teenage appeal of these drinks may have been evident in summer sales but, looking over the past year, Greggs has seen healthy demand regardless of the season, or of social media fashion.

Growth in delivery orders over breakfast time is also now being supported by encouraging signs of growth in demand in the early evening, which has become an area of focus. With the widening menu and adaptations to store locations and staffing, the company is becoming much better placed to tap into this area. Increased use of the company’s app, and its incorporated loyalty programme, also continues to give more detailed insight allowing Greggs to meet its stated goals of “being more convenient for our customers, more often” and “serving more of our customers’ food and drink needs”. Management is confident that whilst their consumer is already curtailing big ticket spends, demand for their products and the convenience that comes from their offer remains strong.

“Europe’s largest doughnut manufacturing plant producing 16,500 doughnuts an hour”

Behind the shop front, operational investments also continue to deliver. Members of our Research team have regularly visited the company in Newcastle, and earlier this summer, we were back in the city to catch up with management and visit some of the company’s facilities. This trip included a visit to what is Europe’s largest doughnut manufacturing plant producing 16,500 doughnuts an hour. Here, investment in automation was very evident as it is in the neighbouring sausage roll factory that produces a somewhat staggering 45,000 items an hour with seven million sausage rolls typically made every week, rising to 10 million in the busiest periods. The company also provided an update on its plans to add two national distribution centres over the next two to three years which, combined with increased automation and other supply chain investments, will support growth to at least 3,500 shops. That expansion will



see Greggs continue to extend from its traditional high street location into petrol forecourts, roadside sites and industrial estates. More suburban locations that might previously have been ruled out are also now being considered given their exposure to evening trade. The data points used by the company to identify potential

sites suggest there is now scope for over 4,300 stores across the UK.

LOYALTY AND QUEUES

The humble sausage roll or jam doughnut might not have the allure of a Birkin bag or a bottle of Moët & Chandon but Greggs' customers across the UK are perhaps just as devoted as

those luxury customers queuing on Paris's Champs Elysée and London's Bond Street. Two minutes from our offices, you can find the usual list of well-known coffee and sandwich shops. Greggs, however, is the only one where you'll often see queues onto the street. Quite something in a city where people generally don't like to queue, and it is so often raining.

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