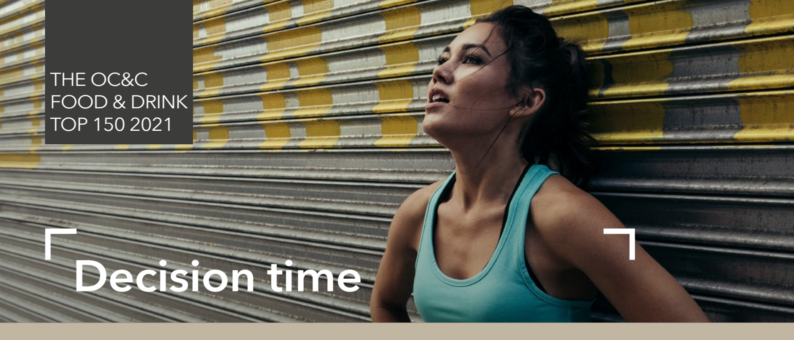


THE OC&C FOOD & DRINK TOP 150 2021

Decision time

In the new normal, UK food and drink suppliers will need to make key choices to secure their future

Survival of the fittest

Alec Mattinson

Some thrived. Some merely survived. But amid the continued fallout from Covid and Brexit, the next hurdles for leading UK food & drink suppliers are labour shortages and soaring inflation

Covid created an industry of winners and losers. While those supplying supermarkets enjoyed unprecedented sales growth, out-of-home players hit a wall.

But it looks like this was simply the warm-up race. The coming wave of inflation, alongside intensifying supply chain and labour issues, pose fundamental threats to the entire industry – and could have an even more profound impact than Covid.

So what shape is the industry in as it prepares to face potentially its toughest challenge yet?

Despite popular perceptions, the OC&C Top 150 study of the biggest food and drink suppliers in the UK suggests Covid was not a boon for the industry. Overall 2020 revenue growth was the lowest for four years, with aggregate sales up just 1.1%. That's down from 1.9% in 2019 and 4.3% in 2018.

What's more, this growth rate was just 0.2 percentage points higher than inflation. Not only is this well below the long-term average of 4.9%, but it's the lowest for 20 years – with the exception of zero-growth years in 2015 and 2016.

This weakness appears to fly in the face of double-digit UK grocery growth throughout much of the pandemic. OC&C managing partner Will Hayllar explains the figures reflect how strong growth for some suppliers and channels has been offset by a "complete collapse" in others. Essentially, the pandemic created a much wider gap between the winners and losers. Some 26 suppliers grew their revenues by more than 10%, while 20 saw a double-digit decline.

> **"The out-of-home channel has rebounded strongly and retailers are reintroducing insurgent brands that struggled in lockdown"**

THE TOP 150

Rank	Year change	Company name	Ownership	Activity	Annualised turnover (£m) Current	Previous	y-o-y (%)	Operating profit (£m) Current	Previous	y-o-y (%)	Operating margin (%) Current	Previous	Delta	ROCE (%) Current	Previous	Year end
1	► –	Associated British Foods	Sub	B	3,538	3,508	0.9	438	386	13.5	12.4	11.0	1.4	14.6	12.5	09/20
2	▲ 6	Hilton Food Group	Listed	O/L	2,729	1,820	50.0	70	58	19.6	2.6	3.2	–0.7	12.8	16.9	01/21
3	▼ 1	Boparan Holdings	Family	O/L	2,648	2,748	–3.6	45	18	146.6	1.7	0.7	1.0	8.7	3.2	08/20
4	▼ 1	Arla Foods	Sub	O/L	2,472	2,469	0.1	58	52	11.1	2.3	2.1	0.2	5.9	5.5	12/20
5	▼ 1	Coca-Cola European Partners	Sub	B	1,997	2,163	–7.7	246	317	–22.6	12.3	14.7	–2.4	23.6	33.4	12/20
6	▲ 1	Unilever (UK)	Sub	B	1,927	1,822	5.8	150	98	52.8	7.8	5.4	2.4	11.9	7.7	12/20
7	▲ 4	Cranswick	Listed	O/L	1,919	1,663	15.4	121	110	10.4	6.3	6.6	–0.3	19.6	21.5	03/21
8	▼ 3	Müller UK & Ireland	Sub	B	1,912	1,899	0.7	28	70	N/A	1.5	–3.7	5.2	6.1	–13.8	12/20
9	► –	Mondelez (UK)	Sub	B	1,825	1,733	5.3	47	47	0.2	2.6	2.7	–0.1	1.9	1.9	12/20
10	▼ 4	Bakkavor	Listed	O/L	1,798	1,891	–4.9	65	69	–5.5	3.6	3.7	–0.0	16.5	21.5	12/20
11	▼ 1	Nestlé (UK)	Sub	B	1,697	1,675	1.3	220	202	8.9	13.0	12.1	0.9	10.7	10.6	12/20
12	▲ 2	Princes	Sub	B	1,529	1,519	0.6	36	16	123.1	2.4	1.1	1.3	4.8	2.5	03/20
13	▼ 1	Moy Park	Sub	O/L	1,454	1,572	–7.5	86	75	15.9	5.9	4.7	1.2	20.4	21.4	12/20
14	▲ 4	Mars (UK)	Sub	B	1,417	1,334	6.2	197	158	24.8	13.9	11.9	2.1	20.0	20.3	12/19
15	▼ 2	Britvic	Listed	B	1,405	1,549	–9.3	150	163	–8.4	10.6	10.5	0.1	22.7	25.1	09/20
16	▲ 2	Eight Fifty Food Group	Sub	O/L	1,286	1,121	14.7	8	6	N/A	0.6	–0.5	1.1	1.4	–1.1	03/20
17	▼ 2	Greencore Convenience Foods	Listed	O/L	1,268	1,450	–12.5	10	80	–87.0	0.8	5.5	–4.7	1.8	8.3	09/20
18	▼ 1	Avara Foods	Sub	O/L	1,204	1,143	5.3	15	14	8.9	1.2	1.2	0.0	4.5	4.4	05/20
19	▲ 1	Pilgrim's Pride	Sub	O/L	1,079	1,068	1.1	15	16	N/A	1.4	–1.5	2.9	4.3	–4.6	12/20
20	▼ 1	Dunbia	Family	O/L	1,072	1,089	–1.6	9	11	–24.5	0.8	1.1	–0.2	3.8	4.9	12/19
21	▲ 1	Premier Foods	Listed	B	932	849	9.7	152	98	54.9	16.4	11.6	4.8	68.2	40.9	04/21
22	▼ 1	Samworth Brothers	Family	O/L	890	999	–10.9	4	40	N/A	–0.5	4.0	–4.5	–0.8	7.5	01/21
23	► –	United Biscuits	Sub	B	865	831	4.1	85	80	5.9	9.8	9.6	0.2	2.6	2.5	12/20
24	► –	HJ Heinz Foods	Sub	B	828	757	9.3	162	123	32.1	19.6	16.2	3.4	11.5	5.9	12/20
25	▲ 1	Kellogg's	Sub	B	738	733	0.6	19	23	–16.4	2.6	3.2	–0.5	17.2	15.0	12/19
26	▲ 13	Birds Eye	Sub	B	731	486	50.3	108	11	885.1	14.7	2.2	12.5	36.0	4.6	12/20
27	► –	Int Procurement & Logistics	Sub	O/L	669	643	4.1	17	17	–1.5	2.5	2.6	–0.1	9.5	11.8	12/20
28	▼ 3	Fletcher Bay Group	Family	O/L	669	747	–10.5	4	8	N/A	–0.6	1.1	–1.6	–3.8	8.1	12/20
29	▼ 1	Farmers Boy	Sub	O/L	652	676	–3.6	14	26	–44.8	2.2	3.8	–1.6	1.3	3.2	02/20
30	▼ 1	Neerock	Sub	O/L	622	636	–2.2	27	24	11.2	4.3	3.8	0.5	3.0	3.6	02/20
31	▲ 1	Warburtons	Family	B	558	505	10.4	25	19	28.0	4.4	3.8	0.6	5.4	4.3	09/20
32	▲ 6	Danish Crown (UK)	Sub	O/L	532	446	19.3	10	6	59.2	1.9	1.4	0.5	25.1	19.8	09/20
33	▼ 3	Wm Morrison Produce	Sub	O/L	518	555	–6.6	22	17	32.9	4.3	3.0	1.3	5.4	4.4	02/20
34	▼ 1	G's Group Holdings	Family	O/L	517	498	3.9	4	10	–59.0	0.8	2.0	–1.2	2.5	5.5	05/20
35	▼ 4	McCain Foods (GB)	Sub	B	498	510	–2.4	2	21	–90.8	0.4	4.2	–3.8	0.7	9.2	06/20
36	NEW	PepsiCo	Listed	B	493	457	7.9	100	85	18.4	20.3	18.5	1.8	13.0	12.0	12/20
37	▲ 6	KP Snacks	Sub	B	481	476	1.1	69	93	–25.3	14.4	19.5	–5.1	48.6	47.0	12/20
38	▼ 3	Dairy Crest Group	Sub	B	450	462	–2.6	45	26	70.0	10.0	5.7	4.3	3.3	2.9	03/20
39	▼ 2	Dale Farm	Sub	O/L	445	446	–0.3	13	14	–10.1	2.9	3.2	–0.3	9.1	10.1	03/20
40	NEW	Valeo Foods	PE	B	438	428	2.4	72	19	273.3	16.4	4.5	11.9	11.7	4.2	03/20
41	▼ 7	Kerry Foods	Sub	B	419	442	–5.2	39	23	66.5	9.2	5.3	4.0	12.9	6.6	12/20
42	▼ 6	Hain Celestial Group (exc Tilda)	Sub	B	414	425	–2.6	30	32	–8.3	7.1	7.6	–0.4	9.3	10.5	06/20
43	▲ 5	Ornua Foods	Sub	B	412	357	15.5	8	8	7.5	2.0	2.1	–0.1	6.5	6.6	12/20
44	▼ 2	Ferrero (UK)	Sub	B	407	392	3.7	9	8	9.2	2.3	2.2	0.1	10.7	8.1	08/20
45	▼ 5	Lucozade Ribena	Sub	B	384	426	–9.8	82	78	5.4	21.4	18.3	3.1	50.4	47.3	12/20
46	► –	Fresca Group	Family	O/L	384	365	5.0	1	6	–82.7	0.3	1.6	–1.4	1.2	7.4	04/20
47	▼ 3	Foyle Food Group	Sub	O/L	380	371	2.4	10	7	41.6	2.7	2.0	0.8	13.0	8.6	01/21
48	▼ 3	JW Galloway	Family	O/L	378	369	2.6	4	8	–48.6	1.2	2.3	–1.1	6.5	13.5	03/20
49	► –	Jacobs Douwe Egberts	Sub	B	378	363	3.9	11	12	–7.8	2.9	3.3	–0.4	61.8	54.3	12/20
50	▲ 1	Hovis	PE	B	360	334	7.8	6	8	–32.7	1.6	2.5	–0.9	5.6	8.8	12/20
51	▲ 2	LDH (La Doria)	Sub	O/L	351	328	7.2	9	12	–25.6	2.6	3.8	–1.2	9.8	15.4	12/19
52	▲ 8	Red Bull Company	Sub	B	348	329	5.5	29	28	4.0	8.5	8.6	–0.1	135.3	116.6	12/20
53	NEW	Fullers Foods Holding	Family	O/L	337	287	17.6	19	10	96.1	5.7	3.4	2.3	185.6	119.2	01/21
54	► –	Oscar Mayer	PE	O/L	335	321	4.3	8	9	–8.4	2.4	2.7	–0.3	11.2	11.9	03/20
55	▲ 3	Weetabix	Sub	B	331	314	5.4	87	54	59.8	26.3	17.3	8.9	28.5	20.9	09/20
56	▲ 1	General Mills (UK)	Sub	B	325	315	3.1	7	7	2.7	2.3	2.3	–0.0	10.3	11.8	05/20
57	▼ 2	Berry Gardens	Family	O/L	316	319	–1.0	1	2	–41.2	0.4	0.7	–0.3	5.7	10.3	12/20
58	▲ 35	Lindt & Sprüngli (UK)	Sub	B	316	191	65.4	36	17	112.4	11.4	8.9	2.5	67.7	46.0	08/19
59	▼ 12	Refresco Beverages	Sub	O/L	313	363	–13.6	8	8	N/A	2.4	–2.2	4.7	5.8	–7.6	12/19
60	▲ 1	Baxters Food Group	Family	B	309	303	2.2	20	18	14.2	6.5	5.8	0.7	15.1	13.4	03/20
61	▼ 9	Lendon Holdings	Family	O/L	307	332	–7.3	12	14	–10.2	4.1	4.2	–0.1	6.8	7.6	10/20
62	▼ 6	Finsbury Food Group	Listed	B	307	316	–2.8	7	17	–60.0	2.2	5.3	–3.1	8.7	24.1	06/20
63	▼ 4	Addo Food Group	PE	O/L	303	313	–3.2	9	2	365.1	3.1	0.6	2.4	13.1	3.8	03/20
64	▼ 1	Froneri UK (R&R Ice Cream)	Sub	O/L	300	270	11.2	45	45	–1.2	14.9	16.8	–1.9	34.9	43.2	12/20
65	▲ 3	Direct Produce Supplies	Family	O/L	290	256	13.4	4	4	7.5	1.5	1.6	–0.1	25.2	32.5	09/20
66	▼ 4	Fyffes Group	Sub	B	279	237	17.8	2	1	21.5	0.6	0.6	0.0	3.9	2.4	12/20
67	▲ 8	Burton's Foods	Sub	B	276	247	11.5	4	0	N/A	1.5	–0.2	1.6	1.7	–0.1	12/20
68	▼ 3	McCormick (UK)	Sub	B	274	285	–3.7	2	27	–90.8	0.9	9.5	–8.6	1.1	14.6	11/20
69	▼ 5	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
70	▲ 21	Bernard Matthews Holdings	Sub	B	254	194	31.1	38	24	N/A	–15.0	–12.4	–2.6	–38.1	–39.9	12/19
71	► –	Yeo Valley	Family	B	252	250	1.0	2	3	–24.8	0.9	1.3	–0.3	4.1	5.0	05/20
72	▲ 11	Alpro (UK)	Sub	B	252	227	10.9	10	8	27.9	4.0	3.4	0.5	13.4	12.1	12/20
73	NEW	Am Fresh (UK)	Sub	O/L	252	241	4.6	1	0	N/A	–0.3	–0.2	–0.1	–0.9	–0.6	08/20
74	▼ 8	Fever-Tree	Listed	B	251	261	–3.5	53	73	–27.9	21.1	28.2	–7.1	26.8	43.1	12/20
75	▼ 3	Country Style Foods	Family	O/L	248	245	1.1	4	1	380.1	1.6	0.3	1.2	7.0	1.6	04/20
76	▲ 1	Quorn Foods	Sub	B	236	230	2.6	26	24	8.2	11.0	10.5	0.6	8.7	10.3	12/20
77	▲ 2	Bettys & Taylors Group	Family	B	231	227	1.8	15	17	–6.5	6.7	7.3	–0.6	11.5	12.5	10/20
78	▼ 11	AG Barr	Listed	B	227	256	–11.5	27	39	–32.2	11.7	15.3	–3.6	17.6	28.7	01/21
79	▲ 8	Danone	Sub	B	224	204	9.9	16	14	13.6	7.0	6.7	0.2	31.1	32.5	12/20
80	► –	Lactalis McLelland	Sub	O/L	223	223	0.1	2	8	–76.4	0.8	3.6	–2.7	1.4	6.2	12/19
81	▼ 12	Baker & Baker	PE	O/L	218	247	–11.8	7	5	57.2	3.3	1.9	1.5	7.5	5.4	12/20
82	NEW	Nijjar Group Holdings (Acton)	Family	O/L	218	220	–0.7	6	4	37.4	2.6	1.9	0.7	12.9	9.2	12/19
83	▲ 5	Linden Foods	Sub	O/L	211	201	5.0	2	2	3.9	1.1	1.1	–0.0	5.5	5.4	09/20
84	► –	Tayto Group	Family	B	208	208	–0.3	5	4	11.2	2.3	2.0	0.2	4.3	3.7	06/20
85	▲ 10	Winterbotham Darby & Co	PE	O/L	203	188	8.4	3	3	8.4	1.6	1.6	0.0	1.6	1.9	03/20
86	▲ 20	Mowu Consumer Product (UK)	Sub	O/L	202	167	20.6	8	10	–27.2	3.7	6.2	–2.4	12.1	18.5	12/19
87	▼ 1	Greencell	Family	O/L	200	206	–2.6	6	5	14.4	3.0	2.6	0.4	31.4	34.2	01/21
88	▼ 3	Noon Products	Sub	O/L	200	205	–2.8	1	0	N/A	–0.3	0.1	–0.3	–1.6	0.2	12/20
89	► –	SH Pratt & Co	Family	O/L	197	176	12.2	2	3	–26.7	1.0	1.6	–0.6	11.3	18.3	10/19
90	▲ 27	Branston Holdings	Family	O/L	197	153	28.6	8	5	58.8	3.8	3.1	0.7	14.4	10.4	07/20
91	▲ 1	Natures Way Foods	Family	O/L	193	191	0.8	0	2	N/A	0.1	–1.3	1.4	0.3	–5.2	03/20
92	▲ 20	Barfoots of Botley	Family	O/L	193	165	16.9	8	11	–22.4	4.3	6.5	–2.2	15.2	17.4	12/20
93	▲ 8	Angus Soft Fruits	Family	O/L	190	179	6.0	1	1	20.8	0.7	0.6	0.1	8.4	8.4	04/20
94	▼ 21	Sun Valley Foods	Sub	O/L	189	243	–22.4	1	12	N/A	–0.5	–5.1	4.6	–1.0	–17.9	05/20
95	▲ 2	Upfield Foods (Unilever BCS UK)	PE	B	187	186	0.9	25	6	N/A	–13.6	3.0	–16.6	–57.1	9.7	12/19
96	▼ 46	Innocent	Sub	B	187	233	–19.9	11	30	–63.8	5.9	13.0	–7.1	7.9	30.8	12/20
97	▲ 6	Dr Oetker (UK)	Sub	B	181	172	5.2	22	24	–8.3	12.3	14.1	–1.8	23.4	28.7	12/19
98	▲ 1	The Scottish Salmon Company	Family	O/L	180	200	–10.1	16	25	N/A	–8.9	12.3	–21.2	–9.0	15.9	12/20
99	▲ 1	Zetar	Sub	B	180	184	–2.4	5	5	1.2	2.7	2.6	0.1	7.0	6.5	12/19
100	▼ 2	Haribo	Sub	B	179	184	–2.5	19	24	–19.8	10.7	13.0	–2.3	12.7	15.1	12/20
101	▲ 14	Kolak Snack Foods	PE	O/L	177	176	0.7	9	8	14.3	5.2	4.6	0.6	12.2	11.9	01/21
102	▲ 17	Albert Bartlett & Sons (Airdrie)	Family	O/L	177	149	18.5	8	5	56.6	4.4	3.4	1.1	8.9	6.3	05/20
103	▲ 4	Direct Table Foods	Sub	O/L	175	167	5.0	7	8	–16.1	4.1	5.1	–1.0	12.5	16.6	12/19
104	▲ 6	International Seafoods	Sub	O/L	174	165	5.6	8	7	9.2	4.6	4.5	0.2	25.4	28.9	02/20
105	▼ 9	John West Foods	Sub	B	171	166	3.1	10	9	9.0	5.8	5.5	0.3	18.0	15.3	12/20
106	▼ 4	Monaghan Mushrooms	Sub	O/L	170	173	–1.8	5	2	186.6	2.8	1.0	1.8	9.5	3.0	06/20
107	NEW	Medina Dairy	Family	O/L	167	163	2.3	9	0	N/A	–5.2	–0.2	–5.1	–79.7	–1.8	10/19
108	▼ 26	Produce Investments	PE	O/L	164	219	–25.0	3	5	N/A	–1.9	2.2	–4.1	–5.1	7.3	08/20
109	▲ 2	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
110	▼ 6	Browns Food Group	Family	O/L	163	176	–7.4	9	10	–4.9	5.7	5.6	0.2	18.7	22.0	12/20
111	▼ 6	Park Cakes	Sub	O/L	162	169	–4.2	4	0	N/A	2.8	–0.3	3.0	22.2	–2.1	03/20
112	▼ 42	Stateside Foods	Sub	O/L	159	252	–36.9	6	8	–29.2	3.7	3.3	0.4	11.3	17.3	02/20
113	▲ 5	Lantmannen Unibake (UK)	Sub	O/L	158	151	4.5	7	5	54.6	4.5	3.0	1.5	10.7	8.3	12/19
114	► –	Fayrefield Foods	Family	O/L	155	158	–1.9	2	2	21.2	1.4	1.1	0.3	6.6	4.6	12/19
115	▼ 2	New England Seafood	Sub	O/L	151	161	–6.2	4	2	73.6	2.8	1.5	1.3	17.3	9.9	12/20
116	▲ 6	Walkers Shortbread	Family	B	149	147	1.2	7	7	–5.4	4.7	5.0	–0.3	7.3	7.9	12/19
117	▼ 27	Danone Waters (UK & Ireland)	Sub	B	149	178	–16.3	0	9	N/A	–0.0	5.1	–5.1	–0.1	46.9	12/20
118	▲ 2	Northcoast Seafoods	Family	B	148	146	0.9	3	2	53.0	2.0	1.3	0.7	5.0	3.2	12/20
119	▼ 10	Banham Poultry (2018)	Family	O/L	144	165	–12.4	6	7	–16.4	4.3	4.5	–0.2	24.5	N/A	06/20
120	▼ 12	JBS (UK)	Sub	O/L	144	165	–12.7	4	4	–11.9	2.7	2.7	0.0	7.3	7.9	12/20
121	▼ 40	CP Foods (UK)	Sub	O/L	141	258	–45.3	2	7	–75.6	1.3	2.9	–1.6	2.6	10.6	12/20
122	▲ 10	Whitworths	Sub	O/L	140	117	19.4	2	1	N/A	1.4	–1.0	2.3	9.8	–6.2	01/21
123	▲ 2	Tata Consumer Products (GB)	Sub	B	140	135	3.8	19	14	36.1	13.6	10.4	3.2	11.3	8.7	03/21
124	▲ 9	Greenyard Frozen (UK)	Sub	O/L	140	116	20.4	7	2	274.2	5.0	1.6	3.4	8.0	2.2	03/20
125	▲ 15	Vitacress	Sub	O/L	139	131	6.0	8	7	9.4	5.8	5.6	0.2	10.1	10.3	12/20
126	▼ 32	Scottish Sea Farms	Sub	O/L	139	162	–14.7	26	27	–3.9	18.5	16.4	2.1	14.3	18.2	12/20
127	▲ 10	Signature Flatbreads (UK)	Family	O/L	136	114	19.0	9	11	–22.1	6.4	9.8	–3.4	19.1	27.6	07/20
128	▼ 2	Flamingo Produce	Sub	O/L	135	127	6.2	3	8	–59.5	2.3	6.1	–3.8	13.7	59.7	12/19
129	► –	Chesterfield Poultry	Family	O/L	132	121	9.1	3	3	33.1	2.6	2.2	0.5	18.3	14.9	06/20
130	▲ 4	Tilda	Sub	B	129	116	11.4	17	14	22.9	13.4	12.1	1.2	19.2	16.9	12/20
131	▼ 1	Lyons Seafoods	Sub	O/L	127	120	5.6	9	7	35.9	7.1	5.5	1.6	19.4	14.3	06/20
132	▼ 16	Greenyard Fresh UK	Family	O/L	125	154	–18.7	10	2	N/A	–7.7	–1.6	–6.1	–95.0	–36.1	03/20
133	▲ 6	David Wood Foods	Family	O/L	123	113	8.6	4	4	21.0	3.6	3.2	0.4	11.2	11.4	11/20
134	▲ 9	Green Label Foods	Family	B	122	110	10.9	2	1	7.1	1.3	1.3	–0.0	4.0	3.7	02/20
135	NEW	Russell Burgess	Family	O/L	122	104	17.3	5	7	–30.2	4.2	7.1	–2.9	24.9	33.0	12/20
136	▼ 1	Pritchitts	Sub	O/L	119	115	3.6	3	0	N/A	2.4	–0.1	2.4	2.5	–0.3	12/19
137	▼ 16	Nichols	Listed	B	118	147	–19.5	8	33	–77.1	6.3	22.4	–16.0	6.3	28.4	12/20
138	▲ 8	Bel (UK)	Sub	B	115	109	6.3	8	8	7.1	7.0	7.0	0.1	26.2	29.2	12/20
139	▼ 11	Lactalis Nestlé Chilled Dairy	Sub	B	115	108	6.2	8	3	171.9	6.8	2.7	4.1	33.3	9.8	12/20
140	▲ 7	Symington's	Sub	B	115	108	6.2	5	1	N/A	4.6	–0.5	5.1	13.8	–1.2	08/20
141	▲ 3	Graham's the Family Dairy	Family	O/L	114	109	4.7	2	3	–20.2	2.1	2.8	–0.7	9.7	15.4	03/20
142	▼ 11	Randall Parker Foods	Family	O/L	113	119	–5.0	0	0	N/A	0.4	–0.2	0.6	2.6	–1.5	09/19
143	▲ 7	AJ & RG Barber	Family	O/L	112	107	4.8	6	7	–21.9	5.2	6.9	–1.8	6.4	8.6	03/20
144	NEW	Sykes Seafoods	Family	O/L	110	105	4.3	5	4	13.2	4.5	4.1	0.4	11.0	11.1	03/20
145	▲ 2	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
146	▼ 11	Dairygold Food Ingredients	Sub	O/L	105	114	–8.3	3	2	62.0	3.0	1.7	1.3	7.9	4.8	12/19
147	▼ 3	Blue Skies	Family	O/L	104	123	–15.5	2	3	–34.6	1.7	2.3	–0.5	5.8	9.6	12/20
148	▼ 7	Highland Spring	Family	B	100	111	–9.1	1	2	N/A	–1.1	1.6	–2.6	–2.4	3.7	12/19
149	NEW	Mizkan	Sub	O/L	98	104	–5.7	0	10	N/A	0.4	–9.6	10.0	0.8	–19.3	02/21
150	▼ 13	Yoplait (UK)	Sub	B	95	114	–16.2	14	15	–11.7	14.2	13.5	0.7	45.1	29.6	05/20

Methodology: The Top 150 Food & Drink Suppliers survey is produced by OC&C Strategy Consultants. In some cases (e.g. Danone) 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: 30 Woodhead Bros: trading as Neerock; 96 Innocent: trading as Fresh Trading; 100 Haribo: trading as Dunhills.

Brands were one of the winners. The over-performance of large grocers and online grocery supported their growth, while the slowdown of the discounters and foodservice hit own label. Over the 150, branded suppliers saw organic growth of 2.5%, up from 1% last year. Meanwhile, own label posted its first period of decline since OC&C started measuring it in 2004 – a marked reversal on its 2.8% growth last year.

The pandemic also favoured larger players over smaller rivals. Those with £500m+ sales grew by 2.9% compared to 1.5% last year – while those with revenues under £500m were up just 0.9%, down from 2.6%.

"The retailers deprioritised niche, craft brands during the pandemic," says Rothschild & Co's global head of consumer Akeel Sachak. "It gives opportunities for the big groups to consolidate that position by investing properly in areas like marketing and innovation."

The winners and losers effect is also visible on a category basis. Meat, fish and poultry is up 4.7%, ambient suppliers are up 4.6% and the bakery sector is up 3.4%. On the flip side, prepared meals and soft drinks plunged 8.7% and 8.9% respectively.

Notably Covid also exacerbated the effects of Brexit on export sales, with Top 150 international revenues down 1.2% compared to 2.1% growth in the UK.

Return to normality?

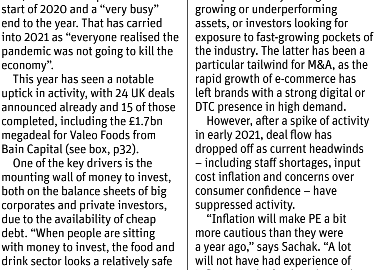
These effects are unlikely to be long-lasting. Many of the Covid-induced shifts in the market – whether good or bad – have unwound within months of lockdown restrictions easing. As Warburtons chairman Jonathan Warburton comments: "The benefits in terms of the performance of the business were very welcome, but we always knew it had a limited shelf life. Like all things in life you tend to make your own luck and that will come back to the longer-term growth strategy."

There are some exceptions to the rule – OC&C partner Nilpesh Patel points to more permanent shifts in behaviour like scratch cooking, the growth of frozen and rise of online. But there are "definitely areas where we've seen almost a complete rebound already", he says. "The out-of-home channel has rebounded strongly and retailers are reintroducing insurgent brands that struggled in the depths of lockdowns."

Still, the environment for food and drink players is far from normal. Since the end of the Covid period, the industry has faced a mix of spiking input costs and global supply chain constraints.

The industry is facing the "worst commodity inflation since 2008", Jefferies consumer goods analyst Martin Deboo notes. That contrasts with subdued commodities prices during Covid, which helped the Top 150 improve profit margins by 0.2ppts to 5.9%.

"In the latter half of 2020 the industry was in a 'goldilocks period' of high growth and low inflation so they were getting all the operating leverage of volume growth with none of the penalty," Deboo says.



M&A brushes off Covid constraints

UK food and drink M&A held up well in 2020 despite the disruptive forces of Covid and Brexit.

A total of 13 deals involving Top 150 suppliers were completed in 2020, up from 12 in 2019.

Houlihan Lokey's Shaun Browne points out Covid did affect deal flow, with a muted period at the start of 2020 and a "very busy" end to the year. That has carried into 2021 as "everyone realised the pandemic was not going to kill the economy".

This year has seen a notable uptick in activity, with 24 UK deals announced already and 15 of those completed, including the £1.7bn megadeal for Valeo Foods from Bain Capital (see box, p32).

One of the key drivers is the mounting wall of money to invest, both on the balance sheets of big corporates and private investors, due to the availability of cheap debt. "When people are sitting with money to invest, the food and drink sector looks a relatively safe place to put some of that cash," says OC&C's Will Hayllar.

Rothschild's Akeel Sachak also notes Covid has led to more willing sellers as "the pantry-loading effect of Covid" flattered performance.

Private equity has been particularly active, with around 30% of deals involving a PE buyer in 2021 to date. That's on top of 2020 deals such as PAI Partners acquiring Addo Food Group and Winterbotham Darby.

The structural drivers for M&A remain strong, whether it be larger companies looking to shake up their portfolios by selling slow-growing or underperforming assets, or investors looking for exposure to fast-growing pockets of the industry. The latter has been a particular tailwind for M&A, as the rapid growth of e-commerce has left brands with a strong digital or DTC presence in high demand.

However, after a spike of activity in early 2021, deal flow has dropped off as current headwinds – including staff shortages, input cost inflation and concerns over consumer confidence – have suppressed activity.

"Inflation will make PE a bit more cautious than they were a year ago," says Sachak. "A lot will not have had experience of inflation in the food market and also, as the out-of-home channels continue to open up post-Covid, some of those food groups won't show the same kind of growth figures as during the pandemic." And interest rates hikes would also see the end of cheap debt.

> **"Food retailers will say they're fighting to keep costs down, but in reality a bit of food price inflation is probably helpful"**

Some categories will be more affected by the spike in input costs than others – for example coffee and dairy. Nonetheless it is an intensifying issue for all.

The only comfort is that the industry has overcome equally challenging situations before. Charles Hall, head of research at Peel Hunt, points to the sharp rise in oil prices a decade ago and the post-Brexit slump in the pound. "Inflation for this industry and food retailers is not necessarily a bad thing," he argues. "Outwardly they will say they're fighting to keep costs down for hard-working families, but in reality a bit of food price inflation is probably helpful."

Chronic labour shortages

Compounding this particular wave of inflation, though, are unprecedented stresses on the global supply chain. Most notably the chronic staffing shortages in the logistics industry, which have been exacerbated in the UK by both Covid and Brexit.

On this point, Rothschild's Sachak believes costs will come down: "I do think it will correct itself eventually." Tilda's head of external affairs Jonathan Calland is similarly optimistic. "We believe the high cost should settle soon and we have observed that historically price spikes for materials are typically followed by price corrections," he says.

There's no underestimating the impact of staffing shortages across the industry, though. Albert Bartlett COO Colin Campbell describes the "bullet train that's hit us all" in terms of post-Covid staff recruitment and retention. The end of the furlough period hasn't helped increase the supply of available workers either, he says. "This isn't a short-term hurdle, and paying a bit more money does not solve the fundamental challenge we all have," he argues.

Part of the answer lies in retaining staff. While Campbell points to the overall package, including training and working conditions, Peel Hunt's Hall also highlights the power of development opportunities and targeted bonuses.

Still, suppliers with more seasonal peaks and troughs will undoubtedly be more exposed, as they have relied more heavily on EU workers.

So an increase in prices is perhaps inevitable. "You can call it cost recovery if you like, but prices will go up because raw materials, energy, labour and distribution costs are higher," says Houlihan Lokey co-head of UK corporate finance Shaun Browne.

Jeffries' Deboo believes list price increases are the "final lever grocery players will pull". First, they will look to optimise pack price mix, focus on higher ticket ranges and fine-tune promotional strategies.

OC&C 150: top performers

Eight Fifty Food Group

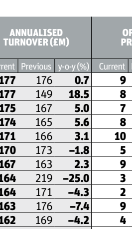
Turnover growth: 14.7%
Operating margin: 0.6% (+1.1ppts)
Snapped up by Canadian multi-protein producer Sofina Foods, the Young's Seafood and Karro owner consolidated the pork and seafood sector to leverage relationships with big retailers. Organic sales were boosted by category growth in Covid and a push into more premium products, while profitability improved due to cost controls and vigilant use of capex.

Premier Foods

Turnover growth: 9.7%
Operating margin: 16.4% (+4.8ppts)
One of the standout successes of Covid, Premier Foods benefited from the growth in ambient goods. But its success was also down to long-term brand rejuvenation and investment in key ranges. NPD has been a particular feature, with the launch of a Plantastic plant-based range and healthier options for brands like Mr Kipling, Sharwood's and Ambrosia.

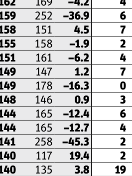
Warburtons

Turnover growth: 10.4%
Operating margin: 4.4% (+0.6ppts)
The UK's number one wrapped bread brand owes much of its strong performance to its strategic shift away from its core product. The brand has seen strong growth in bagels and crumpets as well as premiumisation through the launch of Ellie Warburtons Cakes. A £56m investment plan for non-bread bakery will underpin further diversification.



Albert Bartlett

Turnover growth: 18.5%
Operating margin: 4.4% (+1.1ppts)
Continued investment behind newer chilled operations and a focus on added-value NPD has driven top and bottom line growth at the Scottish potato supplier. Production capacity has grown to meet rising demand for its chilled ranges, while core fresh and products have been boosted by NPD, including the addition of Scottish cherries to its Scotty Brand offering.



Tilda

Turnover growth: 11.4%
Operating margin: 13.4% (+1.2ppts)
The UK's leading rice brand reaped the rewards of a spike in demand during the pandemic, with Tilda increasing production and offering larger bags than rivals. But its wider return to growth under Spanish food player Ebro Foods has been underpinned by strong NPD – including new global-themed flavours and single-serve pulses and rice pouches.

> **"We believe high costs should settle soon. Price spikes for materials are typically followed by price corrections"**

However, ultimately input inflation will need to feed through to consumers – a principle that is "easy to talk about politically, but more challenging to do as a manufacturer" says Warburton.

Passing on costs

The obsession with price competitiveness in the UK grocery industry makes it a particularly challenging task. Indeed, last week The Grocer highlighted the "onerous justification processes" demanded by the grocers, potentially delaying cost recovery for suppliers.

Even if they delay it, though, there is widespread expectation the grocers will ultimately accept and pass on this spike in cost. "Supermarkets are going to be mature and reasonable because it's so widespread – it's definitely the case that larger increases are much easier to get through than smaller increases," says Hall.

OC&C's Patel adds: "It's not an environment where one supplier can hold on to the cost increases while another has to pass through – this is a pretty universal effect which all points to this being passed through to retailers and ultimately consumers."

However, Hayllar draws the distinction between short-term commodity-driven spikes – which are transparent and generally passed on to consumers – and the more long-term fundamental cost increases, particularly in relation to labour, that are harder to simply pass on. "The expectation is that retailers would not be so sympathetic and would expect labour inflation to be offset by productivity gains," he says.

This increased cost of labour will only be exacerbated by the government-mandated rises to the minimum wage. Indeed, the Top 150's revenue per employee grew by 2.3% last year, but staff costs increased by 5.9% – showing early signs of the pressure on productivity.

Hayllar explains the fundamental long-term challenge. "Labour is going to get consistently more expensive in the UK, so how businesses adapt to that will become a critical part of competing over the next five to 10 years," he says.

The question is how much slack is in the system. "We will drive harder for efficiencies, but you're not talking about low hanging fruit anymore," says Warburton. "If it were simple, we'd have already done it."

For Browne, the long-term answer lies in relying less on people, and more on automation. "UK plc has had lower productivity for many years and it reflects the cost of labour," he says. "If that's going to change and the cost of labour is going to go higher, then the payback period on capital investment comes down."

Private equity swoops on UK supermarkets

Supermarkets faced a generational shake-up during Covid as shoppers migrated in their droves to online. But the most significant change for suppliers could be the entry of two private equity giants.

The billionaire Issa brothers' £6.8bn deal, backed by PE player TDR Capital, to buy Walmart-owned Asda passed its last hurdle in June after receiving regulatory approval.

That deal proved a forerunner for the private equity battle between Clayton Dubilier & Rice and Fortress Investment Group for Morrisons. The former finally triumphed in a £7.1bn auction staged in October.

The respective management teams promise business as usual, but the large-scale entry of private equity to the UK grocery industry will bring a different ethos.

OC&C's Nilpesh Patel explains private equity has a "different mindset on growth to a public company, in terms of time horizons and a greater focus on cashflows and cost".

They will also be more willing to make long-term investments and bets. "The question for suppliers is how does that mindset feed into a joint business plan, and how can you focus on optimising cash compared to a more conventional approach to working with the grocers?" he says.

Rothschild's Sachak notes being "out of the gaze" of public markets will change attitudes. "They will probably be more imaginative and more dynamic in terms of adapting their business models to the changing world than they would have done as public companies," he says.

The Issa Brothers and TDR's ownership of a vast forecourt estate also brings into focus the interplay between Asda's big store estate and its convenience-focused garage formats. As a result, suppliers need to change their relationship with Asda to think more carefully about how their products can play across multiple formats rather than just its traditional big box stores.

Patel suggests the promises made by CD&R during the Morrisons acquisition process could limit the immediate disruption a more aggressive new owner may bring.

However, Morrisons' ongoing attitude to vertical integration will be crucial, given its significant level of wholly owned fresh produce supply and the opportunities any change to that commitment could present.

> **"Food and drink are low-price necessities. I think the idea that if prices go up people will buy less is a little overdone"**

It's a convincing argument – yet there is scant evidence of investment in factories and automation. Top 150 capital expenditure as a proportion of revenues fell from 3.3% to 2.7%, as 56% of companies reduced capital spend to focus on overcoming Covid disruptions.

Hayllar says the industry is now at a "pivotal moment" where the "rubber really needs to hit the road" in finding these solutions. It doesn't need to be big steel constructions and robots – he suggests investment in IT systems to make more efficient use of materials or better data to improve crop management.

"This is going to be a big area of distinction between winners and losers," he says. "Those with the balance sheet strength to support the sort of transformation that needs to happen are in a good position, but those that struggle to fund this will be left behind."

That's not to say every supplier needs to shift to a highly automated model, of course. As Hayllar points out, some will be able to charge a premium for artisanal goods. "It's about identifying where labour is really valuable and where it's not," he says.

Nonetheless, more efficiency costs money. While debt and borrowing have been historically cheap, expected rises in interest rates are likely to make the funding of these major capital projects more expensive, even if financial institutions remain keen to provide capital to the industry (see left). And, as suppliers wait to recover this investment through efficiencies, there is likely to be pressure on margins.

So it's fair to say the outlook is challenging. Still, there is a glimmer of light. While economic weakness could see a rebound in own label, especially if the discounters regain share, food and drink should remain relatively immune to downtrading.

First, as Rothschild's Sachak says, consumers have "lots of cash in their pockets because they haven't been able to spend during lockdown". Second, premium food and drink offers much more affordable indulgence than higher ticket items like electronics or holidays. "Food and drink are low-price necessities where you can treat yourself. I think the idea that if prices go up people buy less, or downtrade, is a little over-exaggerated," says Deboo.

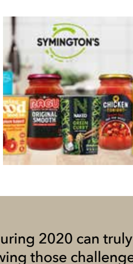
The food and drink industry is often said to be counter-cyclical, outperforming during tougher economic times. Certainly the demand for high-quality, on-trend products is undimmed – the challenge now is to create the structural resilience to meet it.

Those that have this resilience will overcome the next hurdles, however high they appear now.

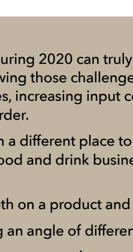
Spotlight on 2021 deals

Target: Valeo Food Group
Acquirer: Bain Capital
Value: £1.7bn
Date: 10 May
Irish ambient food giant Valeo was snapped up by US global private equity firm Bain Capital in spring for an undisclosed sum, thought to be around £1.7bn. Valeo's management team, led by Seamus Kearney, transformed the deal-hungry group from an Irish-only business with sales of less than €200m (£172.7m) to a global supplier with more than €1.1bn (£950m).

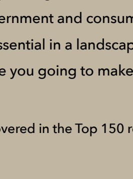
Target: Burton's Biscuit Co
Acquirer: Ferrero
Value: £360m
Date: 1 June
Italian chocolatier Ferrero fought off fierce competition from rivals such as Valeo and Bain Capital to acquire Burton's Biscuits from Ontario Teachers' Pension Plan. The deal continued Ferrero's push both into the UK and the wider sweet biscuit category, where it is already the second-largest player in the world following acquisitions including Fox's Biscuits last year.



Target: Grenade UK
Acquirer: Mondelez International
Value: £200m
Date: 22 March
The US food giant's acquisition of the high-protein, low-sugar bars, shakes and spreads supplier marks its first in the UK since its high-profile takeover of Cadbury in 2010. The deal is part of Mondelez's aim to diversify into healthier snacking, with Grenade having grown rapidly in recent years in UK retail and exporting to more than 50 countries worldwide.



Target: Gosh
Acquirer: Sonae
Value: £64m
Date: 7 September
Portuguese food group Sonae acquired 95% of shares in vegan and free-from player Gosh almost three years after its former owner put the brand up for sale. The vegan falafel bites, burgers and sausages supplier has grown rapidly on the back of the rise in 'flexitarianism' with sales surging from £5m in 2016 to more than £20m in its latest accounts.



Target: Symington's
Acquirer: Newlat Food
Value: £53m
Date: 4 August
Italian dairy and pasta group Newlat Food entered the UK with the acquisition of Naked and Chicken Tonight maker Symington's, as part of its plan to grow sales to €1bn across Europe. Despite booming demand for Symington's brands during the Covid period, the sale price represented a smaller sum than when ICG acquired the business in a £72m buyout in 2012.

The fortunes for the food and drink sector during 2020 can truly be classed as mixed – rarely has the industry seen such massive upheaval. Following those challenges, there are new challenges for the industry to confront around labour shortages, increasing input costs and rising global inflation, which all need to be managed in relatively short order.

Looking beyond this, UK food and drink is in a different place to where it was before Covid and there are a number of fundamental choices that food and drink businesses need to make in order to secure their futures.

- A new attitude towards convenience – both on a product and channel dimension
- Sustainability – more and more becoming an angle of differentiation for brands
- HFSS and health – renewed focus by government and consumers on health
- Labour models – productivity gains are essential in a landscape with limited access to consumers

In light of these challenges, what choices are you going to make?

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

Will Hayllar, Partner
will.hayllar@occstrategy.com

Nilpesh Patel, Partner
nilpesh.patel@occstrategy.com

The Grocer

OC&C Strategy consultants

uncommon sense