TREND REPORT Drivers of performance

EUROPEAN BAKERY INDUSTRY

A INSIGHTS

This report shares key insights into trends and developments in the European bakery industry, based on our in-depth analysis of publicly available data from 2016-2020. Based on the data that is already in for 2020, we also draw several preliminary conclusions about the impact COVID-19 has had on the European bakery industry, and how this might resonate in 2021 and after.

CONTENT

METHOD

We looked at the data of the top 150+ bakery companies in Western Europe (from about €50 million net sales and up), obtained from official financial statements. In the analysis we focus on three themes:

- **Growth & Profitability**
  To analyse the growth of the bakery sector, we looked at year-on-year revenue changes in the years 2016-2020 as well as the average EBIT profit margins. We did the same for the average annual staff changes. Key indicators: net sales growth, staff number growth and EBIT (Earnings Before Interest and Taxes)

- **Financial health**
  To establish the financial health of the industry, we analysed the solvency levels and cash conversion cycle focusing on the period 2016 to 2020. Key indicators: solvency and cash conversion cycle

- **Investments**
  We analysed investments made during the period 2016 to 2020 by looking at the growth in book value of buildings, machinery and other tangible materials. Key indicators: tangible fixed assets (TFA) investments

These KPIs provide accurate and objective insights into how companies and the market as a whole have developed over the last five years. All data we use is verified, cleaned and made comparable. In the appendix, the definitions we use can be found.

SEGMENTS

A-INSIGHTS has developed a unique company classification system, which captures detailed information on the activities of each company. This allows us to perform multiple cross-section analyses that uncover driving dynamics in the European bakery industry. The cross-sections are based on:

Type of product
Bread
Cookies & Cake
Pastries
Other bakery products

Distribution channel
Retail
Industry
Foodservice

Geography
United Kingdom
Germany
France
Italy
Spain
Poland
Belgium
The Netherlands

We are A-INSIGHTS and we are an advanced data-analysis company providing objective insights into company performance for making decisions based on fact, not assumptions.
And we are also a team of smart and motivated people who help you get ahead.

Turning public data into decisive value is critical – but not easy. This is where we have lived since 2009. Our 50+ team of Agri-Food and data specialists are at your disposal.

We've got your back, so you can always

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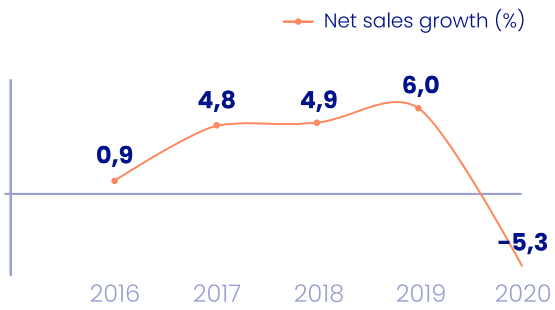
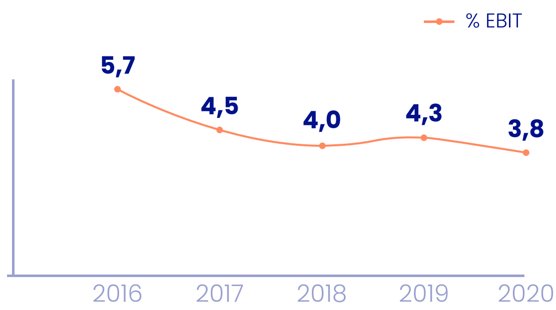
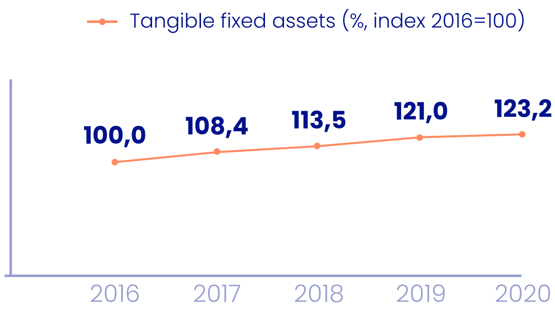
BAKERY KEY TRENDS & INSIGHTS

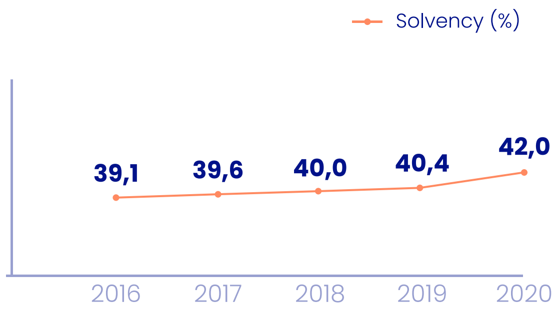
The European bakery sector is a mature market, which is consolidating. The relationship between growth and margin decline indicates that consumption in Western Europe has almost reached its peak. Hence, the price of raw materials dictates a large part of the market, which puts gross margins under pressure. The total trend of the last 5 years is a decline in margins in every part of the value chain.

From publicly available data, examined with the help of our unique labelling system and data-analysis methods, we were able to identify several key trends in the sector. We will discuss the most striking trends here.









Modern bakeries grow at expense of artisan bakeries

- Consumption of bakery products is stable in recent years but market share shifts from artisanal bakers to modern bakeries (incl. Retail operated bakeries), allowing industrial bakers to grow (average annual net sales growth of 4.5% in 2016-2019)
- The market share of artisanal bakers declined from 42% in 2013 to 37% in 2018, whilst industrial bakers saw the market share increase from 52% to 58% in the same period (Gira, 2020) - *See page 9 for full insights on this trend*

The healthier the product, the higher the growth rate – but not the profit

- Growth rates back up the commonly known trend towards healthier diets in Europe, profit-wise it's the other way around: in 2016-2019, Bread outperforms the market average with a 7.4% CAGR, versus 4.1%

and 2.6% for Pastry and Cookies & Cake. Bread however has the lowest EBIT margins at 4.3% on average, versus 6.9% and 5.0% for Pastries and Cookies & Cake
- Strong growth is found in Poland (12.3%), the UK (8.1%) and the Netherlands (8.0%) whilst sales of French companies remain nearly stable with a CAGR of 0.6% between 2016 and 2019
  - *See page 10 for full insights on this trend*

Margins are trending down by close to half a percentage point each year, driven by an overall pressure on the gross margin

- Especially Belgian and French companies have low and pressured profit levels and drive down the industry's average, while Germany and the UK keep up a steady, average performance. The lower margins in Belgium and France mainly originate from the gross margin, meaning less added value is retained
- Poland stands out with good profitability, the data shows that this is mostly a (staff) cost advantage - *See page 10 for full insights on this trend*

Automation trend most visible at very large companies

- Clear economies of scale can be detected, but only when looking at the very large players (>€500 million net sales and up). These companies steer clear of the pack with above-average margins and demonstrate a steady and higher growth rate. Furthermore, their cash conversion cycle indicates that they can negotiate better payment terms
- Automation is an important trend in the European bakery market. This can primarily be explained by the fact that the sector as a whole is driven by the price of raw materials. The data backs up this trend: net sales growth exceeds the growth in staff. The largest companies exhibit the best ratio, benefiting the most from automation.
- This raises the question: will this trigger further consolidation? - *See page 11 for full insights on this trend*

Investment levels exceed net sales growth

- With about 40% solvency and an increasing trend, the financial health of the bakery industry is good and investment power remains present
- The level of investments slightly exceeds the level of net sales growth - this arguably is linked to the increasing level of automation in the industry
- Investments in especially the UK stand out, while Dutch companies lag behind in 2016-2020. When taking a closer look, there is a positive correlation between profitability and the level of investments. Staying too long on the negative side of this spiral greatly lowers the possibility of getting back on top, spurring further consolidation - *See page 14 for full insights on this trend*

The challenge for the bakery industry is to realize growth in profitable segments, to restore the dynamic into an upward spiral. How to generate added value, which the producer can claim, in the growing market for industrially produced fresh bread seems to be the prime question.

COVID-19 insights

- COVID-19 erases about five years of overall growth and cuts a quarter of the EBIT margin from 4.6% to 3.2%, continuing the downward margin trend. The Polish sector stood out, just like it did in 2016-2019, and has proven surprisingly resilient
- Cookies & Cake strongly outperformed in 2020: it is the only category that grew, and on top of that recorded a profit increase to 6% EBIT
- Bread and Pastry took the toughest hits, presumably because of their stronger reliance on Foodservice and Industry – the latter which took a surprising hit of -13% in 2020 year-over-year
- Investments were halted in 2020, decreasing to the level of replacements. When examining closer, investments continued in the shelf-stable segment while dropping in Fresh and Frozen. The investments in 2020 were mostly done by British and French companies, while these companies have been on the weaker end of performance in growth and profitability in the last 5 years

GROWTH & PROFITABILITY

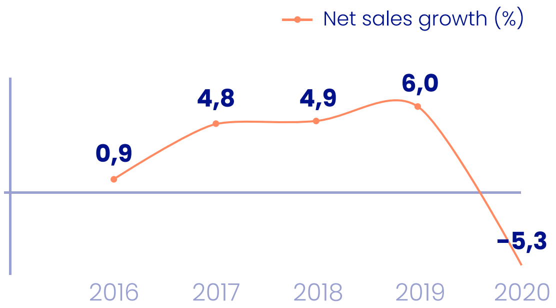
To analyze the growth of the European bakery market, we looked at the developments of net sales, the growth of staff, and the profitability in the years 2016-2020.

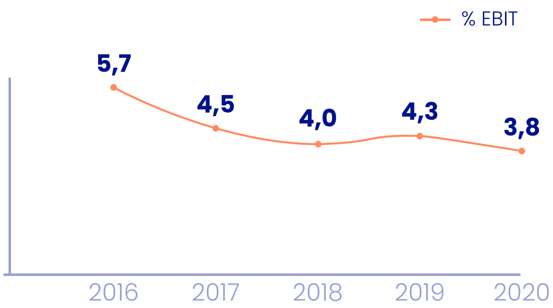
Key insights

- Shift EU consumers towards healthier products
- Polish producers on the rise - low profitability most evident for Belgian and French companies
- Automation trend most visible at very large companies
- Consolidation works - but only for the largest of companies

The European bakery sector is a mature market, characterized by the relationship between limited revenue growth capacity and margin decline. The average EBIT margin of the industry as a whole is 4.3% in 2019 and 3.8% in 2020. Furthermore, the EBIT is decreasing because of the decline in gross margin. This indicates that companies are unable or reluctant to pass on the increased costs of raw materials to their purchasers, either because of an unequal distribution of power between buyers and producers or in the latter case to defend or capture market share.

Multiple studies (including Gira 2020) point to the fact that the market share of artisanal bakers declined from 42% in 2013 to 37% in 2018, whilst industrial bakers saw their market share increase from 52% to 58% in the same period, providing a possible explanation for current growth metrics in a saturated industry.





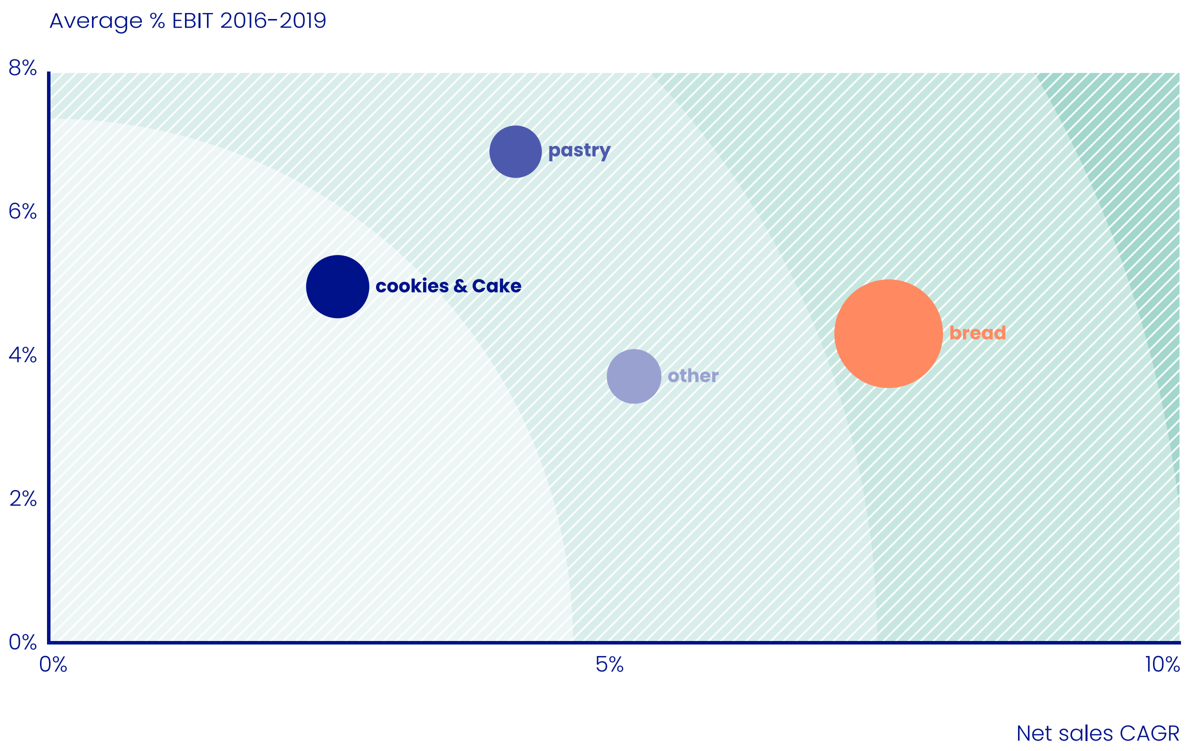
Shift EU consumers towards healthier products inhibits growth in Pastry and Cookies & Cake

Analyzing the differences between product types in 2016-2019, the growth pace of parties with a focus on Bread is higher (7.4% growth per year) than is true for producers of Pastries and Cookies & Cake (4.1% and 2.6% growth per year). This is in line with the general trend that the focus of EU consumers is shifting towards healthier diets.

In 2020 the trend towards healthy products was briefly interrupted as the net sales of Bread declined, while the net sales of Cookies & Cake went up (as the only *category in fact). Arguably, this is driven by the distribution channel mix, which is (more) strongly skewed towards retail for Cookies & Cake - which did well during 2020 because of Foodservice closures. Or did we also treat ourselves to something delicious at home more often during the lock-downs?*

Healthy products = not so healthy margins?

Looking at profitability, it is the other way around: companies focused on the indulgence categories of Pastries and Cookies & Cake have consistently superior EBIT margins compared to Bread producers in 2016-2019: 6.9% and 5.0%, versus 4.3%. The most important driver seems to be the grip on added value when raw material prices fluctuate, as gross margins are pressured most for Bread producers over these years.

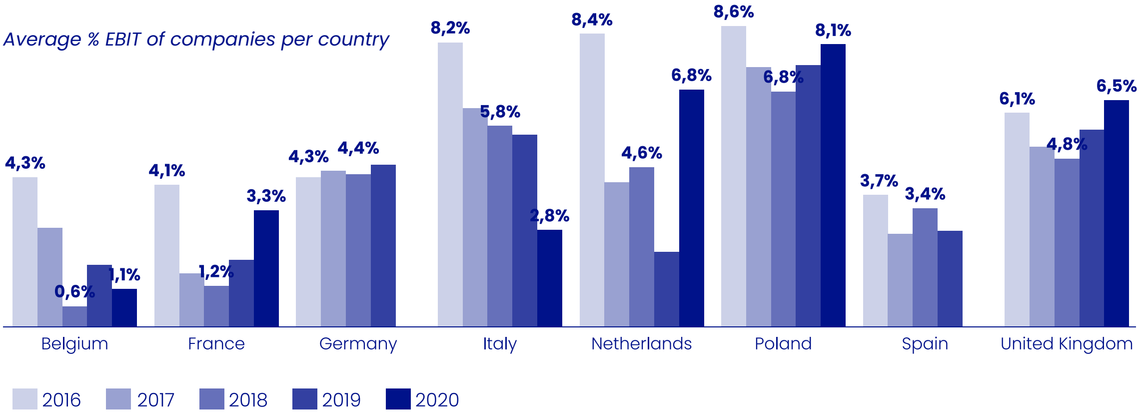


Low profitability most evident for Belgian and French companies

Companies from Belgium and France show low and pressured profit levels and drive down the industry's average. This is mainly caused by the gross margin level, in comparison with neighbouring countries. Germany and the UK keep up a steady, average performance and Poland stands out again with - next to the strongest growth numbers - the highest margins. This primarily stems from a cost advantage, most evident in staff costs. As explained above, this makes Polish companies formidable opponents towards the future as local players are focusing more and more on export while the country shows promise as an interesting destination for the relocation of production capacity.

In 2020 Belgian companies continues to struggle, and the Italians has it tough too - while companies in the other countries on average improved their margins

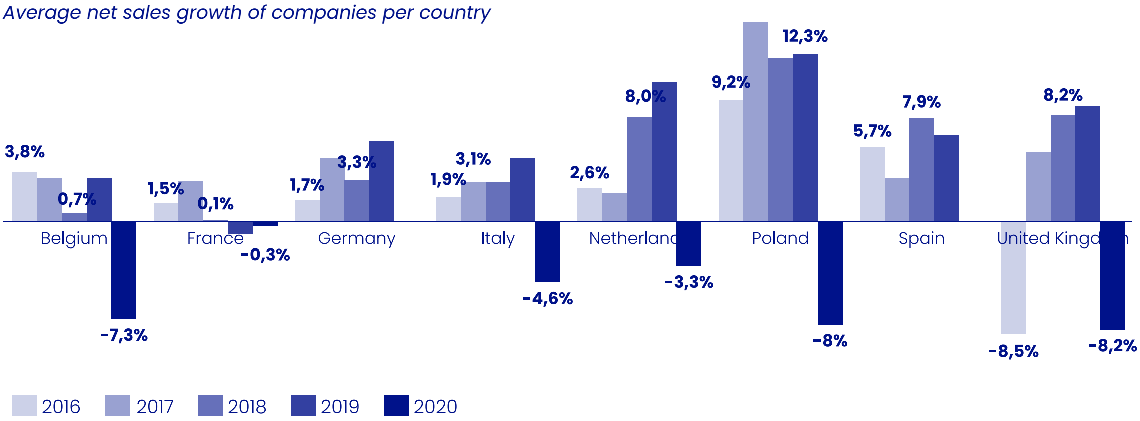
Average % EBIT of companies per country



Polish producers are on the rise

With net sales growth in the industry averaging at 4.5% per year in 2016-2019, Polish companies stand out with 12.3% per year, followed at distance by the UK (8.1% per year) and the Dutch (8.0% per year). Emerging local parties and larger international players seem to benefit from the low costs in Poland, establishing factories throughout the country and exporting from there. Stokson, a local Polish doughnut bakery, successfully started exporting from Poland in 2015, showing a CAGR of 37.8% in 2016-2019. Chipita Poland, a Polish branch from a Greek shelf-stable producer, demonstrates a CAGR of 20.5% in 2016-2019. It is also remarkable to see that French companies remain flat: it is, of course, a bread country par excellence, but other countries still show growth on the back of raw material prices. This effect could be explained by the strong (social) control on bread prices in socialist France. In 2020, in all countries for which there is data indicate a decline, the magnitude differs.

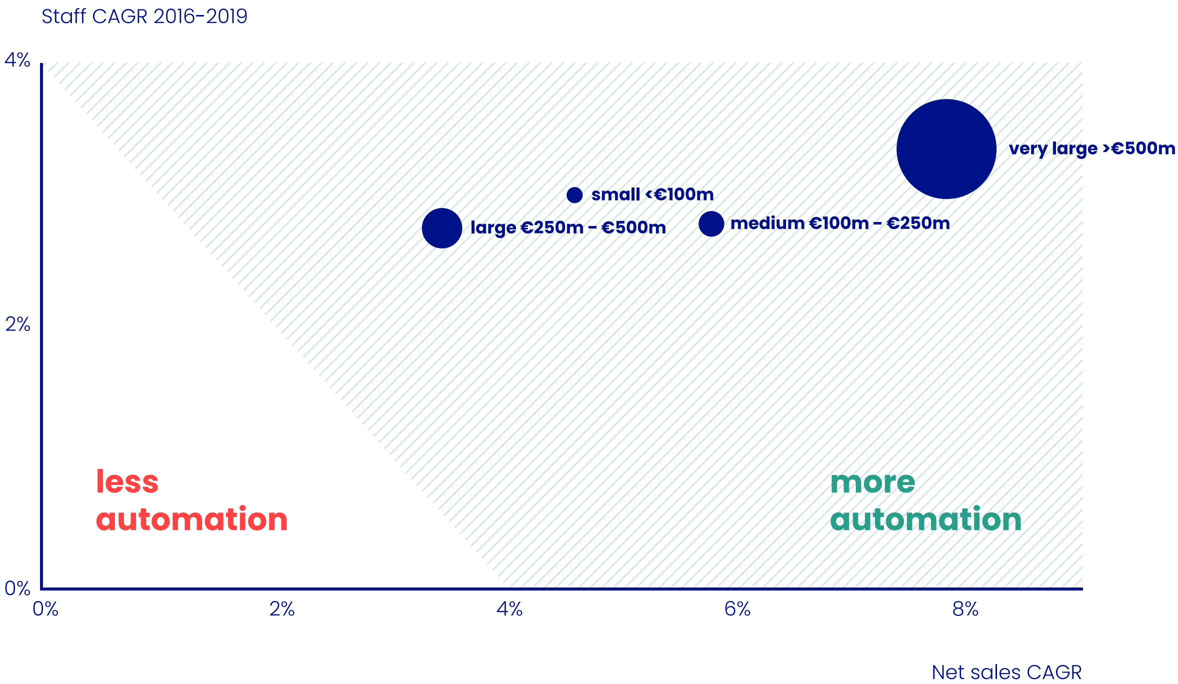
Average net sales growth of companies per country



Automation trend most visible at very large companies

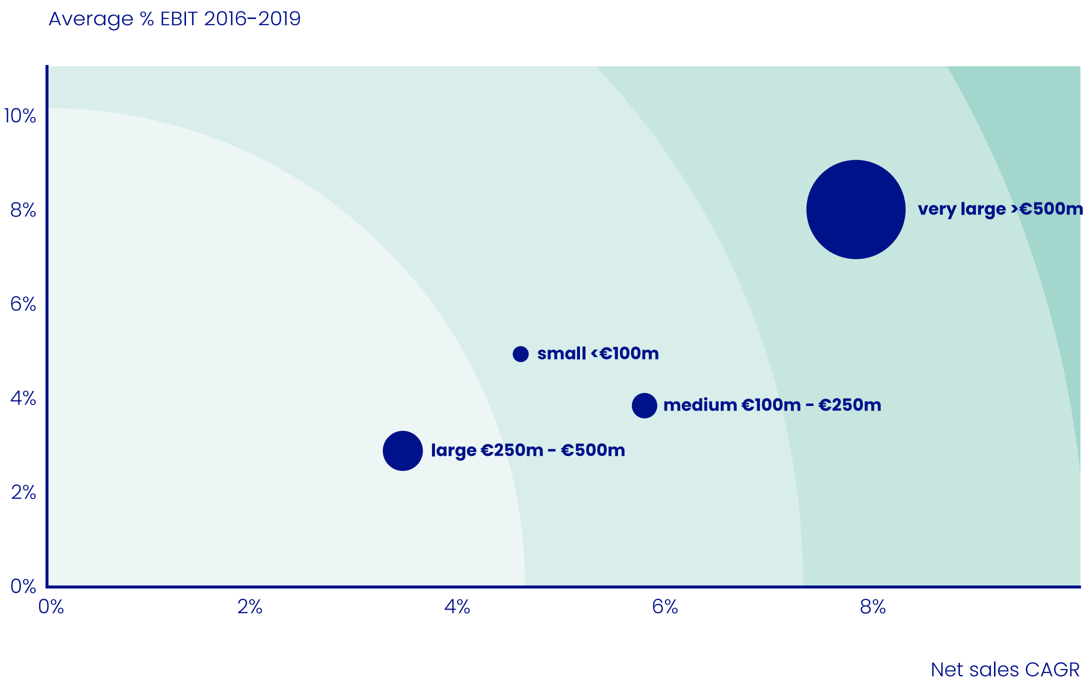
Automation is an important trend in the European bakery market. This can primarily be explained by the fact that the sector as a whole is driven by the price of raw materials. Therefore, automation is the way forward to a more efficient production process. The data backs up this trend: net sales growth exceeds the growth in staff. The largest companies exhibit the best ratio, benefiting the most from automation.

Growth & profitability - staff and sales development



Consolidation works - but only for the largest of companies

The largest companies combine the highest average net sales growth per year with the best EBIT margins in 2016-2019. The high level of automation, the net sales growth and the best margins clearly indicate economies of scale. However, there seems to be a threshold because we can only see these benefits clearly for the very large players. This has a serious implication for growth strategies: there is no linear correlation between growing and increasing your economies of scale. You have to get to a very large size before these truly kick in.



FINANCIAL HEALTH

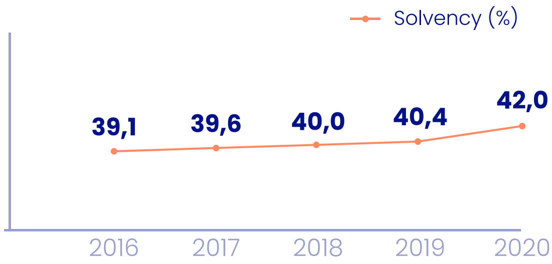
To analyze the financial health of the European bakery sector, we looked at solvency rates and the cash conversion cycle in the years 2016-2020. Together they indicate 1) long-term financial buffers and 2) the speed at which production output is turned into cash.

Key insights

- The European bakery market is financially healthy with an average solvency rate of 42% in 2020, which is increasing yearly
- Larger companies can negotiate better payment terms

Bakery is a financially healthy industry – across all segments

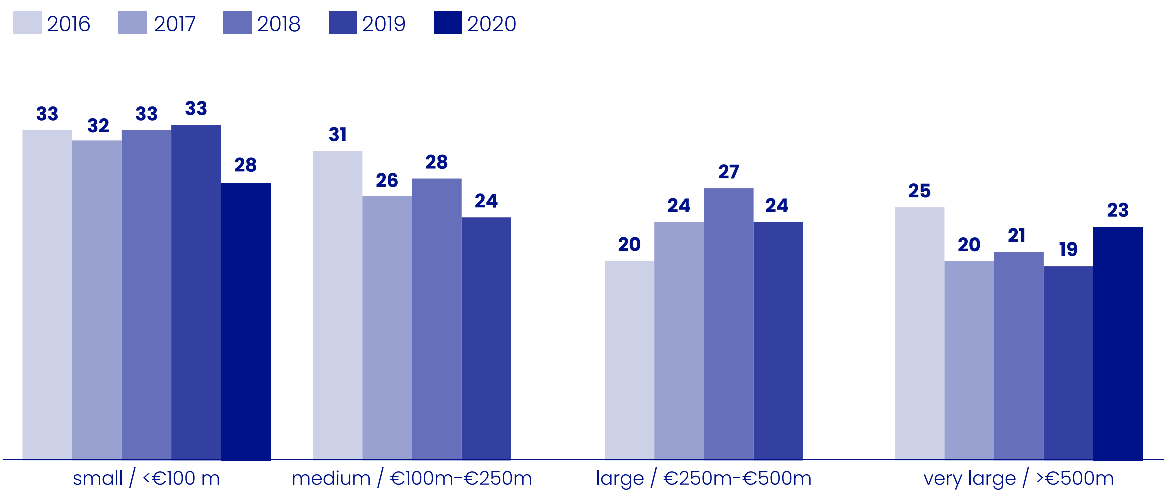
The European bakery market is financially healthy. The solvency level is an average of 42%, while 20% is considered a healthy percentage. Most companies in the European bakery sector have solid financial buffers.



Larger companies can negotiate better payment terms

Not only does consolidation lead to faster growth and higher margins, but larger players also have a more solid negotiation position resulting in better payment terms. This difference is significant, but not striking: up to a week. In working capital, however, a week in cash can be significant.

Cash conversion cycle



INVESTMENTS

To analyze the investments in the European bakery sector, we examined the tangible fixed asset investments in the years 2016-2020.

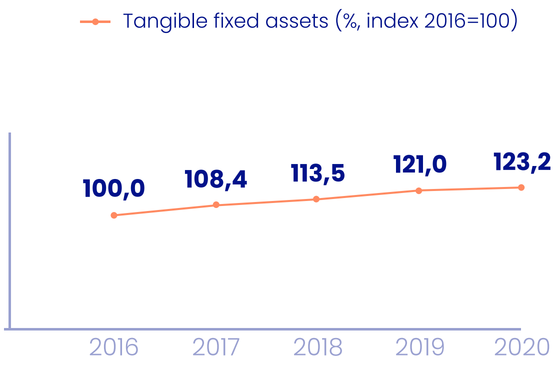
Key insights

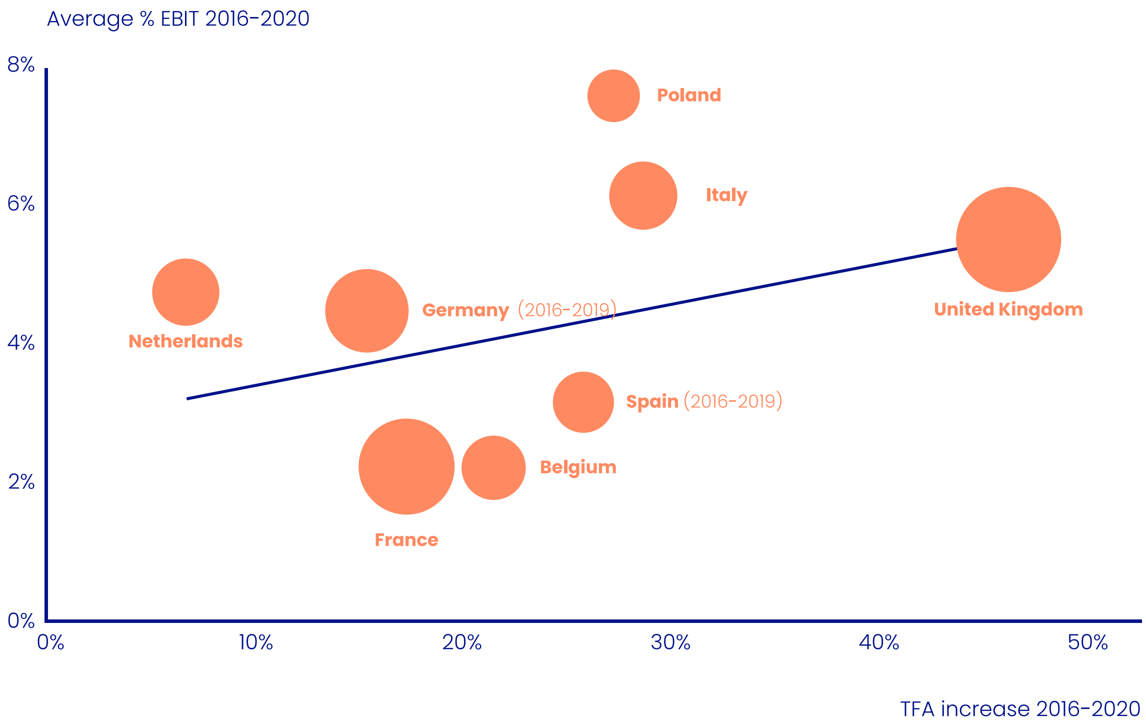
- The level of investments in itself slightly exceeds the level of net sales growth - this arguably is linked to the increasing level of automation in the industry
- Investments in especially the UK stand out, while Dutch companies lag behind in 2016-2020. When taking a closer look, there is a positive correlation between profitability and the level of investments.

Remarkable investments levels

As is illustrated in the table on the right, the TFA investments in the bakery sector are quite gradual.

Taking a closer look at the level of investments based on geography, there is a correlation between average profit level and speed of investments. This means there is a reinforcing spiral, which makes sense. The consequence, however, is that staying too long on the negative side of this spiral greatly lowers the possibility of getting back on top.





SUMMARY

With gross margins under pressure in a saturated market, the challenge for the bakery industry is to realize growth in profitable segments and to restore the dynamic into an upward spiral. How to generate added value, which the producer can claim, in the growing market for industrially produced fresh bread seems to be the prime question.

Margins under pressure - sector financially healthy

The European bakery sector is a mature market and growth is therefore limited. Consumption in Western Europe almost reached its peak, as reflected by the relationship between growth and margin decline. The price of raw materials dictates the market, which puts the gross margins under pressure. The total trend is a decline in margins in every part of the value chain over the last 5 years. However, strong growth can be found in Poland, the UK and the Netherlands. Continuous investments are being made to gear up for the future. This raises the question of what purpose these investments are made and what is expected of them with regards to the earn back time.

A shift towards healthier products

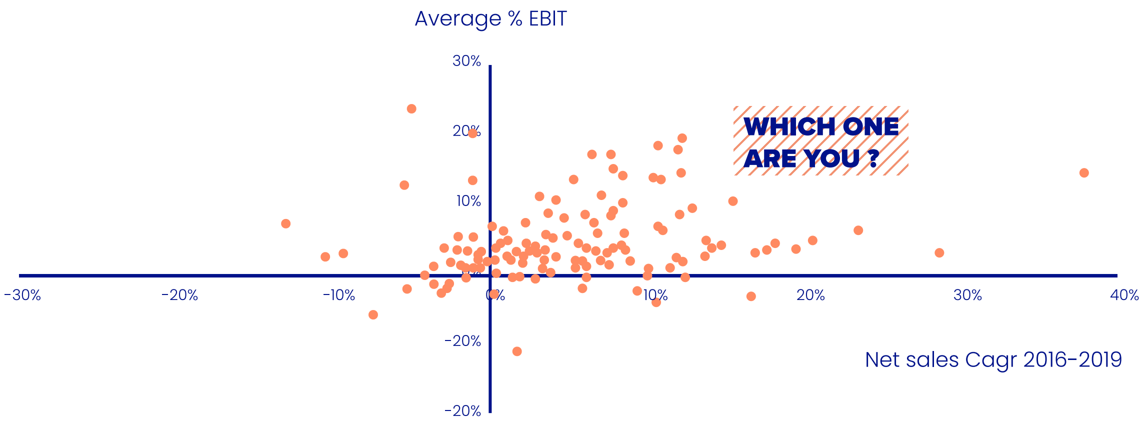
It's commonly known that the focus of EU consumers is shifting towards healthier alternatives. This observation is backed up by the net sales developments of recent years across different cross-sections of the market. Profit-wise it's the other way around: gross margins are significantly higher for Cookies & Cake and Pastry.

Automation trend most visible at very large companies

Consolidation and automation improve company performance: very large companies have above-average margins and demonstrate a steady growth rate. The net sales growth of the very large players (>€500 million net sales and up) exceeds the growth in staff, benefiting the most from automation. Furthermore, their cash conversion cycle indicates that they can negotiate better payment terms.
This raises the question: what are the implications of this trend for the industry as a whole? Does it trigger consolidation?Face the facts and use market data-derived insights to improve your company performance.

WANT TO KNOW WHERE YOU STAND?

Curious where you stand and who is winning and losing? Find out which dot you are and how your direct competitors perform in the A-INSIGHTS Performance Monitor



For anyone making key decisions, gut instinct no longer cuts it. You need fact-based insights to plan, be accountable, and provide the best guiding strategy.

The A-INSIGHTS Performance Monitor incorporates objective insights based on publicly available market data into your decision-making processes. Empower your perspective with answers to three essential questions:

/ How am I performing compared to my direct peers?

/ Who are winners and losers in my market, and why?

/ How is my industry performing?

The Performance Monitor is always up to date, comprehensive, easy to use, and catered to strategic decision-makers and their key moments of truth. We do the data work, so you can focus on achieving impact with the insights they bring forward. Rest assured you'll always be in the know.
Objectify discussions, be the first to spot opportunities, and outsmart your competitors.
Face the facts and use market data-derived insights to improve your company performance.

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Appendix

Definitions

Cash conversion cycle
The cash conversion cycle (CCC) is a metric that expresses the time (measured in days) it takes for a company to convert its investments in inventory and other resources into cash flows from sales. Also called the Net Operating Cycle or simply Cash Cycle, CCC attempts to measure how long each net input euro is tied up in the production and sales process before it gets converted into cash received

CAGR
Compound annual growth rate (CAGR) is the rate of return that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each year of the investment's life span

EBIT
Earnings before interest and taxes (EBIT) is an indicator of a company's profitability. EBIT can be calculated as revenue minus expenses excluding tax and interest. EBIT is also referred to as operating earnings, operating profit, and profit before interest and taxes

Net sales growth
Net sales are the sum of a company's gross sales minus its returns, allowances, and discounts

ROA
Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets. ROA gives a manager, investor, or analyst an idea as to how efficient a company's management is at using its assets to generate earnings. ROA is displayed as a percentage; the higher the ROA is, the better

Solvency
Solvency ratios are used to measure an enterprise's ability to meet its long-term debt obligations

Staff count
# of FTE

% Tangible fixed assets
Total tangible fixed assets as a percentage of total assets

% Total liabilities
Total liabilities are the combined debts and obligations that an individual or company owes to outside parties. Everything the company owns is classified as an asset and all amounts the company owes for future obligations are recorded as liabilities.

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