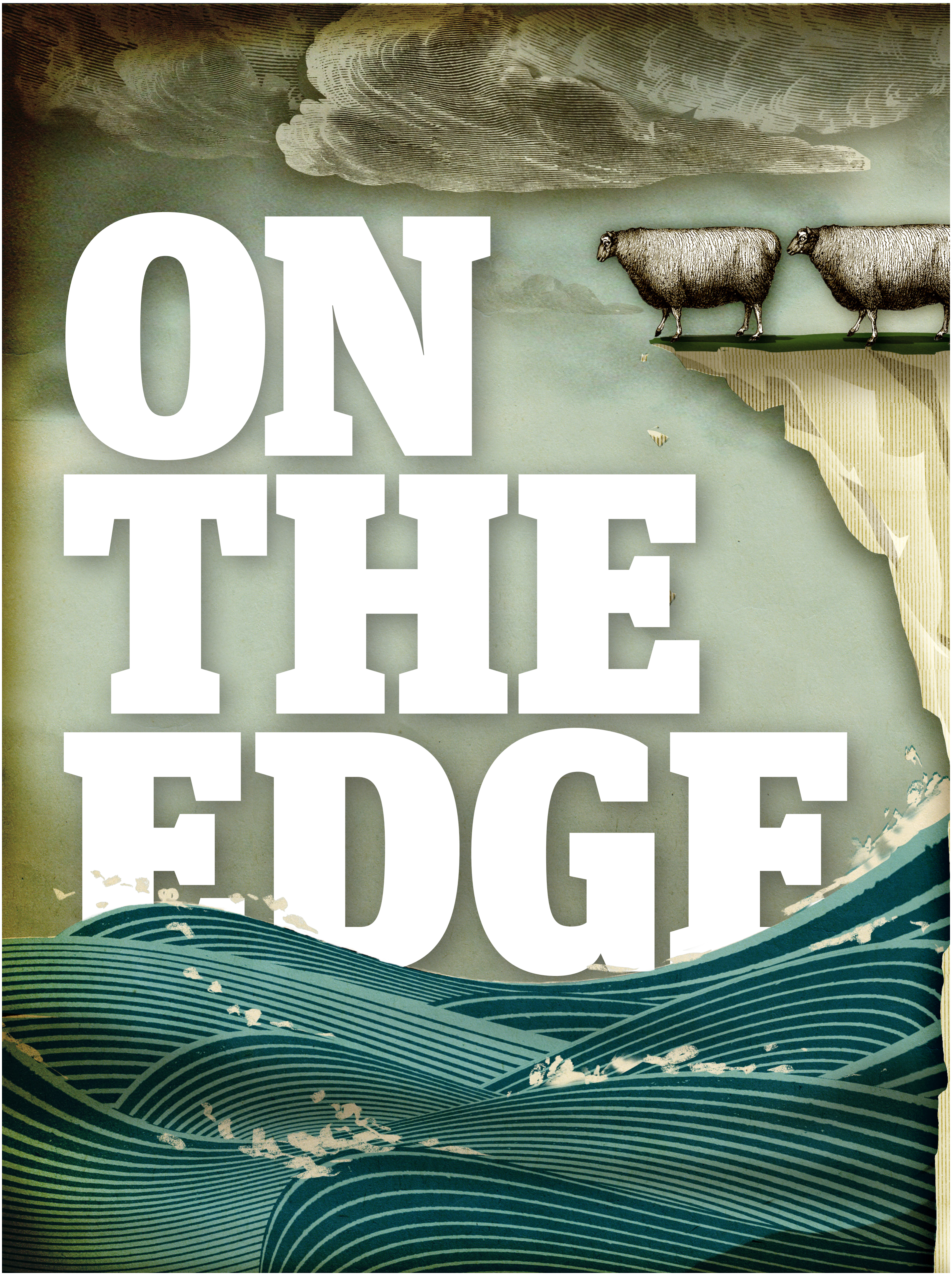
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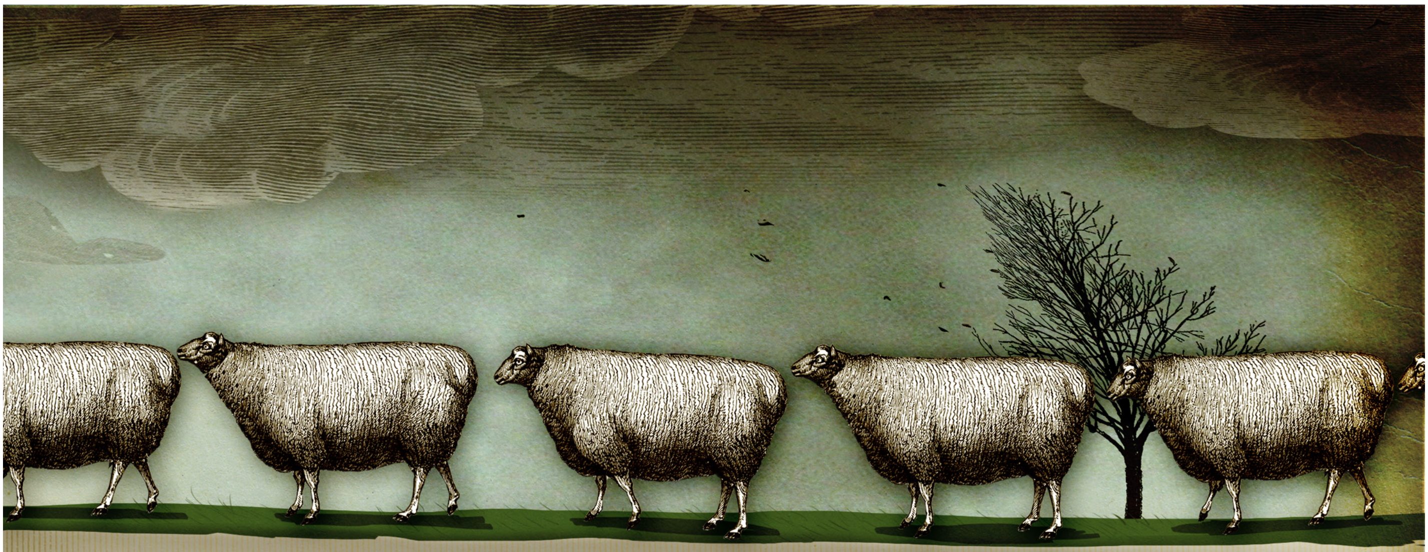

UK food and drink producers have grown at their fastest rate in nine years but as we hurtle towards Brexit, the sales performance hides more worrying trends below the surface

Alec Mattinson

UK food and drink producers can't catch a break. No sooner has the industry's growth engine finally spluttered into life, than suppliers find themselves hurtling towards a potential no-deal Brexit.

And while the possibility of backstop deals, transition arrangements, no-deal cliff edges and even a second referendum hove into view, the implications for UK food and drink are becoming increasingly stark. They include produce rotting due to border delays, costly tariffs, and labour shortages.

Industry confidence in a transition agreement to mitigate disruption in spring 2019 is evaporating, believes OC&C head of consumer goods Will Hayllar. "The possibility of short-term disruption not many months away is becoming sharper in people's minds. They are starting to think more about supply chain contingencies."

What makes these concerns all the more worrying is that the industry is heading into a potentially chaotic period from a position of historic weakness.

On the positive side, the OC&C/Grocer Top 150 shows a dramatic turnaround in top-line growth for the UK's biggest food and non-alcoholic drink suppliers. Aggregate revenues across the Top 150 jumped 7.5% in 2017, the highest growth since 2009, and a marked rebound from the 0.8% fall in 2016. In all, 112 of the Top 150 grew sales, with 49 in double-digit growth. This marks the first time in four years that growth has been above the long-term industry average of 4.9% as the price war and discounter growth has driven widespread industry deflation.

However, it's a mixed blessing. The report suggests the vast majority of growth has been driven by inflation, says Jefferies analyst Martin Deboo. "It is not an indication of higher structural growth."

Input inflation is almost £1.6bn, inevitably hitting bottom lines. Supplier margins fell back from 6.7% to 6.2% last year – below their long-term average of 6.4%. True, 60 companies expanded operating margins, but 88 saw profits fall, suggesting producers have passed on a measure of input inflation to retailers and consumers, but had to absorb a chunk themselves.

Passing on inflation

OC&C analysis suggests around £645m of the £1.6bn has been absorbed – passing on about £1bn to retailers, who in turn passed on £1.7bn to consumers as they grew gross margins, even as inflation bit.

Hayllar describes supplier success in passing on input inflation as "middling". "They didn't get caught out, as they did in the previous inflation spike of 2012, but equally they haven't had the free rein they did in the mid-2000s to pass it all on," he says.

Producers with low margin and low added value businesses, such as agricultural suppliers, will usually have reasonably transparent processes to push through price increases, based on commodity price fluctuations. For other players, hiking prices in a highly price-conscious grocery retail environment has required more creative thinking.

"Getting like-for-like price increases through is incredibly difficult," says Rothschild's global head of consumer Akeel Sachak. "Generally you will need to innovate to secure a price increase."

THE TOP 150

RANK & YEAR CHANGE		COMPANY N/AME & OWNERSHIP		ANNUALISED TURNOVER (£M)			OPERATING PROFIT (£M)			OPERATING MARGIN (%)			ROCE (%)		YEAR END	ACTIVITY
				Current	Previous	y-o-y (%)	Current	Previous	y-o-y (%)	Current	Previous	Delta	Current	Previous		
1	▸ –	**Associated British Foods**	Sub	**3,393**	3,224	**5.3**	**310**	301	**3.2**	**9.1**	9.3	**–0.2**	**11.3**	11.3	09/17	B
2	▸ –	**Boparan Holdings**	Family	**3,298**	3,139	**5.1**	**68**	91	**–24.7**	**2.1**	2.9	**–0.8**	**12.3**	16.7	07/17	O/L
3	▸ –	**Arla Foods**	Sub	**2,536**	2,340	**8.4**	**33**	50	**–33.7**	**1.3**	2.1	**–0.8**	**3.7**	7.9	12/17	O/L
4	▲ 7	**Greencore Convenience Foods**	Listed	**2,326**	1,458	**59.5**	**93**	84	**10.0**	**4.0**	5.8	**–1.8**	**22.7**	25.2	09/17	O/L
5	▲ 8	**Müller UK & Ireland**	Sub	**1,979**	1,337	**48.0**	**42**	75	**–43.7**	**2.1**	5.6	**–3.5**	**10.9**	20.7	12/16	B
6	▼ 2	**Unilever UK**	Sub	**1,858**	1,829	**1.6**	**85**	70	**22.4**	**4.6**	3.8	**0.8**	**9.5**	8.3	12/17	B
7	▼ 2	**Coca-Cola Enterprises**	Sub	**1,831**	1,748	**4.8**	**298**	266	**12.0**	**16.3**	15.2	**1.0**	**35.4**	37.3	12/17	B
8	▼ 2	**Bakkavor**	Listed	**1,820**	1,735	**4.9**	**113**	108	**4.6**	**6.2**	6.2	**–0.0**	**66.4**	75.3	12/17	O/L
9	▼ 2	**Mondelez UK**	Sub	**1,643**	1,733	**–5.2**	**33**	58	**–43.6**	**2.0**	3.3	**–1.3**	**1.2**	N/A	12/16	B
10	▼ 2	**Nestlé UK**	Sub	**1,525**	1,579	**–3.4**	**368**	244	**50.8**	**24.1**	15.4	**8.7**	**14.3**	8.2	12/16	B
11	▼ 1	**Britvic**	Listed	**1,516**	1,417	**7.0**	**180**	193	**–7.2**	**11.8**	13.7	**–1.8**	**26.5**	30.7	10/17	B
12	▼ 3	**Princes**	Sub	**1,507**	1,481	**1.7**	**12**	58	**–79.5**	**0.8**	3.9	**–3.1**	**1.7**	8.2	03/17	B
13	▲ 2	**Cranswick**	Listed	**1,465**	1,264	**15.9**	**91**	80	**12.6**	**6.2**	6.4	**–0.2**	**28.7**	27.2	03/18	O/L
14	▼ 2	**Moy Park**	Sub	**1,397**	1,407	**–0.7**	**66**	51	**29.5**	**4.7**	3.6	**1.1**	**19.6**	19.2	12/16	O/L
15	▲ 1	**Hilton Food Group**	Listed	**1,363**	1,238	**10.1**	**38**	37	**1.9**	**2.8**	3.0	**–0.2**	**28.2**	23.3	12/17	O/L
16	▼ 2	**Wm Morrison Produce**	Sub	**1,311**	1,294	**1.4**	**71**	92	**–22.8**	**5.4**	7.1	**–1.7**	**28.3**	55.2	01/17	O/L
17	▸ –	**Mars UK**	Sub	**1,199**	1,154	**3.9**	**223**	207	**7.8**	**18.6**	17.9	**0.7**	**19.2**	17.7	12/16	B
18	▸ –	**Tulip**	Sub	**1,065**	1,050	**1.4**	(34)	(17)	**N/A**	**–3.2**	–1.6	**–1.6**	**–8.8**	–4.4	09/17	O/L
19	▲ 1	**Samworth Brothers**	Family	**955**	887	**7.6**	**49**	47	**4.2**	**5.1**	5.3	**–0.2**	**14.6**	15.8	12/16	O/L
20	▼ 1	**United Biscuits**	Sub	**871**	906	**–3.9**	**105**	128	**–18.3**	**12.0**	14.1	**–2.1**	**6.3**	8.0	12/16	B
21	▲ 1	**Premier Foods**	Listed	**821**	793	**3.6**	**108**	102	**5.5**	**13.1**	12.9	**0.2**	**83.6**	75.8	03/18	B
22	▼ 1	**Kellogg's**	Sub	**775**	797	**–2.7**	**19**	15	**26.7**	**2.5**	1.9	**0.6**	**9.9**	8.6	12/16	B
23	▲ 2	**HJ Heinz Foods**	Sub	**720**	711	**1.2**	**127**	108	**17.8**	**17.7**	15.2	**2.5**	**6.7**	5.5	12/17	B
24	▸ –	**Farmers Boy**	Sub	**687**	729	**–5.8**	**72**	90	**–20.2**	**10.5**	12.4	**–1.9**	**16.4**	23.8	01/17	O/L
25	▼ 2	**Fletcher Bay Group**	Family	**670**	632	**6.1**	**15**	13	**14.1**	**2.2**	2.1	**0.2**	**18.9**	18.5	12/16	O/L
26	▸ –	**Woodhead Brothers**	Sub	**631**	634	**–0.4**	**39**	51	**–22.8**	**6.2**	8.0	**–1.8**	**13.0**	19.8	01/17	O/L
27	▲ 5	**Hain Celestial Group**	Sub	**583**	491	**18.7**	**42**	42	**1.4**	**7.2**	8.5	**–1.2**	**11.3**	16.6	06/17	B
28	▲ 3	**Young's Seafood**	PE	**523**	495	**5.7**	**6**	6	**–5.6**	**1.2**	1.3	**–0.1**	**1.7**	1.9	09/17	B
29	▲ 1	**Faccenda Group**	Family	**521**	525	**–0.8**	**12**	7	**72.6**	**2.3**	1.3	**1.0**	**7.0**	3.9	04/17	O/L
30	▼ 1	**Warburtons**	Family	**516**	528	**–2.2**	**22**	37	**–39.3**	**4.3**	6.9	**–2.6**	**4.9**	8.1	09/17	B
31	▲ 7	**Fresca Group**	Family	**501**	427	**17.3**	**5**	6	**–21.0**	**1.0**	1.4	**–0.5**	**6.7**	9.2	04/17	O/L
32	▲ 5	**G's Group Holdings**	Family	**485**	437	**11.0**	**5**	7	**–25.9**	**1.1**	1.6	**–0.5**	**3.4**	5.1	05/17	O/L
33	▲ 1	**McCain Foods (GB)**	Sub	**466**	451	**3.3**	**49**	63	**–22.6**	**10.4**	13.9	**–3.5**	**32.3**	46.4	06/17	B
34	▼ 1	**Karro Food**	PE	**465**	410	**13.5**	**17**	9	**85.4**	**3.6**	2.2	**1.4**	**10.1**	5.7	12/16	O/L
35	▲ 1	**Sun Valley Foods**	Sub	**464**	438	**5.9**	**2**	9	**–79.5**	**0.4**	2.0	**–1.6**	**1.6**	8.9	05/17	O/L
36	▲ 25	**Danish Crown UK**	Sub	**463**	279	**65.8**	**4**	3	**26.8**	**1.0**	1.2	**–0.3**	**12.2**	9.5	09/17	O/L
37	▲ 2	**Dairy Crest Group**	Listed	**457**	417	**9.6**	**59**	52	**13.3**	**12.9**	12.5	**0.4**	**14.5**	12.6	03/18	B
38	▼ 3	**Lucozade RibeN/A**	Sub	**418**	444	**–5.7**	**75**	77	**–1.9**	**17.9**	17.2	**0.7**	**45.6**	45.7	12/17	B
39	▲ 2	**Kerry Foods**	Sub	**412**	415	**–0.7**	**46**	42	**11.3**	**11.2**	10.0	**1.2**	**4.1**	4.1	12/16	B
40	▸ –	**Birds Eye**	Sub	**398**	415	**–4.2**	**21**	16	**33.9**	**5.3**	3.8	**1.5**	**11.4**	9.2	12/16	B
41	▲ 15	**Ferrero UK**	Sub	**384**	292	**31.6**	**2**	7	**–76.7**	**0.4**	2.3	**–1.9**	**2.3**	11.9	08/17	B
42	▼ 14	**James Finlay**	Sub	**353**	315	**12.4**	**16**	12	**31.9**	**4.6**	3.9	**0.7**	**3.1**	2.8	12/16	O/L
43	▲ 4	**KP SN/Acks**	Sub	**347**	314	**10.3**	**51**	54	**–4.7**	**14.8**	17.1	**–2.3**	**54.8**	89.8	12/17	B
44	▲ 8	**Dale Farm**	Sub	**341**	303	**12.7**	**9**	8	**12.5**	**2.6**	2.6	**–0.0**	**7.6**	6.4	03/17	O/L
45	NEW	**Jacobs Douwe Egberts**	Sub	**336**	184	**82.9**	**14**	8	**83.8**	**4.3**	4.3	**0.0**	**45.3**	39.8	12/16	B
46	▲ 14	**Fyffes Group**	Listed	**330**	282	**17.3**	(5)	(4)	**N/A**	**–1.6**	–1.4	**–0.1**	**–11.1**	–8.2	12/16	B
47	▼ 1	**Noble Foods**	Family	**328**	326	**0.7**	**6**	9	**–41.2**	**1.7**	2.9	**–1.2**	**6.3**	11.2	09/17	O/L
48	▼ 4	**Weetabix**	Sub	**323**	312	**3.5**	**49**	80	**–37.9**	**15.3**	25.5	**–10.2**	**16.8**	33.1	09/17	B
49	▸ –	**JW Galloway**	Family	**321**	312	**2.8**	**6**	6	**6.7**	**2.0**	1.9	**0.1**	**12.5**	12.2	02/17	O/L
50	▼ 8	**Ornua Foods**	Sub	**320**	281	**13.8**	**10**	4	**129.2**	**3.0**	1.5	**1.5**	**9.0**	4.6	12/17	B

Methodology: The Top 150 Food & Drink Suppliers survey is produced by OC&C, a consultancy offering strategic advice to top maN/Agement on the most complex issues in fmcg. In some cases (eg PepsiCo) it has not been possible to provide fully consolidated group accounts. Some companies include returns from interN/AtioN/Al (eg ABF, Hilton Food Group) and non–food (eg 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:** 18 Tulip: part of Danish Crown but results not consolidated in Danish Crown UK accounts; 26 Woodhead Bros: trading as Neerock; 63 Innocent: trading as Fresh Trading; 86 Haribo: trading as Dunhills. To find out more about the Top 150 study contact OC&C on 020 7010 8000 or visit occstrategy.com

> "Getting like-for-like price increases through is incredibly difficult. You will need to innovate"

Stories have abounded over 'shrinkflation' to inflate cost per gram returns, while other producers have premiumised products, reformulated recipes to protect margin or altered promotional mechanics to support average prices. Hayllar also notes that all the major mults have rowed back from their various pricing guarantees as promotional mechanics change.

Notably, though smaller branded and own label players continue to drive faster topline growth, larger branded companies (with revenues over £500m) were most able to protect margin. Large branded companies' margins fell just 0.1ppt to 9.3% companies, while falling 0.9ppts for small branded players to 8.2%, and there was a 0.6ppt and 0.4ppt drop for large and small own-label producers to 3.7% and 3.3% respectively.

The full effect of rising input costs may not yet be fully felt, as currency hedging arrangements unwind, buying agreements expire and existing stock is used. Muted disposable income growth – flat in 2017, according to the Asda income tracker, compared with a 9% rise in 2014 – suggests passing on inflation to consumers will not get any easier.

Additionally, retailer consolidation – Tesco-Booker, Co-op-Nisa and most of all Sainsbury's-Asda – is likely to lead to fewer opportunities to push price increases down the line. And whereas global fmcg companies have wielded the axe on costs UK suppliers have proved reluctant to follow. The OC&C Global 50, published in July 2018, showed the world's biggest fmcg brands clawing back margin through zero-based budgeting programmes to drive efficiencies, but there is little evidence of a big push to drive down costs for the Top 150.

Inefficiencies

In fact, as well as rising input prices, the Top 150 has faced rapidly rising staff costs and failed to move the needle on production efficiencies. Headcount across the group rose 2.4% last year – in own label it was up 4.6% – and a 6% rise in Top 150 staff costs per employee outstrips the 5% increase in revenue per employee.

Mounting cost pressures related to the national living wage will be exacerbated by restrictions on EU labour post Brexit. And there is plenty of evidence that the Brexit effect is already being felt.

The UK food manufacturing industry is more reliant on EU labour – it makes up around 31% of the workforce – than any other industry in the UK. And following the Brexit vote in June 2016, the rate at which EU workers are migrating to the UK has fallen by 10.6%, compared with growth of 4.5% from the rest of the world.

As Deboo notes: "The UK food industry, particularly own label, is built on imported labour." Changes to migration rules post Brexit and the escalator built

Consolidation: a big squeeze on suppliers?

If the headache of the UK's impending Brexit was not enough to keep suppliers up at night, UK producers are also facing grocery retail's biggest shake-up in a generation.

As grocery operating margins have tumbled – down to barely 2% under intense pressure from discounters, convenience and online – the industry response has been one of large-scale consolidation.

Tesco closed its £3.7bn buyout of Booker in March, the Co-op completed its takeover of Nisa in May and the biggest deal yet – the £12bn merger between Asda and Sainsbury's – is currently under review.

Among the issues the CMA will investigate is its effect on UK suppliers.

There are early causes for concern, with the pair pledging to find £500m of buying "synergies", in effect driving down the prices they pay suppliers by harmonising purchasing terms and retendering contracts.

"There will be winners and losers from that type of exercise," says OC&C's Will Hayllar. "Stronger suppliers that have the ability to invest and give away some price reductions may be in a position to get volume growth and market share gains."

However, Rothschild's Sachak suggests the power of traditional retailers over suppliers has waned, largely because of e-commerce, meaning retailer consolidation may not be the threat some predict.

"I don't know that consolidation is necessarily going to lead to more long-term grief for suppliers because they have more alternative routes to market than they used to," he says. "It's not as simple as traditional retailers getting bigger and therefore being able to make more money by taking more margin out of suppliers – that game has run its course."

And in this sense consolidation can be seen as a defensive move against the growing power of online – and Amazon in particular – rather than to aggressively drive margin recovery.

Grocery retailers are getting their defensive moves in early then – but are suppliers ready to react to a scaled-up Amazon?

After all "suppliers are still working out how to engage with e-commerce and have so far been pretty timid about the opportunity to disintermediate traditional retail," Sachak says.

oc&c top 150 index 2018

THE TOP 150

Rank	Year change	Company N/ame	Ownership	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	Activity
51	▶ –	**William Jackson & Son**	Family	**318**	314	**1.1**	**19**	18	**5.0**	**6.0**	5.8	**0.2**	**19.5**	N/A	04/17	B
52	▼ 4	**Finsbury Food Group**	Listed	**315**	306	**2.9**	**12**	8	**48.2**	**3.9**	2.7	**1.2**	**23.4**	16.2	07/17	B
53	▲ 6	**Refresco Beverages**	Sub	**315**	284	**10.9**	**12**	8	**57.0**	**3.8**	2.7	**1.1**	**14.1**	10.1	12/16	O/L
54	▼ 4	**Berry Gardens**	Family	**310**	272	**14.3**	**6**	5	**2.5**	**1.8**	2.0	**–0.2**	**37.3**	40.7	12/16	O/L
55	▼ 12	**Hovis**	PE	**308**	343	**–10.3**	(9)	(9)	**N/A**	**–3.0**	–2.6	**–0.4**	**–9.1**	–8.2	12/16	B
56	▼ 1	**Baxters Food Group**	Family	**298**	295	**1.0**	**15**	18	**–17.0**	**5.0**	6.1	**–1.1**	**10.5**	12.7	04/17	B
57	▲ 6	**Yeo Valley Group**	Family	**286**	274	**4.3**	**10**	13	**–21.2**	**3.5**	4.6	**–1.1**	**17.8**	24.3	05/17	B
58	▼ 5	**LDH** (La Doria)	Sub	**284**	299	**–5.2**	**14**	12	**12.8**	**4.8**	4.0	**0.8**	**20.0**	19.4	12/16	O/L
59	▲ 7	**AG Barr**	Listed	**278**	258	**8.0**	**50**	46	**8.9**	**18.0**	17.9	**0.2**	**41.9**	28.6	01/18	B
60	▲ 7	**Oscar Mayer**	PE	**273**	254	**7.6**	**13**	21	**–37.5**	**4.9**	8.4	**–3.5**	**22.5**	41.0	03/17	O/L
61	▲ 11	**Addo Food Group**	PE	**272**	237	**14.6**	**11**	10	**10.7**	**4.2**	4.4	**–0.1**	**30.7**	27.1	03/17	O/L
62	▲ 13	**KTC (Edibles)**	Family	**268**	232	**15.3**	**4**	4	**7.1**	**1.6**	1.7	**–0.1**	**9.6**	9.5	12/17	O/L
63	▲ 8	**Innocent**	Sub	**267**	224	**19.5**	**13**	10	**23.2**	**4.7**	4.6	**0.1**	**11.4**	12.5	12/16	B
64	▲ 4	**General Mills UK**	Sub	**264**	250	**5.3**	**7**	5	**46.3**	**2.5**	1.8	**0.7**	**7.0**	5.8	05/17	B
65	▼ 7	**Burton's Foods**	PE	**260**	288	**–9.7**	**4**	19	**–77.1**	**1.7**	6.6	**–4.9**	**0.9**	7.0	12/16	B
66	▼ 21	**Adelie Foods**	PE	**248**	270	**–8.1**	(17)	9	**N/A**	**–7.0**	3.2	**–10.2**	**–29.9**	16.6	09/17	O/L
67	▼ 3	**Walkers SN/Ack Foods**	Sub	**248**	273	**–9.3**	**28**	18	**56.3**	**11.4**	6.6	**4.8**	**6.8**	4.1	12/16	B
68	▲ 10	**Froneri UK (R&R Ice Cream)**	PE	**243**	220	**10.6**	**42**	39	**7.2**	**17.2**	17.8	**–0.6**	**25.3**	25.3	12/17	O/L
69	▲ 5	**Red Bull Company**	Sub	**243**	234	**3.9**	**23**	20	**11.2**	**9.3**	8.7	**0.6**	**66.3**	63.3	12/16	B
70	▲ 10	**IPL**	Sub	**242**	242	**0.0**	**15**	33	**–56.0**	**6.0**	13.7	**–7.7**	**8.2**	28.8	12/17	O/L
71	▼ 1	**Wrigley Company**	Sub	**242**	248	**–2.6**	**54**	66	**–18.5**	**22.3**	26.7	**–4.4**	**28.2**	60.9	12/17	B
72	▲ 1	**McCormick UK**	Sub	**239**	236	**1.4**	**17**	18	**–6.8**	**7.1**	7.7	**–0.6**	**10.3**	11.3	11/16	B
73	▲ 4	**John West Foods**	Sub	**222**	207	**7.3**	**4**	10	**–56.1**	**2.0**	4.8	**–2.8**	**5.9**	13.6	12/16	B
74	▲ 2	**Noon Products**	Sub	**220**	211	**4.2**	**10**	10	**1.3**	**4.7**	4.9	**–0.1**	**6.0**	7.7	12/16	O/L
75	▲ 38	**Stateside Foods**	Sub	**215**	125	**71.6**	**12**	14	**–15.6**	**5.5**	11.2	**–5.7**	**28.5**	33.4	02/17	O/L
76	▲ 19	**Quorn Foods**	Sub	**205**	176	**16.5**	**32**	25	**27.8**	**15.5**	14.1	**1.4**	**24.5**	20.7	12/17	B
77	▲ 5	**Danone Waters (UK & Ireland)**	Sub	**203**	198	**2.3**	**11**	11	**4.8**	**5.5**	5.4	**0.1**	**55.7**	53.2	12/17	B
78	▲ 7	**Linden Foods**	Sub	**199**	182	**9.4**	**1**	2	**–60.1**	**0.4**	1.1	**–0.7**	**1.7**	3.7	09/17	O/L
79	NEW	**Produce Investments**	Listed	**197**	186	**6.1**	**9**	10	**–9.9**	**4.5**	5.3	**–0.8**	**10.5**	13.8	07/17	O/L
80	▼ 1	**Danone**	Sub	**196**	201	**–2.3**	**12**	34	**–64.9**	**6.2**	17.1	**–11.0**	**26.6**	72.1	12/17	B
81	▲ 43	**Greencell**	Family	**194**	168	**15.6**	**5**	4	**12.5**	**2.6**	2.6	**–0.1**	**24.4**	27.6	12/17	O/L
82	▲ 7	**Bettys & Taylors Group**	Family	**190**	173	**9.5**	**16**	10	**64.1**	**8.6**	5.7	**2.8**	**12.9**	8.4	10/17	B
83	▼ 2	**Russell Burgess**	Family	**185**	198	**–6.3**	(6)	0	**N/A**	**–3.1**	0.2	**–3.2**	**–25.4**	1.5	12/16	O/L
84	NEW	**Upfield Foods (Unilever BCS)**	PE	**183**	212	**–13.4**	**8**	15	**–47.7**	**4.3**	7.1	**–2.8**	**12.7**	20.6	12/17	B
85	▲ 1	**Zetar**	Sub	**180**	173	**3.7**	(0)	1	**N/A**	**–0.2**	0.6	**–0.9**	**–0.4**	1.6	12/16	B
86	▲ 5	**Haribo**	Sub	**173**	166	**4.3**	**20**	17	**17.8**	**11.6**	10.2	**1.3**	**13.6**	11.9	12/17	B
87	▲ 1	**Country Style Foods**	Family	**172**	175	**–1.7**	**6**	8	**–22.7**	**3.7**	4.7	**–1.0**	**16.3**	24.3	04/17	O/L
88	▼ 5	**Lactalis McLelland**	Sub	**172**	187	**–7.7**	**9**	(12)	**N/A**	**5.1**	–6.5	**11.6**	**6.5**	–8.8	12/16	O/L
89	▲ 17	**Lindt & Sprüngli (UK)**	Sub	**171**	155	**10.9**	**13**	19	**–32.8**	**7.4**	12.2	**–4.8**	**51.1**	68.7	12/17	B
90	▲ 2	**Tayto Group**	Family	**171**	164	**4.5**	**4**	6	**–22.8**	**2.5**	3.4	**–0.9**	**5.3**	7.2	07/17	O/L
91	▲ 46	**Fever-Tree**	Listed	**170**	102	**66.9**	**57**	33	**71.6**	**33.7**	32.8	**0.9**	**77.6**	61.8	12/17	B
92	▲ 1	**Dovecote Park**	Family	**170**	159	**6.7**	**3**	3	**–12.9**	**1.5**	1.9	**–0.3**	**9.7**	11.6	09/17	O/L
93	NEW	**Greenyard Fresh UK**	Sub	**168**	84	**101.1**	(0)	1	**N/A**	**–0.1**	0.7	**–0.7**	**–1.5**	11.9	03/17	O/L
94	▼ 7	**Winterbotham Darby &Co**	PE	**166**	178	**–6.7**	**4**	8	**–50.5**	**2.3**	4.4	**–2.1**	**6.4**	16.2	03/17	O/L
95	▲ 1	**Direct Table Foods**	Sub	**165**	157	**5.2**	**12**	11	**5.5**	**7.0**	7.0	**0.0**	**26.2**	25.8	12/16	O/L
96	▲ 5	**N/Atures Way Foods**	Family	**163**	151	**7.8**	**5**	9	**–49.6**	**2.9**	6.2	**–3.3**	**13.1**	27.3	03/17	O/L
97	▲ 2	**Park Cakes**	PE	**163**	155	**4.6**	**2**	6	**–61.4**	**1.4**	3.8	**–2.4**	**15.8**	49.7	04/17	O/L
98	▼ 1	**Dr Oetker** (UK)	Sub	**161**	157	**2.6**	**19**	27	**–31.6**	**11.6**	17.4	**–5.8**	**25.7**	39.6	12/17	B
99	▲ 18	**SH Pratt & Co**	Family	**157**	131	**19.8**	**3**	1	**276.4**	**1.6**	0.5	**1.1**	**18.4**	5.1	10/17	O/L
100	▲ 9	**Alpro UK**	Sub	**157**	130	**20.5**	**6**	5	**12.6**	**3.9**	4.2	**–0.3**	**12.5**	11.4	12/16	B

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“A simple way to think about the UK food industry is that it’s an industry built on imported labour”

into the national living wage policy suggests people are only going to become more expensive.

Capital expenditure across the Top 150 nudged up 1.4% to £2bn last year, edging up to 3% of revenues in 2017 from 2.9% in 2016. Own label players grew capex by 12.5% to capitalise on structural growth and build capacity, but for branded players capex dropped 6.5%. Only 47% of Top 150 companies increased investment as a proportion of revenues.

What’s more, this investment has failed to turn around the efficiency slide, with industry return on capital declining to a low of 12.4%.

Even where the incentive to invest is clear, the current environment has led to caution. Sachak argues: “A lot of capital investment decisions have been put on hold pending Brexit, particularly amongst larger companies with a much more international footprint and therefore choices as to where they deploy their capital.”

A number of those UK players trying to grow organic sales are investing to capitalise on pockets of industry growth, even at the short-term expense of margins.

Quorn is prioritising top-line growth and investing heavily in innovation. CEO Kevin Brennan worries a cautious investment strategy is a false economy. “If your capex as a percentage of sales keeps going down, your factories get older and your R&D diminishes – you can only get away with it in the short term.”

Exports

One area where the UK top 150 has collectively moved the pre-Brexit needle is stepping up exports. The 2016 collapse in the value of the pound provided an obvious tailwind to international sales, but the Top 150’s 14% international sales growth was primarily driven by real constant currency growth of 8% (with 6% due to the weak pound).

OC&C’s Hayllar notes this jump – which represents a significant improvement on 2016 where 10% global sales growth was offset by a bigger 12% currency impact – is not entirely Brexit-related though.

“The malaise of the UK grocery market was the real trigger for people to look at different places they could sell their products,” he says. “The currency rebasing has been helpful, but it typically takes several years after putting focus and resource into exports before the benefits are truly seen.”

Two-thirds of companies recorded international sales share growth, which rose to 21.6% from 20.7% for the year, with international sales themselves up 14.1% compared to 4.7% for UK-only sales.

But the value of exports as a post-Brexit contingency is mitigated by the EU being far and away the most important market for food and drink exports.

Five top performers

Britvic

Turnover: £1.52bn (+7%)
Operating margin: 12% (-1.8%ppts)
Despite uncertainty surrounding 2018’s impending sugar ‘tax’, the Robinsons’ maker recorded much-improved sales growth by investing heavily into sugar-free. Ahead of this April’s levy, Britvic’s carbonated drinks performed well as it worked on a “healthier everyday” strategy, pushing no sugar brands Pepsi Max and 7up Free ahead of the legislation change.

Cranswick

Turnover: £1.47bn (+15.9%)
Operating margin: 6% (-0.2ppts)
Flattening pork sales in the UK may have brought on sweats at Cranswick, but the meat giant saw sales rocket as it invested into its rapidly growing poultry arm, new food-to-go channels and M&A. With over 844 product launches in 2017, investment in new products stimulated growth and contributed 11.5% of the total sales.

Quorn

Turnover: £205m (+16.5%)
Operating margin: 15% (+1.4%)
The meat-free boom shows no sign of slowing, and Quorn achieved its strongest-ever year of growth, with sales above £200m in 2017. Internationally the brand also improved growth, with sales in Europe up 32% and the US, its biggest export market, up 33%. This growth has been backed by capex investment, with £7m funnelled into innovation and tech.

Fever-Tree

Turnover: £170m (+66.9%)
Operating margin: 34% (+0.9%)
While stock market-listed Fever-Tree’s margins have flattened, they’re still the envy of rivals, as is its rapid sales growth and share price, which doubled this year. The mixer brand was the fastest growing supplier in the top 150 index, as it has symbiotically complemented the current growth in high-end spirits through new whisky and tequila mixers.

Greencell

Turnover: £194m (+15.6%)
Operating margin: 3% (-0.1%)
Fruit & vegetable supplier Greencell has thrived off millennial shopping habits, leveraging the rising popularity of its core product, the avocado, to grow sales over the past 12 months. Continually strong UK demand led to a £29.8m sales increase in its avocados It has remained UK-focused, investing £1.5m in 2017 to increase avocado-ripening capacity.

oc&c top 150 index 2018

THE TOP 150

RANK & YEAR CHANGE		COMPANY N/AME & OWNERSHIP		ANNUALISED TURNOVER (£M)			OPERATING PROFIT (£M)			OPERATING MARGIN (%)			ROCE (%)		YEAR END	ACTIVITY
				Current	Previous	y-o-y (%)	Current	Previous	y-o-y (%)	Current	Previous	Delta	Current	Previous		
101	▼ 3	JBS UK	Sub	154	156	-0.9	6	7	-2.8	4.1	4.2	-0.1	24.1	N/A	12/17	O/L
102	▲ 18	Scottish Sea Farms	Sub	154	120	28.1	42	9	371.5	27.4	7.4	19.9	51.9	11.7	12/16	O/L
103	▲ 8	Barfoots of Botley	Family	152	129	18.5	6	9	-40.9	3.6	7.3	-3.6	23.4	45.1	12/16	O/L
104	▲ 3	CP Foods (UK)	Sub	152	136	12.1	4	3	13.7	2.6	2.5	0.0	6.6	5.7	12/16	O/L
105	▲ 24	New England Seafood	Family	151	114	32.4	4	5	-8.2	2.9	4.1	-1.3	18.2	26.7	10/17	O/L
106	▼ 16	Browns Food Group	Family	151	169	-10.8	8	8	-5.5	5.0	4.8	0.3	19.9	13.0	12/16	O/L
107	▼ 13	Whitworths	Sub	147	158	-7.0	7	13	-48.4	4.4	8.0	-3.5	12.2	20.4	10/16	O/L
108	▲ 7	Albert Bartlett & Sons (Airdrie)	Family	146	124	17.9	3	3	4.5	2.0	2.3	-0.3	5.3	5.0	05/17	O/L
109	▼ 4	TATA Global beverages	Sub	145	137	5.3	12	10	23.2	8.1	6.9	1.2	6.4	4.7	03/17	B
110	▲ 8	Branston Holding	Family	143	121	18.3	7	8	-14.3	4.6	6.3	-1.8	27.7	33.1	07/17	B
111	▼ 7	Walkers Shortbread	Family	143	138	3.4	6	15	-61.6	4.1	11.0	-6.9	6.3	16.9	12/17	B
112	▲ 11	Fayrefield Foods	Family	141	119	18.1	3	3	32.3	2.3	2.1	0.3	11.4	8.9	12/16	O/L
113	▼ 13	Tangerine Confectionery	PE	139	152	-8.6	7	12	-45.1	4.7	7.8	-3.1	8.5	15.3	12/16	O/L
114	▲ 2	Lyons Seafoods	Sub	136	123	10.2	9	9	-3.1	6.3	7.2	-0.9	20.5	22.9	06/17	O/L
115	▼ 7	Lantmannen Unibake UK	Family	136	135	0.4	5	7	-18.7	4.0	4.9	-0.9	8.9	11.2	12/16	O/L
116	▲ 11	Nichols	Listed	133	117	13.5	21	30	-28.7	16.2	25.8	-9.6	35.4	N/A	12/17	B
117	▼ 14	Lactalis Nestlé Chilled Dairy	Sub	130	139	-7.1	5	3	38.5	3.5	2.4	1.2	26.2	15.7	12/16	B
118	▼ 4	Banham Poultry	Family	129	120	7.1	1	(0)	N/A	0.4	-0.4	0.8	5.2	-6.0	03/17	O/L
119	▲ 11	Kettle Produce	Family	129	114	13.0	3	2	5.2	2.0	2.2	-0.1	12.4	12.8	05/17	O/L
120	▲ 24	Angus Soft Fruits	Family	127	95	34.4	1	0	139.3	0.7	0.4	0.3	12.2	8.1	04/17	O/L
121	▼ 11	Yoplait UK	Sub	126	129	-2.1	27	27	0.9	21.3	20.6	0.6	41.0	52.5	05/17	B
122	NEW	Marine Harvest	Sub	124	45	176.2	(8)	(12)	N/A	-6.4	-27.8	21.4	-15.4	-32.3	12/16	O/L
123	▲ 5	Randall Parker Foods	Family	123	117	5.1	1	1	55.4	1.1	0.7	0.3	8.8	5.4	09/17	O/L
124	▲ 17	Farne Salmon & Trout	Sub	117	98	19.9	4	4	7.6	3.7	4.1	-0.4	24.3	23.5	06/17	O/L
125	▲ 1	QV Foods	Family	116	119	-2.4	(4)	1	N/A	-3.1	0.6	-3.7	-39.3	7.1	05/17	O/L
126	▼ 1	Symington's	PE	115	118	-1.9	4	(1)	N/A	3.7	-1.0	4.7	12.9	-3.5	08/17	B
127	▲ 4	Greenyard Frozen UK	Sub	114	110	3.0	4	4	9.0	3.6	3.4	0.2	4.2	4.0	03/17	O/L
128	▲ 5	The Scottish Salmon Company	Family	110	100	9.2	(0)	2	N/A	-0.3	1.9	-2.2	-0.4	1.9	12/16	O/L
129	▲ 10	Alliance Group (NZ)	Sub	109	100	8.6	(2)	2	N/A	-1.5	1.6	-3.1	-9.7	12.0	09/17	O/L
130	▲ 2	Kanes Foods	Family	108	110	-1.2	(9)	3	N/A	-8.4	2.3	-10.7	-14.6	3.4	03/17	O/L
131	▲ 15	Northcoast Seafoods	Family	108	93	15.4	3	4	-20.6	2.8	4.0	-1.3	7.5	11.0	12/16	O/L
132	▼ 13	Vitacress Ltd	Sub	108	110	-1.9	2	1	249.7	2.1	0.6	1.5	3.6	N/A	12/17	O/L
133	▲ 5	Green Label Foods	Family	107	101	5.9	3	3	2.8	2.6	2.7	-0.1	11.2	12.2	02/17	B
134	▶ –	Mizkan	Sub	104	106	-1.9	3	1	174.1	2.6	0.9	1.7	4.6	1.7	02/17	O/L
135	▲ 5	Bel UK	Sub	101	99	1.8	1	(2)	N/A	1.0	-2.5	3.5	4.6	-11.8	12/17	B
136	▲ 7	English Provender Company	Family	100	95	5.8	10	10	2.7	9.8	10.1	-0.3	31.8	37.3	09/17	B
137	NEW	Graham's The Family Dairy	Family	100	83	20.4	2	2	-4.5	2.0	2.5	-0.5	11.5	13.3	03/17	O/L
138	▼ 2	Highland Spring	Family	100	103	-3.2	6	5	10.9	5.7	5.0	0.7	18.3	N/A	12/16	B
139	NEW	Blue Skies	Family	99	90	10.1	2	4	-53.8	1.7	4.2	-2.4	8.3	18.8	12/17	O/L
140	NEW	BerN/Ard Matthews	Sub	98	–	N/A	2	–	N/A	1.7	N/A		N/A	N/A	01/17	B
141	▲ 1	Sykes Seafoods	Family	96	89	8.5	6	1	787.2	6.0	0.7	5.3	17.6	2.4	12/16	O/L
142	▲ 5	Fesa	Family	95	92	3.1	1	1	26.0	1.3	1.0	0.2	14.4	11.4	09/17	O/L
143	▲ 7	F Smales & Son	Family	92	84	9.6	0	0	16.9	0.3	0.3	0.0	4.4	3.8	08/17	O/L
144	NEW	SigN/Ature Flatbreads UK	Sub	91	77	19.0	5	(3)	N/A	5.1	-3.3	8.4	12.5	-6.3	07/17	O/L
145	▶ –	Frank Roberts & Sons	Family	91	94	-3.5	4	6	-32.6	4.3	6.2	-1.9	7.5	11.1	08/17	B
146	NEW	AJ & RG Barber	Family	89	84	6.4	8	6	37.7	8.7	6.7	2.0	11.4	16.5	03/17	O/L
147	NEW	Pritchitts	Sub	89	76	16.8	1	N/A	N/A	0.7	N/A		2.9	N/A	12/16	O/L
148	▶ –	MoN/Aghan Mushrooms	Sub	87	85	2.4	2	1	196.4	1.8	0.6	1.2	4.5	1.6	12/16	O/L
149	NEW	S&B Herba Foods	Sub	86	82	5.6	6	6	4.9	7.5	7.5	-0.0	11.0	11.7	12/16	O/L
150	NEW	Blue Earth Foods	Sub	86	77	11.7	3	2	80.1	3.5	2.2	1.3	20.5	10.4	12/16	O/L

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> **"The malaise of the UK grocery market, even ahead of Brexit, was a trigger to look at different places to sell"**

And this is at the heart of the current Brexit conundrum – the March exit is closing in, but the material preparations that can be made are severely restricted due to the sheer level of uncertainty that remains. "The range of outcomes is so broad that most have no choice but to sit on their hands and wait to see what happens beyond short-term stockpiling of raw materials imported from Europe," says Sachak.

Hilton Food Group executive chairman Robert Watson concurs: "We'll meet whatever challenges the new way of operating brings – there is little point us spending a lot of time today wondering about what-ifs."

Importantly, where there is a short-term – and potentially devastating – Brexit threat, there are longer-term opportunities the UK's exit could engender.

Domestic boost?

The UK has a net trade deficit with the EU across all major food and beverage categories, including a £3.9bn deficit on meat, £2.4bn on fruit & veg and £1.7bn on dairy. As Hayllar points out "we are still net importers of food, so anything that creates tariffs or trade barriers ought to create a bigger domestic market for UK supply".

The potential regulatory 'year zero' also presents a vital opportunity for industry players to work with the government to shape a new food and drink regime that could underpin a more favourable environment.

For example, while current legislation looks to protect producers from extra-EU competition, new UK legislation will consider EU competition for the first time in a generation, while there is important debate around how UK standards should compare internationally and the creation of a new subsidies regime.

"In this uncertainty the one practical thing producers can really do is try to influence policy in the sensible places that help and to avoid the unintended complexity of legislation that isn't well influenced and consulted," says Hayllar.

As March's Brexit D-day looms, the only certainty is more uncertainty. The UK's exit from the EU could usher in the biggest supply chain and regulatory shake-up the industry has seen for generations. Or it could not.

All suppliers can do is control the controllables – and the evidence suggests many need to do a better job of getting ahead of the intensifying issues facing the industry, whatever the Brexit agreement.

Those suppliers who tactically invest to play to their strengths and mitigate stresses despite the uncertainty are likely to find the Brexit cliff-edge more manageable than those who only start planning as they plummet towards the ground.

UK suppliers are sellers not buyers right now

Global fmcg growth has been supercharged by a spree of multibillion-dollar deals but UK M&A continues to sag under the weight of Brexit.

Though the volume of UK domiciled deals over £20m ticked up in 2017 from five to seven, levels of activity are the second lowest in the past seven years and way behind the 21 and 20 deals recorded in 2006 and 2007 respectively.

OC&C's head of consumer goods Will Hayllar says the underlying motivation for UK M&A remains strong. "The underlying challenge big brands face in terms of how to drive organic value and volume hasn't changed, so that motivation to buy up creative brands is still there."

What seems to be holding back buyer interest though is the looming threat of Brexit, with all but the most committed or opportunistic buyers hitting pause until there is more clarity around the eventual exit deal.

"It's an extra question mark," Hayllar says. "Why would I invest my money in a UK-based business now if I have the choice of putting it anywhere in the world?"

In particular, deal interest from Europe has dropped in recent years, with EU buyers accounting for just 7% of deal values last year, compared with 74% in 2014 and 25% in 2013.

Conversely, interest from the US has stepped up in relative terms – with American acquirers accounting for 91% last year by deal value and 55% in 2016. Deal values did soar from just £0.7bn to £5.8bn in 2017, but this was primarily down to two multibillion-pound deals from US buyers in Reckitt Benckiser's £3.2bn sale of its global food business to McCormick and Post Holding's £1.4bn swoop for Weetabix.

The fall in the pound – which could be exacerbated by a no-deal Brexit, UBS predicting this month it would lead to sterling falling below the euro – clearly makes UK businesses cheaper to buy in relative terms.

And any obstacles to free trade between the UK and Europe could incentivise bidders to step up interest in UK companies. Hayllar suggests: "A tariff regime between the UK and EU could trigger a wave of closures, but you could also see international buyers looking to acquire local UK manufacturing assets to get a foothold in the country."