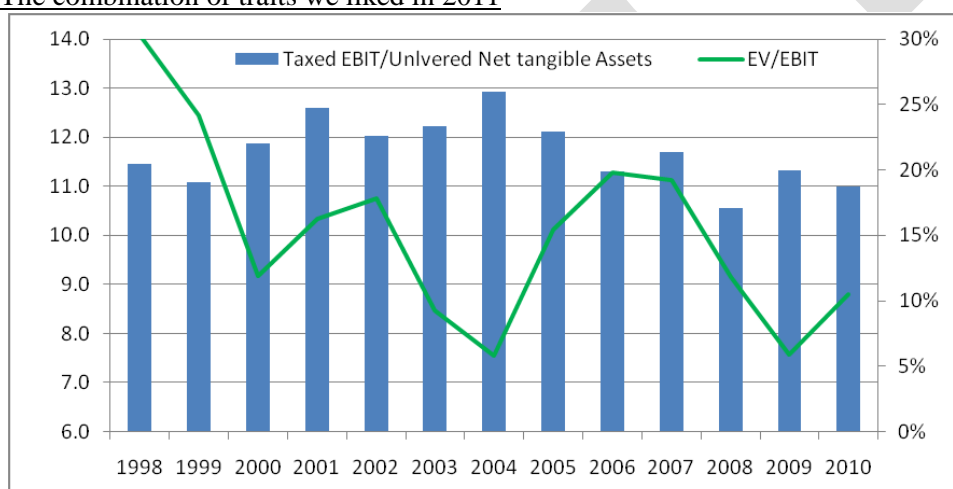


Holland Notes – Greggs Price: £17; MCap: £1.7bn

Pies + Pivots

We have been Greggs lovers for many years now. Not only do we love the value we get when we pop in for a 50p chocolate chip cookie or £1 sausage roll but we also loved the value on offered a while back in the shares. The chart below is extracted from one of our earlier pieces of research on the company back in 2011 (*Holland Views – Greggs, More of the same – 483p, March 2011*). It showed that Greggs was a great compounder of shareholder capital making c.20% returns on tangible assets. Also, that the company's shares could then be purchased relatively cheaply for c.8-9x EV/EBIT. At that date Greggs shares were 489p vs. today's price of £16. Whilst much has changed in the world between 2011-2020 some things are reassuringly stable.

Fig.1: The combination of traits we liked in 2011



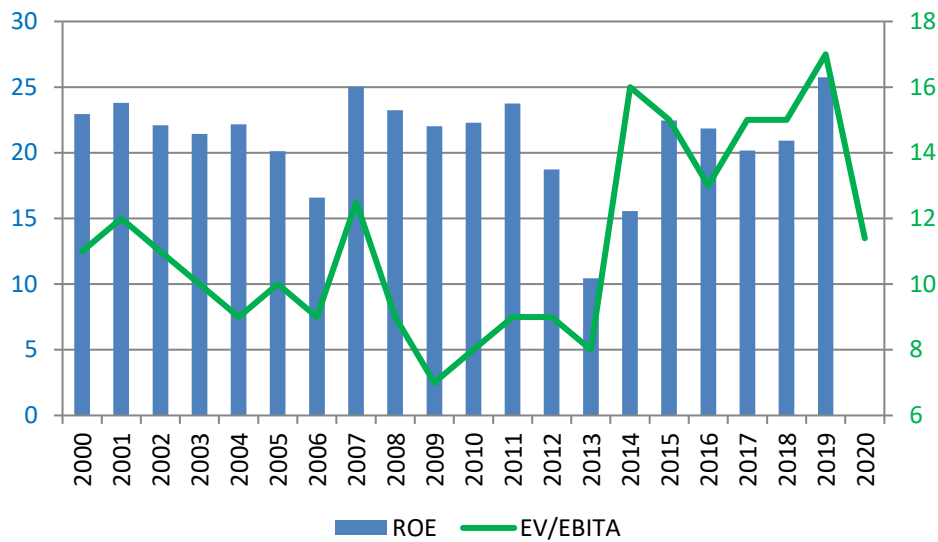
Source: Holland Views on Greggs - 2011

Fig.2 shows a similar return on equity chart for Greggs in the most recent 10 years and also the average valuation (EV/EBIT) Mr Market has placed upon the shares in each of those years. We hope that two conclusions are self-evident:

1. That the stability of returns made by this company in our second decade of study are notable and remarkable in their resilience
2. That Mr Market having been somewhat stingy with the multiple it put on Greggs at the time of our writing in 2011 became much more generous in the years that followed

Indeed, when first looking at the company in 2009-2011 we noted then the much higher past multiple that had been placed on the share in the years 1995-2006; a prospect we thought it possible to return to. The full cycle of these different multiples placed on this remarkably stable business can be seen in Fig.3 which shows the PE since 1997.

Fig.2: ROE vs. EV/EBIT 2000-2019



Source: Bloomberg

Fig.3: Past 20-year PE



Source: Bloomberg

History rhymes

Greggs has its fans and followers and thus a more detailed study of its past is of little use to us as researchers or many investors reading this. A high-level historical reflection however does provide context for the business today. Simply put, for all of Greggs super stable returns over decades it has been its near-term growth metrics that have driven the speed of its compounding but also the multiple the shares have traded on. In periods of stronger or weaker growth those recent trends were implicitly extrapolated by Mr Market.

To view the remainder of this in-depth report, please contact Andrew Hollingworth, Andrew@hollandadvisors.co.uk for a complete PDF copy.

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