

## Market Review

# An overview of the markets we operate in, and a summary of the key trends we aim to take advantage of.



## Our Markets

UK bakery is a large market valued at over £6.2 billion. In its broadest sense, UK bakery comprises the cake market and the bread and morning goods market. Both these markets straddle the grocery retail market and foodservice market, often also known as out-of-home eating.

We can break the whole market down further into smaller subcategories:

- Cake: Sharing, Bites, Celebration and Seasonal.
- Bread and morning goods: 'plant' (packaged or factory) bread, artisan bread, buns and rolls, seasonal hot cross buns, pastry, muffins, doughnuts, Italian and many more.
- Both cake and bread products also have a wide range of ingredients that can be allergens – including wheat, dairy, eggs and nuts – in which there are growing sub-markets such as Free From.

### Cake

The total UK ambient cake market (including prepacked cake and in-store bakery) is valued at over £965.0 million (source: IRI, 52 w/e 20th June 2020). We trade across all categories, with large presences in the Celebration, Sharing and Seasonal categories.

### Bread

The annual retail bread and morning goods market has a value of £4.7 billion (source: Kantar Worldpanel 52 w/e 19th April 2020). This market is further divided as plant bread (£1.6 billion) and the rest, bread and morning goods (B&MG) (£3.1 billion). We trade only in B&MG, with sizeable presences in buns and rolls, hot cross buns and artisan bread.

### Free From

The retail Free From bread and morning goods market is valued at £137.0 million (source: Kantar Worldpanel 52 w/e 19th April 2020). The retail Free From cake market is valued at £52.0 million (source: Kantar Worldpanel 52 w/e 17th May 2020).

### Foodservice

UK foodservice spans many sub-sectors including coffee chains, restaurants, pubs, hotels and the non-profit sector such as the prison service or education. Each has different routes to market.

The UK foodservice B&MG sector is worth £587.0 million per annum (source: Derived from MCA data 52 weeks to 31 December 2019). We have a significant presence in this sector, primarily with our buns and rolls business and with our Kara brand.

The UK foodservice cake and sweet treat bakery sector is worth approximately £765.0 million per annum (source: Derived from MCA data 52 weeks to 31 December 2019). Our presence in this sector is primarily within the coffee chains and, through the larger wholesalers, restaurants and pubs.

### Overseas

Our overseas markets are primarily Europe, principally France, Benelux and Ireland, with a smaller presence in most other major European countries. The size of these markets is significant, and their structure is similar.

### Broad Consumer Trends

Innovation and product development are essential to the Group's strategy, helping our customers differentiate themselves and meet the needs of their end customers. Our challenge is to maintain a dynamic product portfolio that matches and satisfies macro consumer trends and niches. One of the key macro consumer trends that continues to grow in relevance and importance has been health and wellbeing. Consumers continue to look for products that help them to lead a healthier lifestyle whether that be via 'better for you' products or by making better ethical and environmental choices. This trend is evident across grocery and our markets are no exception. Relevant significant market trends have been categorised as follows:

### Economic

Consumer confidence has been weak for some time, and price and value will remain important. Although consumers will remain cautious and price-conscious, they will continue to want affordable treats, so pricing needs to reflect household economics.

### Grocery and Convenience Channels

Online and discount will be the two fastest-growing grocery channels, and will account for 23.5% share of grocery expenditure by 2022 (IGD August 2020). The convenience channel is also forecast to see strong growth.

### Out-of-home

In the out-of-home market, volume growth has declined, driven by Covid-19 which has weakened consumer confidence, meaning people eat out less. The casual dining restaurant sector is likely to struggle, but fast-food outlets, coffee shops, supermarket cafés and food-to-go offers will see better growth.

### Healthy Eating

Consumers continue to pursue more healthy eating options, though indulgence is also a key trend in 'sweet-treating'. Media focus and regulatory pressure will continue to drive recipe reformulation and portion size. The 'better for you' market is proliferating rapidly, with protein, gut health, low sugar, vegetarian, plant health, grains and seeds, and slow energy release all growing in popularity over recent years. Our Cake business has responded to this trend in a number of ways:

### Nut Free

The Free From cake market has been growing strongly over the last few years. It is now valued at £52.0 million and grew by +12% in the last year (Source: Kantar Worldpanel 52 w/e May 2020), significantly outperforming the wider cake market. Nut-free products are an important part of the wider Free From market and medical research has shown that the number of people in the UK with a nut allergy continues to grow. Our own consumer research revealed that more than a quarter of the 2,000 people we spoke to had or knew someone that had a nut allergy. Our research also concluded the allergy of most concern for shoppers when buying a Celebration Cake was nut. As the UK's leading manufacturer of celebration cakes, we felt it was important to take a lead on this growing issue and have therefore invested significantly in our Celebration Cake bakery in Hamilton over the last year to turn it into a fully nut-free site. From May 2020 we started to roll out a range of character licensed based products, all clearly marked with our unique Nut Free logo on pack. The range includes some of our most popular licenses including Disney Frozen, Spiderman, Harry Potter, Batman and Peppa Pig which are all now available to a wider audience than before thanks to their nut-free status.

### Healthier Choices

We have also relaunched our WW cake brand to cater for the needs of consumers looking for a range of cakes with lower sugar and calories in every serving. The new WW products come in a range of three flavours and have been developed to offer the shopper a more permissible cake treat. The products are under 100 calories per slice and declared as a source of fibre which is based on what consumers are looking for as part of a balanced diet. WW, formerly known as Weight Watchers, was rebranded two years ago and is now positioned as a wellbeing brand that is inclusive to everyone's lifestyle.

### Free From

The overall Free From market (all types of food ranges and products) continues to grow, doubling in size in the past five years. Mintel (February 2020) forecasts for the total UK Free From Market to grow to £1.30 billion by 2024 from £934.0 million in 2019. It is boosted by consumers who don't cite a specific allergy or intolerance, but choose to avoid certain ingredients as part of a general healthy lifestyle. Dairy-free and gluten-free are the biggest sub-sectors. The Free From bakery market is valued at £191.0 million and has grown +10% year on year (source: Kantar Worldpanel 52 w/e 24th May 2020).

### Artisan Bread

The artisan bread market has grown due to the perceived health benefits, the wider trend of provenance and the 'craft' movement. Consumers respond well to products they perceive to be less mass-manufactured.

### Fragmentation

Social and demographic trends have a major bearing on the food sector. These include smaller households, single-person mealtimes, an ageing UK population, urbanisation, and an increasingly mobile population with less time to eat. These are fuelling the growth of convenience, online and out-of-home channels. But the growing fragmentation of consumers, channels, eating moments and needs will also translate into increasing demand for personalised products to meet individual needs. Thus single-serve and individually wrapped products are becoming more prevalent and important.



### Pastime

One of the growing trends in licensing has been the rise of gaming brands. This may well have been accentuated by the Covid-19 pandemic where more time has likely been spent on gaming activities in and out of the home vs. other leisure pursuits such as going to the cinema. To capitalise on this evolving trend and as part of our strategic commitment to growing licensed brands in Celebration Cake we have signed partnerships with X-Box, Mario and Nerf. This area of gaming is popular respectively both in and out of the home and where we have identified consumer demand within our category for game based licensed themed products.

### Technology

Technology is fundamentally changing the relationship between businesses and customers, who are increasingly using mobile devices to make purchases. Demand for anytime, anywhere purchasing and access to information will accelerate. Online ordering is not just for the weekly shop, it is also for top-up and 'dinner tonight' shopping.



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