



# Boparan

SARRIA

Analyst: Wolfgang Felix and Aengus McMahon +44 203 744 7055

Largest UK Poultry producer.

Last Update 9.11.2023

Capital Structure	Oct-23	Oct-23	Book Val.			Market	Market	Market Val.			Notes Valuation:
£ mm	Amount	Funded	Multiples	Coupon (a)	Maturity	Value	Value	Multiples	YTM	Comment	EUR/GBP
Available Cash		(39)					(39)			PF for liquidity raised	Covenant EBITDA 99
RCF 10 uncmtd.	80	35			Apr-25	100%	35				lev. Multiple 6.0 x
TL B	10	-		8.000%	May-25	100%	-				Exs. Cash -
Finance Leases	9	8				100%	8				EV 595
Factoring HSBC	80	50			Apr-25	100%	50				Gross Sr Debt 93
Factoring (Customer Platforms)						100%	-				SUNs 502
	179	54	0.5 x				54	0.5 x			96%
SSN	475	475		7.625%	Oct-25	67%	319		33.2%	B3/B-	
SSN additional notes	50	50		7.625%	Oct-25	67%	34				
	704	579	5.8 x				407	4.1 x			
Pension Deficit	89	89				100%	89				
	793	669	6.7 x				669	6.7 x			
Total Liquidity		95									
Notes:	Equity: Ranjit Singh Boparan and his wife, Baljinder Kaur Boparan										
	RCF: Minimum EBITDA maintenance covenant of £75m. Tested Quarterly.										

**Areas for further work:**  
 - More intel on passthrough success.  
 - Cost reclassification in Q2

## Relevant Credit Statistics:

July Y/E	2021	2022	2023	2024	2025	Oct-22	Jan-23	Apr-23	Jul-23	Oct-23	Jan-24	Apr-24	Jul-24
Revenues	2,610	2,001	3,034	2,803	2,873	739	782	784	730	708	719	708	668
Growth		-23%	52%	-8%	3%	14%	24%	9%	-3%	-4%	-8%	-10%	-8%
Gross profit (Sarria)	319	272	369	426	432	89	85	100	96	107	111	110	98
Margin	12%	14%	12%	15%	15%	12%	11%	13%	13%	15%	15%	15%	15%
OpEx	-246	-218	-270	-318	-311	-71	-69	-81	-49	-81	-81	-81	-76
% of Revs.	-9%	-11%	-9%	-11%	-11%	-10%	-9%	-10%	-7%	-11%	-11%	-11%	-11%
<b>EBITDA (Adj.)</b>	73	54	99	108	121	18	16	19	47	26	30	29	22
XO and Other	-89	-6	-31	-6	-9	-7	-6	-18	0	-1	-2	-1	-2
Tax	0	-3	-8	-4	-4	-1	-6	0	0	-1	-1	-1	-1
WC	-24	-53	-27	0	-1	-17	-8	-2	0	-21	18	13	-10
<b>OCF</b>	-41	-7	34	98	107	-7	-4	-2	46	3	45	40	10
CapEx	-38	-17	-39	-32	-30	-11	-9	-9	-10	-8	-8	-8	-8
Other Investments	254	-2	20	0	0	0	0	12	9	0	0	0	0
<b>FCF</b>	174	-26	14	66	77	-18	-14	1	45	-5	37	32	2
Interest	-59	-22	-54	-57	-57	-2	-23	-5	-24	-5	-24	-5	-24
Leases	-7	-3	-4	-4	-4	-1	0	0	-3	-1	-1	-1	-1
Other Financing	-199	54	41	-16	-10	4	50	-11	-2	-4	-4	-4	-4
NCF	-90	2	-3	-10	7	-17	13	-15	16	-14	9	22	-27
<b>Cash etc.</b>	39	42	39	28	35	25	37.4	22.9	38.7	24	33	55	29
<b>Net Debt</b>	647	37	540	551	544	555	542	556	540	555	546	524	551
Leverage (company)	8.9 x	0.7 x	5.4 x	5.1 x	4.5 x	8.2 x	5.8 x	29.4 x	11.6 x	5.2 x	4.5 x	4.0 x	5.1 x
FCF Interest Coverage	3.0	(1.2)	0.3 x	1.2 x	1.4 x	-0.2 x	0.8 x	0.3 x	1.9 x	0.5 x	1.4 x	1.9 x	1.2 x
LTM EBITDA (min £75m)	73	54	99	108	121	31	53	75	99	107	122	132	108

## Investment Considerations:

- We are not ready to plunge into the SSNs yet, but if the next two quarters show stability, we do not rule out Mr Boparan pulling another rabbit from the hat.
- The upside of a long position is 33 points of capital and 7.5 points of coupon giving a 12-month return of 60%. The downside is 20 points, as we expect the Boparan family would need 25% of the equity to be incentivised to stay in the structure. At 25% of the equity to the Boparan family => a recovery of around 48c for bondholders.

## Description of the company:

- Headquartered in Birmingham Boparan has been the UK's second-largest food producer (before a string of divestitures), marketing to UK consumers via major retailers.
- Poultry division: Largest poultry producer in the country with a continental division half the size. 7000 employees slaughter, portion and process 6m chicken/week (10% market share), arriving from a 50/50 JV, to produce raw chicken, and chicken meals on 9 sites throughout the UK. There are another 6 sites in the Netherlands and one in Poland that process around 4m chickens a week.
- Meals&Bakery Division: Meals is 100% private label ready meals, soups and sauces, Holland Pies, pizza etc. Production organised across six sites: Cavaghan & Gray (Carlisle), Grimsby Soups and Sauces (Grimsby), Pennine Foods (Sheffield), RF Brookes (Rogerstone), The Pizza Factory (Nottingham). Bakery - Consist primarily of Gunstones now Fox's has been sold. Following the extensive restructuring, Gunstones Bakery operates out of a plant in (Sheffield).

## Key-Value Drivers

- Profitability continues to improve boosted by better customer relationships (pass through of costs) and the fall in the inflation rate.
- In past refinancing years Boparan has seen margins and cash flow improve to boost the chances of a issuing new debt. The operational environment is generally better and we can see Boparan outperforming our expectations this year. Whether that would continue is a different matter.
- As the most feed efficient protein, chicken is among the least exposed to the rise in feed prices, and could therefore command a higher share of wallet.
- Boparan are the market leader with 10m chickens processed p.w. The UK consumes some 30m chicken/week, producing some 20m chicken and importing the remainder. Boparan's presence in the Netherlands and Poland gives it access to cheaper birds helping margins.
- 2 Agriculture Ltd (owned by Amber REI) provides 45% of the feed to Hook 2 Sisters (who in turn provide 90%+ of the UK sourced chicken used by Boparan). We believe that this relationship is used to help manage margins at Boparan. Each chicken consumes 7.5kg of feed from chick to slaughter representing around 50% of the "cost" of a broiler. We expect him to use it.

## Key Risks:

- To have a refinance leverage of 4x, boparan will need £130m in Adjusted EBITDA from 2025. If 2024 profitability falls below our £118m forecast it will be tough to persuade investors to buy.
- Avian flu has reduced in England and Wales but could return. This is not an insurable risk, nor is it covered by any ratchet recovery. Avian flu is still only impacting a small part of the flock and keeping birds indoors has reduced the level of infection. The costs borne by Boparan have been largely around transport restrictions in government designated Red Zones.
- The group is intermingled with other Boparan family businesses with a shareholder couple who sit at least on three sides of the table. The Boparan's own the company's largest plant, 2-Sisters, and control large parts of its supply chain. This gives the owners substantial negotiating leverage as they could threaten to replicate much of the business in a short period of time without the debt. Moreover, we estimate that of the £400m trade payables approx. £200m may be owed to the shareholder couple in one way or another, by which they'd rank structurally sr. to the bonds.
- Transfer Pricing: (also see analysis below). The opacity around the make-up of the company's margin improvement supports the theory that transfer pricing between those entities has played an important role in Boparan's 2020 recovery (about half of the improvement). Gross Margin changed abruptly in the quarter after the refinancing, at a time when management was still selling the financing on normalised EBITDA of £135m and more.
- Chicken and other food processing is a labour-intensive business and wage inflation is weighing heavily on margins. Management wants to increase automation but this costs money.
- Much of the European business is in Poland, where - depending on sourcing channels - bird prices could have direct exposure to the conflict in Ukraine.
- Another protein scandal can come any time.



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## Segment Developments:

	2019	2020	2021	Q22022	Q32022	Q42022	Q12023	Q22023	Q32023	Q42023	Q12024	Q22024	Q32024	Q42024
<b>Poultry</b>														
Sales	1,881	1,924	1,521	478	569	628	601	608	619	617	564	542	542	547
EBITDA	16	68	20	3	25	-28	16	8	19	33	21	17	18	19
	1%	4%	1%	0.6%	4.4%	-4.5%	2.6%	1.4%	3.1%	5.3%	3.8%	3.1%	3.3%	3.5%
<b>Meals&amp;Bakery</b>														
Sales	748	754	435	154	150	126	138	174	165	113	144	177	166	121
EBITDA	0	57	32	11	13	-28	2	8	11	9	5	14	11	3
	0%	8%	7%	7.0%	8.7%	-22.5%	1.5%	4.6%	6.7%	7.8%	3.2%	7.8%	6.5%	2.6%
	2,629	2,678	1,956	632	720	754	739	782	784	730	708	719	708	668
	16	125	52	14	38	(57)	18	16	30	41	26	30	29	22

## Sales Growth

Poultry		2%	-21%	-1%	12%	18%	17%	27%	9%	-2%	-6%	-11%	-12%	-11%
Meals&Bakery		1%	-42%	5%	-3%	-5%	2%	13%	10%	-10%	4%	1%	1%	7%

## LfL Sales

Poultry				-1%	12%	18%	17%	27%	9%	-2%	-6%	-11%	-12%	-11%
Meals&Bakery				6%	3%	0%	2%	13%	10%	-10%	4%	1%	1%	7%
Bakery														

PF LTM EBITDA				13	13	13	13	16	8	106	114	128	127	108
									77	adjusted for Uttoxeter				

## Assumptions and Notes:

### Base Case:

- We have modelled a case in which Boparan's pass throughs operate more quickly with recovery with a one-quarter lag. We also have assumed that there is recovery of other costs such as power.
- The supermarkets are incentivised to work with Boparan rather than force it into restructuring. For the sake of saving on £40m of interest payments p.a. they won't want to trigger an administration involving such a large pension deficit.
- Note that Boparan is a very low margin business. Boparan is investing in more automation which will help with margins, but this process is slow.
- To reach £120m of EBITDA in 2024 and £123m in 2025 average poultry EBITDA margins will have to reach nearly 7%, this is well above previous margin levels. On the recent investor call management was bullish about the ability to reach a £135m target. We are sceptical.

### Poultry:

- Feed prices: Wheat feed prices rose dramatically in 2021, largely due to the pandemic and consequentially a lack of migrant farm workers. In H221 Boparan therefore negotiated more effective pass-through contracts with its clients, Amber REI bought some minor production properties to support liquidity and creditors provided additional bonds and Facility B to free-up the RCF. In the first months of 2022 however, the Russian/Ukrainian conflict has driven prices even further. Even if the effect on European wheat prices only partially translates into UK corn prices, it will squeeze the company's margins until it has time to pass those costs on.
- After a small reduction at the beginning of 2022, the outbreak of the Ukraine war has caused a spiral in Feed and Power costs. Notwithstanding the war Feed prices: Prices are unlikely to remain as high as they are now. The initial squeeze on supply should ease with time.
- We expected and have seen a reset in the relationship between Boparan and its customers, the price rise allowed will permit a return to profit and an EBITDA margin of 4% - 5%.
- Pass throughs: Management have reported that pass through language allows for lags of as little as a month. However, historical evidence suggests it takes a good quarter for prices to catch up and the final restoration of margin only occurs once prices have stabilised for a while or are falling again.
- The Continental side represents 1/3 of the business, but has been hit by Chinese import bans. The re-opening of the Chinese market represents an opportunity for the Polish business. Meanwhile that business should be particularly hard hit with corn inflation.
- Boparan has been adding agricultural capacity for more internal sourcing of which it says will help boost margins.

### Meals&Bakery:

- The Uttoxeter facility was sold post the January quarter end, it had been removed from the restricted group after the sale of the Fox's Biscuits business.
- The ready-to-eat meal sector will see some volume drops in the coming year as the cost of living crisis forces consumers to trade down.
- After struggling to get traction in passing through inflationary costs, Meals and Bakery is beginning to have some success. Profitability is rebuilding into 2024.



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## Current Trading:

### Refinancing

Refinance is around the corner:

- Boparan will refinance its SSNs by the end of 2024, using FYE24 results, and a projected adjusted EBITDA. They adopted the same process in the previous refinance.
- Maximum leverage of 4x will be required to sell a deal to investors. Our model has 4.7x leverage in July 2024 (falling to 4.4x) by July 2025. Boparan needs to outperform our model this year (EBITDA of closer to £130m than £110m). However, the company is a past master at pulling a rabbit out of the hat when a refinance is imminent.
- Interest coverage will be weak but passable: With the new coupon likely to be near 10%, FCF/Interest coverage in 2024/2025 will be around 1.5x.

Improving Performance needs to accelerate:

- Profitability in the Poultry business has been restored following cost passthrough agreements with supermarkets. FYE23 EBITDA was £70m, and next year will be closer to £75m.
- Meals and Bakery is finally gaining traction on passing through inflationary cost rises. However, it is not as crucial to client supply chains as poultry. EBITDA was around £30m, and we expect £33m in 2024.
- The suppliers don't want disruption, and mid-single-digit EBITDA margins do not point to excessive profitability.

### Reduction in cash required to fund pension deficit:

- The latest review has reduced the annual cash payments required to plug the pension fund gap.
- The impact is worth £145m over the next decade and will boost cash flow.
- If EBITDA rises above £150m, additional amounts of up to £5m a year could be due.

Pension Costs	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total
Original Contribution	25	27	32	32	32	32	32	32	32	32	21	329
New Contribution	8	16	17	18	23	47	47	7	-	-	-	183
Difference	(17)	(11)	(15)	(14)	(9)	15	15	(25)	(32)	(32)	(21)	(146)

### Ukraine war:

- The Ukraine war is creating two impacts that from Boparan's perspective, largely offset each other. On one side it leads to a rise in the price of feed, whilst on the other it creates a shortage of birds in Europe, which allows Boparan more power to dictate pass through prices.
- Price Rise: Wheat is widely traded so the various markets are correlated for pricing. Russia and Ukraine produce nearly a quarter of the world's wheat. Ukraine produces 26m tonnes and Russia produced 86m tonnes in 2020. The EU is a net exporter of wheat and the UK is more or less self-sufficient, governments could seek to ban wheat exports however given the hunger this would cause in lesser developed countries this step is only going to happen in extreme circumstances. As long as the supplies from Ukraine and Russia are constrained or sanctioned, the prices will remain elevated.
- Supply Squeeze: Ukraine is a major exporter of live birds. It exports 430,000 mt of poultry per annum (USDA). Whilst access to the EU is limited, the loss of these chickens to the global market will push prices higher in Europe. 70% of production is from MHP SE and 4 of their 5 major production facilities are in the East of Ukraine.

### Forward-Looking Ratchet:

- Stronger than expected Q3: Poultry has benefitted from ratchets for the last few quarters, however UK volumes have fallen due to the cost of living crisis. More birds are being sold into the lower margin Netherlands market. Cost cutting and the closure of the Llangefni site will boost Q4 EBITDA. Meals and Bakery has begun to recover cost increases and should see more stable trading into Q4 and FY23/24. The next FY will be critical for a successful refinance.
- Whilst Supermarkets could play hardball, this is an industry issue. Is it worth risking protein supply over a price rise that they will have to negotiate with Boparan 2.0 anyway? Is it worth losing 100% of a customer's basket because you haven't got chicken and the other supermarket has?

### Relative Value:

- Raising chickens is a high volume, low margin business. Price rise by 7.5% replicates the entire margin: By our calculation Boparan is looking for a 7.5% price rise, this would represent the entire margin on the poultry business.
- 7.5% in the current inflationary environment appears to us to be a digestible average increase.
- Chicken has the highest feed conversion ratio for any protein. It is the most efficient way to raise meat. Therefore, most other proteins will experience a stronger cost rise than chicken. As a result, despite the price rises, chicken might expand its share of consumer wallet.

### Covenant Headroom:

- The RCF availability is dependent on meeting an LTM EBITDA of £75m (Reverted from £50m from Q3, to be tested quarterly).
- Q3 LTM EBITDA covenant compliant at £108m. We expect the low point in July-23 as the bumper recoveries in July-22 roll off.

### Valuation - Pre Covid-19:

- Closest Comp for Poultry: LDC Groupe SA, France: Sales: £4.1bn, EV: £1.63bn (net cash position), Price/Sales: 0.46x - in line with other consumer staples firms, P/E: 13x, EBITDAx: 5x
- Closest Comp for Branded Goods: Premier Foods, UK: Sales: £4.1bn, EV: £745m, Price/Sales: 1x - in line with other consumer staples firms, P/E: -x, EBITDAx: 5.1x
- Other Comps include Greencore and Bakkavor. Both are doing better than Boparan

### Sum of the Parts:

#### Poultry

- UK and Euro Poultry together command 30% of the UK market.
- Low margin business.
- Exposure to feed prices now mitigated with pass-throughs

#### Solway Foods and Cavaghan Gray

- Brands are weaker, although Holland Pies enjoys some recognition
- Also includes: The Pizza Factory, Holland Pies, Rogerstone, Pennie Food, Gimby Soup etc. GIP
- Valuation should be lower as business is less protected and more easily replicable (reason to exist?)

Poultry	2022/2023	
Sales	2,444	
EBITDA	75	Steady State
	3%	
Multiple	4.0 x	302 Distressed Valuation
Multiple	6.0 x	453 Commanding market share.

Meals&Bakery	2022/23
Sales	608
EBITDA	33
	5%
Multiple	6.0 x
Multiple	5.0 x
	195
	163

#### Fox's Biscuits and Gunstones

- Gunstones precise financials are unknown.
- According to the OM the FY EBITDA from Bakery was £26.5m. And the disposed business of Fox's generated £21.8m EBITDA => Gunstones and the own brand business generated £4.7m.
- Fox's was sold for £246m minus one plant remaining at 2 Sisters.

Sum of the parts	2022/23	
Net Sr. Debt	54	100%
Bonds	525	107%
Pension Deficit	89	41%
Total Debt	669	
Total EV	615	



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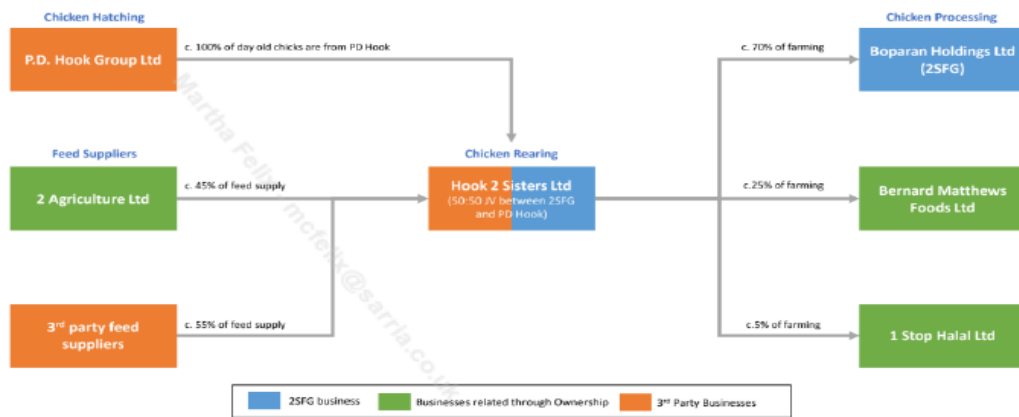
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## Value Chain:



### Notes:

- Hook 2 Sisters Ltd is a 50/50 JV between Boparan Holdings Ltd (2SFG) and P.D. Hook Group Ltd.
- Hook 2 Sisters buys a near 100% of Chicks from P.D. Hook Group Ltd for rearing.
- 2SFG buys feed supply from related and third party feed suppliers in almost equal measure.
- Over 2/3 of chickens are sold to 2SFG, 1/4 to Bernard Matthews and some 5% to 1 Stop Halal.

### Leakage:

- Some 45% of feed supply are sourced by 50% owned Hook 2 Sisters from 2 Agriculture limited. So if wheat margins rose by 20% in 2018, the Boparans will have earned an extra £~50m in 2 Agriculture (their left pocket), vs. £~25m they lost in Boparan (their right pocket) multiplied by ~2x = £~50m to account for third party suppliers.

### Feed:

- The financials along the supply chain from 2 Sisters Food Group to Hook 2 Sisters to 2 Agriculture (in particular the JV gives a detailed account) clearly show an increase in purchases in 2018 in the order of £40m, which is not matched by sales. However, how much of it exactly falls onto Boparan's own 2 Agriculture vs 3rd party suppliers is not entirely clear as the financial reporting periods do not match (2 Agriculture reports year end in December). Given feed prices have fallen since, we expect those increases to reverse over the coming periods - at least to an extent.
- Extract from the prospectus on volatility of prices and nature of relationships:

"Any shortage of or increased demand for wheat, which drives feed prices, may have a significant impact on the price of feed. The terms of our contract with Hook 2 Sisters, our largest supplier of live birds in the U.K., provides for a change in the price we pay for live chicks in the event of a change in the price that our joint venture operations pay for feed."

### Customer Relationships:

- Boparan suffers from extremely strong customer concentration. This is evident in its price taker characteristics for which it is unable to pass on price increases. But by the same token the business should also be more robust when taking it through administration as with only a limited number of re-negotiated contracts most of the business can be continued.
- Extract from the prospectus on customer concentration:
- "... for the 53 weeks ended August 1, 2020, 59.0% of our turnover was derived from our five top customers (Aldi, Asda, Lidl, Marks & Spencer and Tesco) with our top customer representing 23.9% of our turnover for the same period. Our top ten customers, which include Aldi, Asda, Jumbo, KFC, Lidl, Marks & Spencer, Morrisons, Sainsbury's, Tesco and The Cooperative, accounted for 74.7% of our turnover for the 53 weeks ended August 1, 2020.

The strength of these major food retailers' bargaining position provides them significant leverage over their suppliers in negotiating pricing, product specification and the level of supplier participation in promotional campaigns and offers, and this may impact the prices that we are able to negotiate for our products and, ultimately, our turnover and profitability. In addition, the continuing consolidation of retailers and/or wholesalers may further strengthen these major food retailers' negotiating positions, which would increase the risk of reduction in our profitability."



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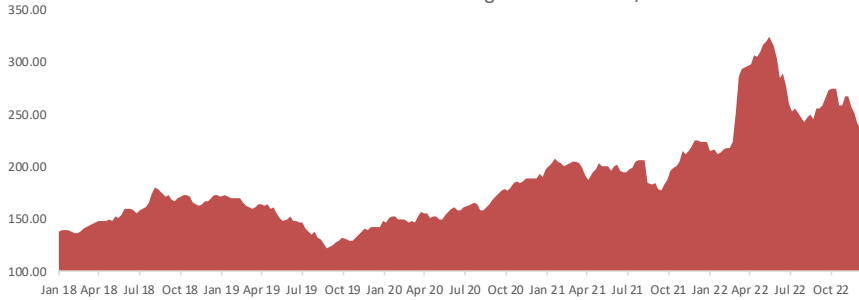
## Feed Prices:

- The observed impact of dynamic feed price recoveries on Boparan's top line has reduced the importance of the feed section for now. However we continue to monitor it as a canary in the coalmine for a breakdown in the ratchet mechanism.
- 2022 saw significant movement due to feed price moves but also catch up from previous quarters.
- We see some evidence from ONS figures that the period 2015 - 2022 saw supermarkets using chicken as a loss leader but that has reversed sharply in late 2022.
- We are still working on exactly why the ONS figures diverged from those of DEFRA. However, the supermarkets became a lot more reasonable on feed costs when they were able to pass those costs on to consumers. We will continue to observe this data in future and will quiz management on the reasons for the DEFRA number being higher.

<https://uk.investing.com/commodities/london-wheat>

<https://uk.investing.com/commodities/london-wheat-streaming-chart>

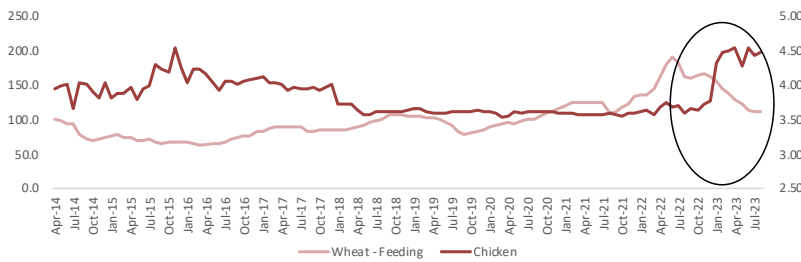
### Feed & Other Wheat Prices in England & Wales - £/tonne



Source: ADHB

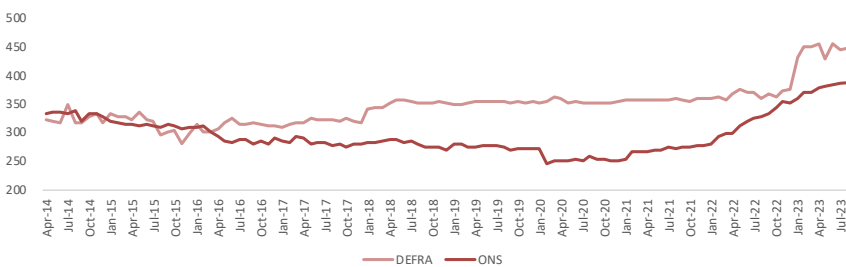
## Government protein prices vs Feed Prices

### Chicken Price (DEFRA) vs Feed Price Graph



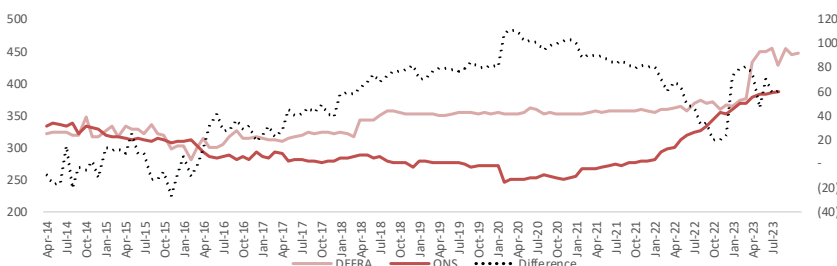
Source: DEFRA, Sarria

### DEFRA V ONS - CHICKEN PRICE



Source: DEFRA, ONS

### DEFRA V ONS - CHICKEN PRICE



Source DEFRA, ONS, Sarria

## Notes:

- The chart on the left relates specifically to wheat prices in England and Wales in GBP.
- In 2019 management negotiated pass through language for 78% of poultry sales.
- Relative to these figures, Boparan seems to have full exposure with one quarter lag for the bulk, while the rest can take 2-3 quarters to materialise.
- Amongst other things, including cost savings, plant closures and asset sales, the fall in feed cost in 2019/2020 was key to the refinancing in 2020.
- Boparan source approx. half of feed from 2 Agriculture Ltd. a non-consolidated affiliate under Amber REI Holdings.
- The only purpose we can make out for this arrangement is to regulate the company's profitability. But to what extent the benefits from rising wheat and corn prices have accrued to any entity under Amber REI is not clear to us.
- To the extent Boparan or 2 Agriculture Ltd. have long-term sourcing relationships, perhaps the latest Ukraine related spot-market price hike can be feathered.

## Notes:

- We are surprised at the DEFRA observed in chicken prices given the operation of pass through of feed prices as seen in Boparan's recent quarterly results.
- Feed prices will remain volatile as long as the war in Ukraine continues. The prices have been falling in the most recent quarters and we expect this to be reflected in the ratchets and therefore the top line.

- We plotted the DEFRA chicken price against that of the ONS.
- Setting aside the weakness in the data collection methodologies, there are some trends:

- From 2015 to 2022 the DEFRA observed price exceeded the ONS observed price by an increasing amount. This sharply contracted in 2022. It points to chicken being used as a loss leader by supermarkets in recent years, this would explain the reluctance to pass on higher feed prices. The rising chicken price observed by the ONS makes more sense to us.
- The Supermarkets put the squeeze on producers over recovery of feed and other costs from 2015. This became critical in 2021. In 2022 we have seen this reverse. With new dynamic ratchets.
- The gap has narrowed significantly as supermarkets have begun to pass on the true cost of chicken to their customers.
- The generally higher DEFRA figure could be influenced by the average price of cut birds being higher per kilo due to additional abattoir costs and premium pricing.
- We will discuss the discrepancy with Boparan management and revisit our methodology accordingly.

- DEFRA figures an average of reported Farm Gate prices. Reporting is patchy and is not statutory. The methodology could vary from abattoir to abattoir. Farm Gate prices should exclude retailer's net margins (mark up less costs of delivery).
- ONS figures are for an oven ready fresh/chilled broiler. Observations are from 20,000 outlets. The resulting number is included in the CPI calculation. Reporting is not statutory and the ONS website says the prices do not meet the standard for designation as national statistics.



# Boparan

s a p p f a

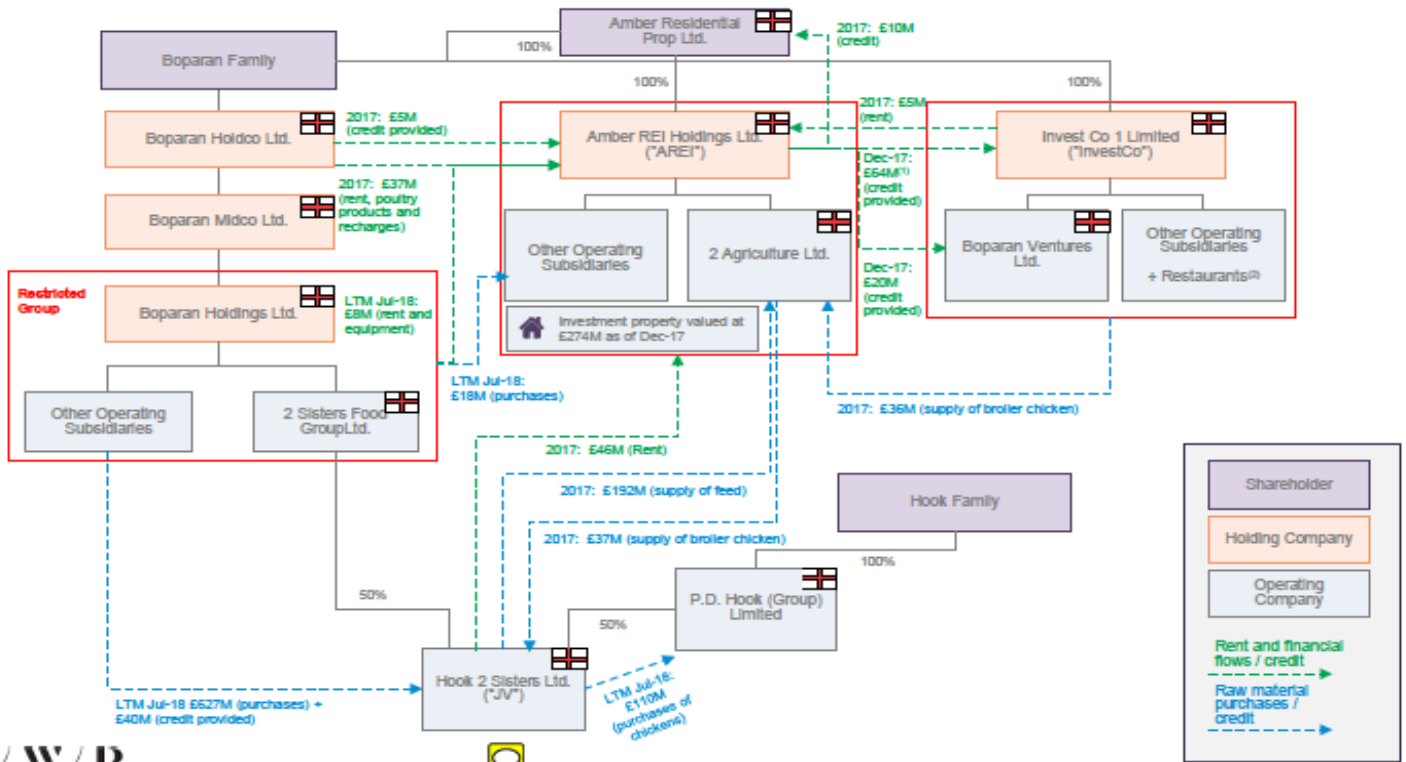
Analyst: Wolfgang Felix and Aengus McMahon +44 203 744 7055

Largest UK Poultry producer.

Last Update 9.11.2023

Legal:

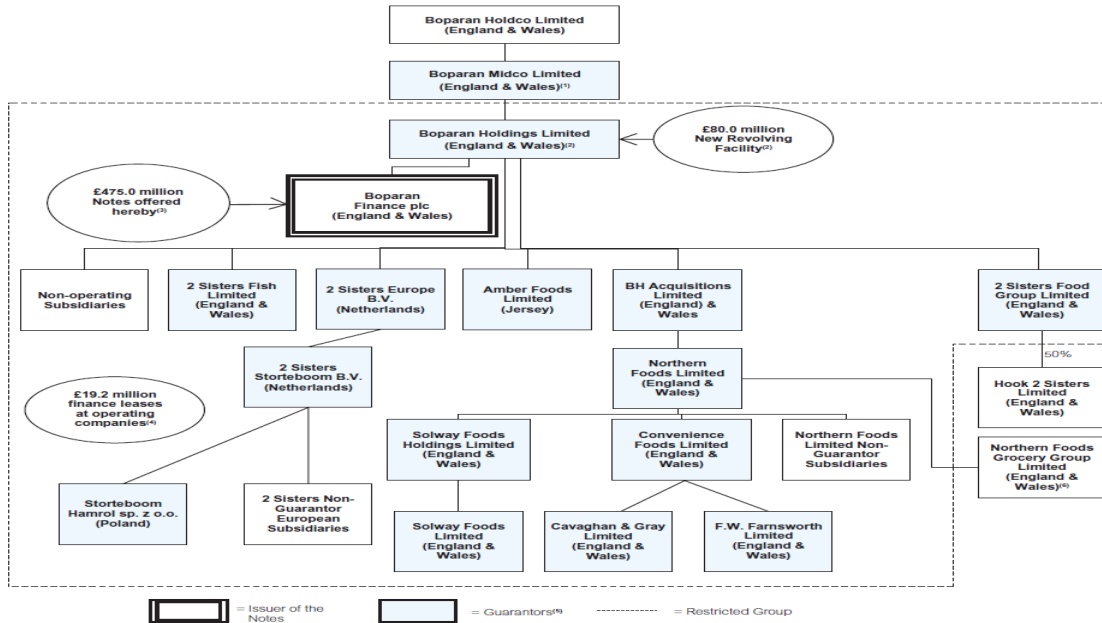
**A number of Boparan Family entities are involved in the "supply / cost-chain" with meaningful value outside the Restricted Group**



**P/W/P**  
PERELLA WEINBERG  
PARTNERS

Source: Company filings

Notes: (1) Of the £64M of loans provided, £24M have been written off  
(2) Includes Cinnamon Collection, Graffe, Ed's Easy Dinner, Fish Works, Harry Ramsden's, + 1 franchise of Slim Chickens



**Negotiating Position:**

- Simple structure allowing for enforcement at Boparan MidCo and Boparan Finance PLC over shares in and/or loans to Boparan Holdings Limited, or at Boparan Holdings Limited over its proceeds and other loans to its subsidiaries.
- Better than the previous notes. Now subordinates pension deficit and offer collateral over group assets.
- In insolvency, close ties to the affiliate Amber group (in particular the rental of the 2 Sisters site - may present the Boparans with negotiating leverage over the bonds (threat: to set up a New Co and produce chicken from the existing site). However, that would require the family to make deep investments (hundreds of millions) into recreating the chicken business only and writing off receivables against the estate (mostly p.p. with bonds in 2 Sisters. On the flip side, bondholders should struggle to reduce the family to zero value, given the disturbance that a loss of the 2 sisters site would cause the business. On balance, the bonds seem to have the upper hand, but most likely the solution will be a consensual one and include the Boparans.
- Mind the CDS basis

**Waterfall:**

- 1) Sr. RCF (by intercreditor)
  - Instructing majority of 66.6%
  - Unanimity for major changes
- 2) Sr. Secured Notes (by intercreditor)
  - Instructing majority of 50.1%
  - 90% supermajority for major changes.
- 3) Second Lien Facility
  - At this time there is no Second Lien facility.
- 4) Secured Pension Scheme - practically, the trustee has an extremely strong position if anyone wants to employ anyone in the future...
  - The Secured Pension Scheme are "Pension Scheme Liabilities" as defined in the Intercreditor Agreement. Boparan has a number of defined benefit schemes for qualifying employees
  - The Pension Trustees of the Secured Pension Scheme do not have the right to give instructions in relation to enforcement of any collateral or take any other enforcement action.

**Security:**

- Charge from Boparan Midco Ltd over all share capital in Boparan Holdings Limited (the Company) and any claims owed by it to Boparan Midco Ltd.
- Share pledge from the Company over all its shares in 2 Sisters Europe BV
- Share pledges from the Company over all its shares in each UK poultry operating company.
- A fixed charge by 2 Sisters Food Group Ltd over any shares it holds in the other guarantors (in England and Wales), its bank accounts, its intellectual property and intercompany receivables owing to it, together with a floating charge over all of its assets.
- Assignment on any intercompany loan owing to the Company (including the Notes proceeds loan)
- Fixed Charge from Amber Foods Ltd over its bank accounts and an assignment of certain intercompany receivables.
- Enforcement of the Security and distribution of proceeds are subject to the Intercreditor Agreement. We have not seen this document and are working from the description given in the Notes OM

**Guarantees:**

- Guaranteed, jointly and severally, on a senior unsecured basis by Boparan Holdings Limited (the "Company"), together with; Boparan Midco Ltd, Boparan Holdings Ltd, 2 Sisters Europe BV, 2 Sisters Food Group, Amber Foods Ltd, Northern Foods Ltd, Solway Foods Holdings Ltd, Solway Foods Ltd, BH Acquisitions Ltd, 2 Sisters Fish Ltd, Convenience Foods Ltd, Cavaghan & Gray Ltd, F.W. Farnsworth Ltd, Storteboom Hamrol sp. z o.o.
- Guarantors accounted for 98% of consolidated turnover, more than 97% of consolidated Adj EBITDA and more than 98% of consolidated total assets (ex-interco receivables) at the time of issue.

**Restrictions and Limitation on Indebtedness:**

- Restricted payments: 50% of Consolidated Net Income (CNI), but cumulative. CNI has been negative in both the reported quarters since the Notes were issued => no increase in headroom.
- General Basket of £40m as long as PF Consolidated leverage is <2.5x. presumably exhausted with Cavaghan & Grey facility as of July 2021 (then undrawn).
- Credit Facilities (includes Super Sr. RCF) of £90m. No headroom (undrawn). RCF is £80m but can be increased to £90m (uncommitted)
- Qualified Securitisation financing of up to £75m
- Disqualified Stock (essentially equity investments carrying an option to be repaid a sum that may differ from the investment): Up to £50m overall and £35m in restricted group
- Permitted Investments: Greater of £75m and 5.80% of total assets (so as per today £75m). Can buy out other family businesses and include those in the restricted group (seemingly - but the cash would be gone).
- Disqualified Stock (essentially equity investments carrying an option to be repaid a sum that may differ from the investment): Up to £50m overall and £35m in restricted group
- Circumvention: From studying the accounts of various other entities in the Boparan / Amber and Hook atmosphere it would appear that chicken are walking all over the structure, with rental and acquisition payments coincidentally matching intercompany sales WC movements and purchases of chicken from time to time.
- Asset Sales: Above £30m trigger mandatory offer at par. Proceeds at least 75% for cash - usual range of permitted applications, but notably includes addressing pensions.
- Long list of permitted liens, but the company is renting significant assets from the Amber group.
- Letters of Credit and other off-BS WC financings: 30 days.
- The RCF has a £75m minimum Consolidated EBITDA covenant, this has been reduced to £50m for the quarters ending Oct-21 and Jan-22. It is tested quarterly on a rolling 12-month basis. An equity or subordinated shareholder loan cure is available.

**Jurisdictions:**

- Cavaghan Grey - likely UK law (UK security)
- RCF and Bonds are NY law
- Intercreditor is English Law

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