



HTA – ornamentals grower
survey top line results

Overview



- This document provides top-line results of a survey run between 20 and 22 April 2020 at Defra's request. Its purpose was to gather data on the financial impact of the Coronavirus on UK ornamentals growers
- This presentation of results is based on survey responses received up to 12:00 on 22 April 2020. Responses continued to be received after this date, but in order to provide evidence in a timely manner these have not been included in this analysis.
- For the purpose of this document 'top-line' means headline results based on initial validation checks on the data. There is a possibility that further analysis and data validation checks may lead to refinements of slight movements in the figures, however it is extremely unlikely that the overall direction and conclusions of the findings will differ materially based on a full analysis of the data

Method



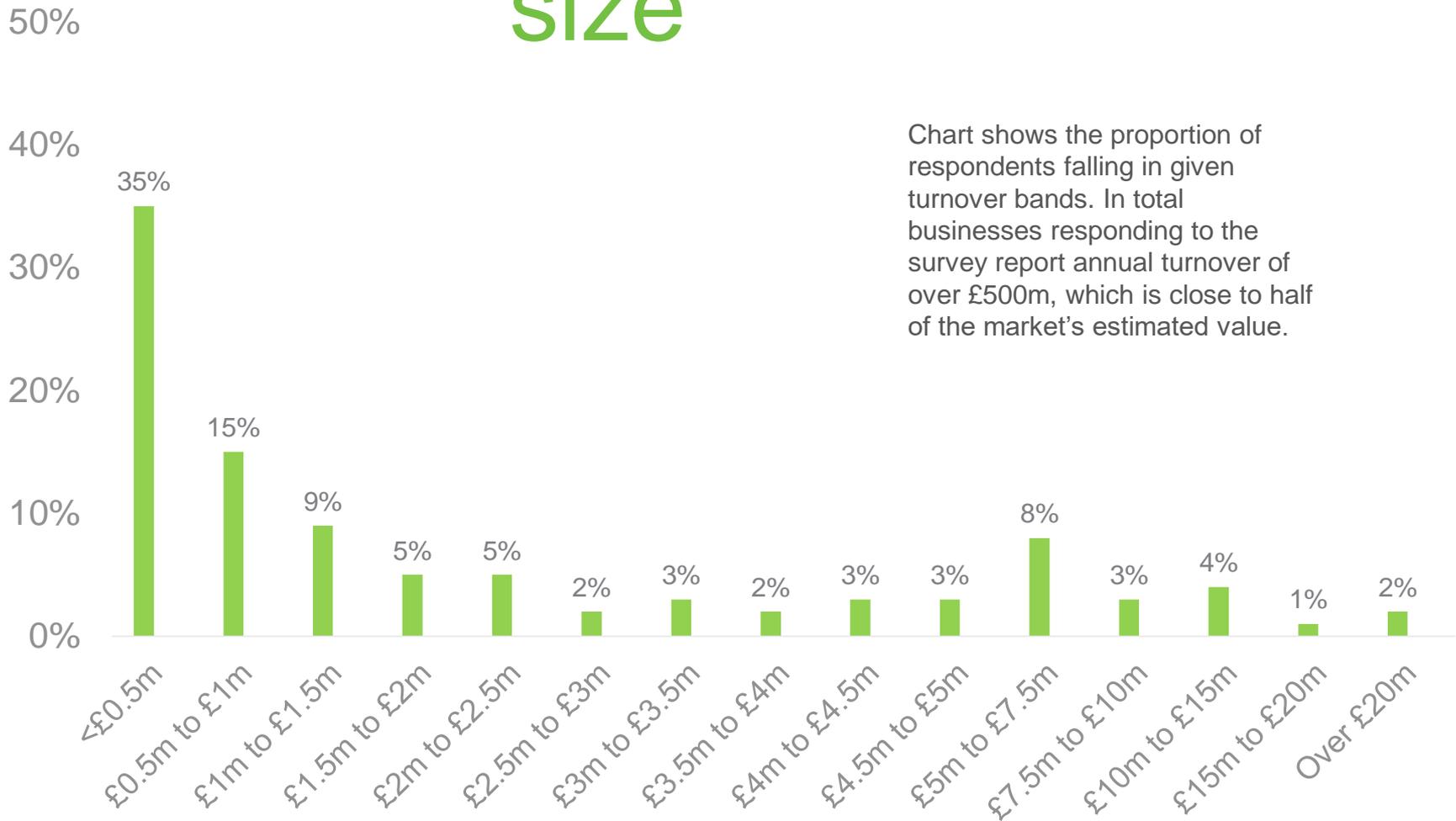
- An invitation to complete a ten minute online questionnaire on the financial impacts of the Coronavirus was sent on 20 April by email to the main business contacts in 422 grower businesses for which HTA has records on its CRM system. This includes members, but also lapsed members and non-members. A reminder email was sent to non-responding businesses in 22 April
- A similar email invitation was sent by the AHDB to the most senior contact at 269 ornamentals levy payer businesses on 21 April. The email included a notification that the work was being conducted jointly with the HTA and NFU, and that the business should only fill out the questionnaire once.
- NFU included a page on the member-only section of their web site with a link to the survey, and the HTA liaised with the trade press to encourage businesses which had not received an invitation to the survey to contact the HTA. The link to the survey was not made generally available in the press in order to minimise the risk of duplicate responses per business, or responses being received from junior staff in the industry who may not have had the requisite knowledge of the business' finance to be able to respond

Sample

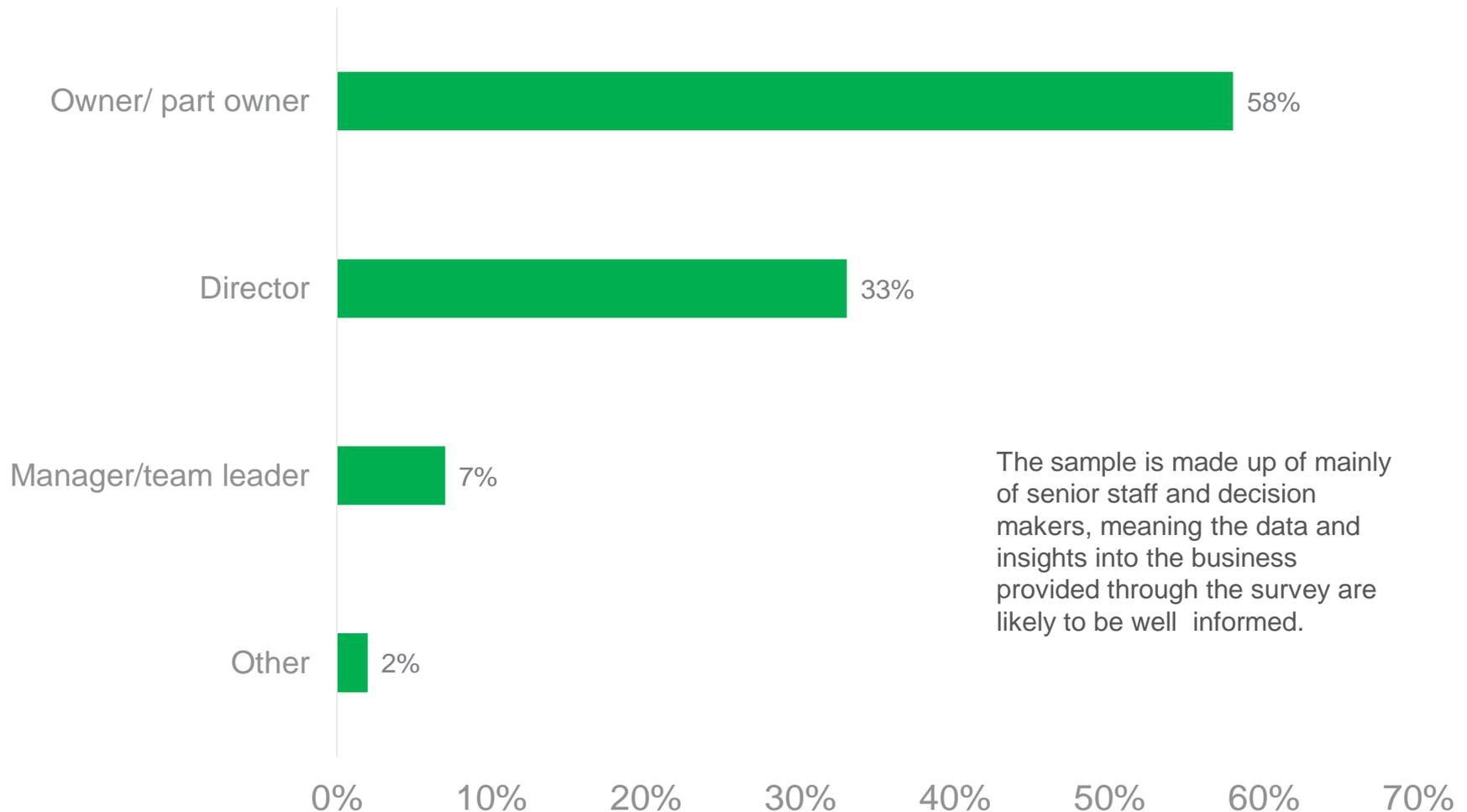


- In total 152 full or partial responses from ornamentals growers were received to the survey by the point at which this analysis was begun after removal of identifiable duplicate responses, who in total reported annual turnover of £490m. Not all of these respondents completed the survey or answered all questions, but throughout we are able to draw on robust samples for key sub-samples
- Because no organisation has a comprehensive list of all ornamentals growers, it is impossible to determine precisely how representative of the population of UK ornamentals growers the sample is. However given that estimates for the precise number of UK ornamentals growers vary and the total value of UK ornamentals production is estimated at around £1.3 billion, it is clear that the survey has captured feedback from a very substantial proportion of the sector and is highly likely to reflect the overall situation in UK production
- The responses received were provided in the main by business owners or director-level respondents. This suggests that the responses are authoritative and based on a solid understanding of the financial situation facing individual businesses
- The businesses responding to the survey range in size from small businesses with a turnover of <£0.5m through to the biggest businesses in the sector reporting turnover of >£20m
- Because of this sample profile and the 'long thin tail' of small businesses, separate analyses are provided in some places for larger businesses. The reason for this is that the smaller number of larger businesses account for the bulk of economic activity in the sector (e.g. we're seeing an

Sample profile – business size



Sample profile – seniority of respondents





Financial impact on ornamentals growers

Likely levels of insolvency (1)

Around one in four businesses stated that even with access to the government aid packages they had applied for they were likely to become insolvent in 2020. Only a third could be confident that they would not be insolvent within the year due to the stock losses resulting from the coronavirus. The effect is not limited to the 'long thin tail' of very small businesses, with businesses with a turnover of over £1m just as likely to be in the same position. The fact that so many business owners were prepared to respond to such a sensitive question put by a trade association to which many do not belong is in itself likely indicative of the distress many businesses are in.

| | All respondents | Businesses with TO <£1m | Businesses with TO >£1m |
|---------------------|-----------------|-------------------------|-------------------------|
| Yes – by end May | 5% | 6% | 3% |
| Yes – by end June | 8% | 9% | 6% |
| Yes – in H2 of 2020 | 17% | 15% | 18% |
| Unsure | 35% | 37% | 33% |
| No | 31% | 32% | 30% |
| Prefer not to say | 5% | 0% | 10% |

Bases: 132, 65 & 67. all ornamentals growers who answered the question

Q. Assuming the current trading restrictions continue and that you can access any government aid packages you may have applied for, is your business likely to become insolvent in 2020 due to being unable to convert your stock into cash during the 2020 garden season?

Likely levels of insolvency (2)

Growers which reported holding stocks of bedding plants and young plants/young plant materials were most likely to report themselves at risk of insolvency in 2020 due to the effects of the coronavirus. This is because of the perishability of the stock, and in the case of young plant material providers because their main customers are other growers who are unable to invest in stock for future production. However even among growers who produce hardy nursery stock there are high levels of anticipated insolvency in 2020.

| | All bedding growers | Young plant growers | Hardy Nursery stock growers |
|---------------------|---------------------|---------------------|-----------------------------|
| Yes – by end May | 6% | 0% | 3% |
| Yes – by end June | 16% | 3% | 5% |
| Yes – in H2 of 2020 | 16% | 23% | 20% |
| Unsure | 35% | 40% | 38% |
| No | 24% | 30% | 29% |
| Prefer not to say | 2% | 3% | 5% |

Bases: 49, 30 & 76. all growers who answered the question

Q. Assuming the current trading restrictions continue and that you can access any government aid packages you may have applied for, is your business likely to become insolvent in 2020 due to being unable to convert your stock into cash during the 2020 garden season?

Access to existing aid packages



In spite of very high levels of awareness of the aid packages available, growers are finding that the existing aid measures available to them are either inaccessible or inapplicable to their businesses. A small but sizeable proportion of businesses have not yet applied for packages. No question in the survey explored why this was. However given the immediate threats to liquidity from stock that will become unsaleable within weeks and high levels of having to organise furlough of staff it's not unreasonable to conclude that resource has not so far been available in many of these small businesses to make the applications. Almost no businesses had received cash through the support measures at the time of the survey.

| | Hadn't heard of it | Not eligible/ applicable to your business | Not applied or used yet but will do | Applied or used but waiting for funds | Applied but rejected | Applied and received funds |
|----------------------------------|--------------------|---|-------------------------------------|---------------------------------------|----------------------|----------------------------|
| CBILS | 10% | 42% | 35% | 10% | 2% | 1% |
| Business support grants | 10% | 62% | 8% | 9% | 2% | 10% |
| Business rates suspension | 3% | 79% | 7% | 2% | 0% | 9% |
| VAT suspension | 4% | 20% | 43% | 18% | 1% | 14% |
| Coronavirus job retention scheme | 0% | 19% | 21% | 56% | 0% | 4% |

Q. Which of the following best describes your business' position on the following support packages?

Base: 130 (all growers who answered the question)

CBILS applications



Of the businesses which have applied or intend to apply for a CBILS loan, the average amount applied for was **15% of their estimated annual turnover**. We should note that turnover in this survey is reported within a range, so there is some margin for error on this.

Whilst this may seem small relative to the distress facing the sector (evidence for which we report later) 108 respondents provided comments on the difficulties in obtaining the level of financial support required through the aid packages already available. The comments (provided as a spreadsheet appendix) grouped into the following themes. We'd conclude that borrowing under CBILS is low because of the difficulties accessing it, its unaffordability given the levels of loss suffered and the criteria being put in place by the banks. The percentages show the proportion of respondents who mentioned this issue on their comments.

- The existing support measures and loans do not make up for high levels of perishable stock write off and/or would leave the business with an unsustainable debt (36%)
- Banks lending criteria don't work or aren't affordable for horticulture businesses (13%)
- The packages aren't applicable to grower businesses - e.g. business rates relief is not applicable to agricultural enterprises, etc (25%)
- The packages don't take into account a near total loss of annual income which is largely seasonal from March to June (21%)

Q. In what ways, if any, do the business support measures announced by government fail to address your business' needs?

Base: 108 (all growers who answered the question. A single comment can relate to multiple themes hence numbers will not total 100%).

Illustrative comments on aid packages

The direct grants are not applicable as we are an agricultural business and do not pay business rates. We have stock which should be delivered to customers occupying space into which next years crop needs to be placed to have stock to sell this time next year.

The way the CBILS is being administered by Lloyds bank, makes it impossible for us to meet the lending criteria due to the term of the facility being 6 years. In particular Lloyds are applying debt service ratios and stress tests to repayment programmes based on standard criteria - we cannot achieve these at this time.

Loans need repaying but our losses in March. Grants (contributions) would be better option for us. We have applied for the Small Business Grant (£10K) but not heard anything and not confident we are applicable given there's no rates paid on the nursery.

Banks are taking a very strict line on eligibility, and would not even consider extending any further credit. The best they would offer after three weeks of negotiation was a 6 month repayment holiday. Have had to take out very expensive alternative credit facilities. Also we are at risk of having to dump £100k's worth of stock this season.

Nothing announced so far will compensate us adequately for the catastrophic loss of sales due to the closure of our main customers, the garden centres, during our peak sales period.

Very serious cash loss, loss of 1/4 - 1/3 turnover that is in stock, ie working capital that will not be retrievable after 3rd week in May.

Anticipated wastage
levels and sunk costs by
crop

Wastage levels by crop

Respondents to the survey were asked for the value of stocks at the end of March expressed at sale price excluding VAT. They were subsequently asked what percentage of this they anticipated would go to waste were trading restrictions to continue. The approach used to calculate the table is to sum the total value of the crop across respondents and to apply the percentage wastage to this value at an individual respondent level. The wastage values for each respondent are then summed to get to a percentage wastage figure. The crops with the highest wastage are not only those which are most perishable, but also those in which the garden centre channel is the most important outlet for the product. Within the survey respondents who answered this part of the survey (e.g. **not** extrapolated to the market as a whole) lost sales due to wastage of stock held at end of March were £55m. This does **not** include lost sales due to being unable to make cash outlays on production of goods that would ordinarily be supplied from June for the summer.

| | Proportion of grower stocks at end March wastage |
|-----------------------------------|--|
| Bedding plants | 57% |
| Grow your own veg, salads, fruits | 86%* |
| Young plants/plant material | 49% |
| Hardy nursery stock | 33% |
| Bulbs | 45%** |
| Cut flowers | 48%** |
| House plants | 36% |

Q. If current trade restrictions continue to apply, roughly what percentage of your stock value of plants that you grow (at your sales price ex VAT) as of the end of March will you have had to write off by the end of June?

* = Affected by two large growers – median = 48%

** = Small base

Cost of goods by crop

Respondents were asked to report what the proportion their sale price (ex VAT) key cost of goods items accounted for in total. The items selected for inclusion were designed to be relatively unambiguous sunk costs into production of finished goods. Bases are slightly lower than for other questions as some respondents mis-interpreted the question and their responses were subsequently excluded from the calculations. NB – these are direct costs of goods; operating costs of the business are not included in these figures.

| | Mean | Median | Base |
|-----------------------------------|------|--------|------|
| Bedding plants | 55% | 60% | 48 |
| Grow your own veg, salads, fruits | 49% | 54% | 24 |
| Young plants/plant material | 52% | 53% | 27 |
| Hardy nursery stock | 51% | 50% | 68 |
| Bulbs | 47% | 50% | 13 |
| Cut flowers | 63% | 80% | 5 |
| House plants | 52% | 50% | 11 |

Q. In total, for the plants that you grow roughly what percentage of your sales price (ex VAT) do the following cost of goods items account for? Pots, containers & plant labels, Growing media, Fertilisers, pesticides, IPM and chemicals, Young plants, Heat, energy, light, water used for production, Labour directly used in growing the plants.

The importance of the garden centre channel to growers

Grower opinion on garden centres



Respondents were asked to say what impact if any garden centres and DIY stores re-opening would have on their business. The following table shows the responses reported by growers holding stock of different crops. The garden centre is a key channel for all ornamental crops with the exception of cut flowers, and whilst the DIY channel lags behind in importance it is still a significant outlet for some ranges.

| | None | A minor positive difference | A major positive difference | Don't know |
|---------------------|------|-----------------------------|-----------------------------|------------|
| All growers | 14% | 19% | 63% | 4% |
| Bedding growers | 2% | 8% | 83% | 6% |
| Hardy nursery stock | 13% | 25% | 58% | 4% |
| Young plants | 13% | 17% | 66% | 4% |
| Grow your own | 0% | 4% | 88% | 8% |
| House plants | 19% | 6% | 69% | 6% |
| Cut flowers | 43% | 14% | 0% | 43% |

Q. What, if any, impact would garden centres, retail nurseries and DIY stores being allowed to re-open to the public in May (assuming this was in line with the prevailing public health guidance) have on your business' finances?

Share of different sales channels for growers by crop

Respondents were asked what proportion of their annual sales by crop were accounted for by different types of customer. The shares are calculated by applying the percentages given by the respondents to the value of stock for given crops that they report holding. These values are summed, and percentages calculated based on the total values reported across respondents whose business deals in that crop. Bases are shown in brackets and we have only shown data where there is a sample size greater than 15. For all the major crops garden centres are the key outlet, especially for hardy nursery stock and grow your own ranges which are less likely to be bought on impulse than bedding plants. As young plants/young plant material is sold predominantly to other growers for 'growing on', ultimately demand for this product is likely to rely on 'pull' demand from garden centre, DIY, supermarket and amenity growers.

| | Garden centres/ retail nurseries | DIY stores | Super markets | Other retailers | Amenity | Export | Other growers | Other |
|---------------------------|----------------------------------|------------|---------------|-----------------|---------|--------|---------------|-------|
| Bedding (45) | 48% | 29% | 14% | 3% | 1% | 0% | 5% | 0% |
| Hardy nursery stock* (72) | 44% | 0% | 0% | 4% | 32% | 1% | 8% | 10% |
| Young plants (19) | 19% | 1% | 0% | 3% | 3% | 1% | 72% | 2% |
| Grow your own** (22) | 88% | 5% | 3% | 1% | 0% | 0% | 3% | 0% |

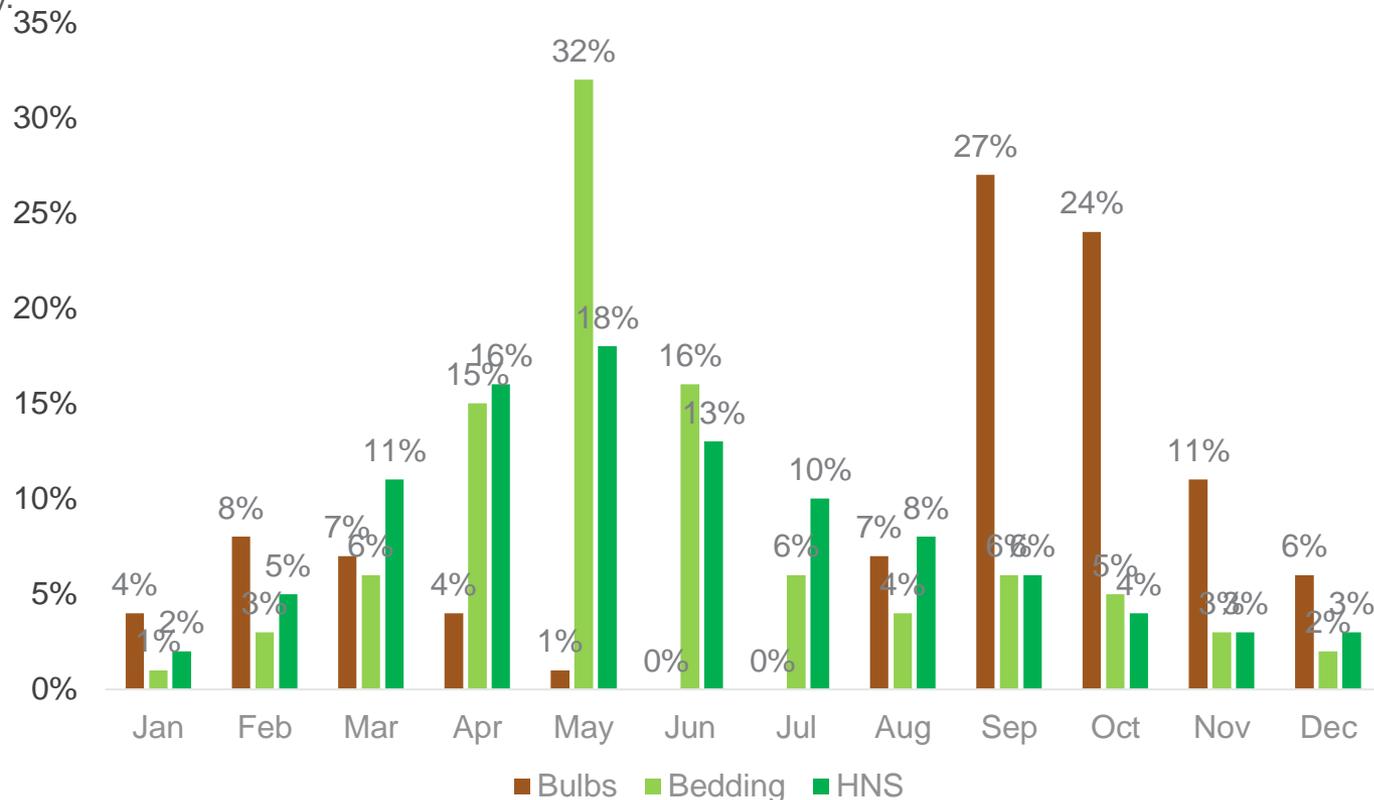
* - we believe this understates the importance of DIY channels, and may be because the two main chains have a narrower range than specialist garden centres and so rely on a comparatively small number of HNS growers who may not have responded to the survey or to these questions in the survey

** - NB data potentially skewed by two large suppliers to garden centres

Seasonality of key crops

Retail sales of ornamentals by month

The following table shows the percentage of retail sales by value that are made each month for bedding, hardy nursery stock and bulbs. The bulk of annual sales for bedding and hardy nursery stocks are now unlikely to be recovered given that lock-down measures are highly likely to remain in place until mid-May at the earliest and that a period of several days at the least would be needed to restart the supply chain for plants. Not only is the stock held by growers from mid-to-late March now highly likely to be written off, but growers are facing a second hit in that they have not been able to start production of stock for later in the year due to lack of cash to invest in inputs and lack of physical space in nurseries due to stock that would have shipped through the gardening season taking up space on the nursery.





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