Deloitte.

Capital Allocation
Driving Value in the European Food Industry

Deloitte Valuation & Modeling

1. Why capital allocation matters today

Capital allocation - how firms raise, invest and return capital - lies at the heart of **long-term value creation.** At its core, it is senior management's most consequential decision set. Senior executives must deploy scarce resources to projects, growth initiatives, acquisitions, dividends, share repurchases and debt service in ways that earn returns above the cost of capital. When they succeed, companies establish **durable competitive advantages, generate economic value** and ultimately deliver **total shareholder returns that outpace market benchmarks.**

Well-judged allocation also helps firms weather economic cycles by **matching the right funding sources** (internal cash flow, debt & equity) **to the right uses,** adapting financing structures and investments to market shifts. Sticking to familiar investments with low returns can make companies vulnerable, slow to adapt and unable to unlock new value. Yet, as empirical surveys reveal, many management teams lack the frameworks and discipline needed to allocate capital optimally.

In 2024, a mere **29 percent of companies worldwide created real (economic) value** and even among profitable firms, fewer than half (46%) managed to do so. This shortfall highlights a critical challenge: allocating capital wisely is harder than it looks and the difference between success and failure often hinges on where and how leaders choose to invest their resources.

29%

Of companies globally create value[1]

46%

Of profitable companies[2] globally create value[1]

In an era defined by economic volatility, shifting consumer preferences and intensifying competition, the European food industry stands as a cornerstone of the EU's economy. Yet, the industry faces serious challenges: **rising input costs, maturing markets** and **increasing demand for sustainability and innovation.** These dynamics **elevate the importance of capital allocation** — the strategic deployment of financial resources to **maximize value creation.**

In the European food industry, encompassing food products, food retail, food distribution, beverages and restaurants, capital allocation is not merely a financial exercise but a strategic necessity. Over the last decade (2015 – 2024), food industry companies have navigated ultra-low interest rates, pandemic disruptions, surging input costs due to high inflation and tightening monetary policy. On aggregate, while invested capital has gone up visibly over the last decade, profits have gone up in a similar extent leading to plateauing returns on invested capital for all market cap categories.

This paper examines capital allocation trends over the past decade, leveraging proprietary data and industry insights to highlight the importance of optimizing resource deployment in order to thrive in a complex landscape. We examine how European food companies have raised capital and deployed it, and we measure their success (through return on invested capital decomposition and economic profit). By mapping ten years of data, breaking down profit-and-asset efficiency and linking economic profit to market performance, our analysis shows that only those firms that pair clear, disciplined decision frameworks with regular reassessment of their portfolios can break free from flat returns, strengthen their market positions and deliver superior shareholder value.

In the sections that follow, we will:

01. Map the scale of capital allocation decisions by looking at 10-year data.
02. Dissect funding sources (internal vs. external) and deployment priorities (debt repayment, capex, dividends).
03. Decompose ROIC into its strategic drivers — NOPAT[3] margin and invested capital turnover — highlighting cost leadership and differentiation models.
04. Link economic profit/value creation to market valuations and total shareholder return outperformance, proving that disciplined allocators consistently outrank their peers.

2. Navigating Capital Allocation Trends in the European Food Industry

The European food industry offers a lens on how mature, low-growth industries allocate capital. Over the past decade, shifting macroeconomic conditions have led to distinct cycles in funding and spending patterns, influenced by deals, pandemic disruptions and fluctuating financing costs.

2.1. Investing and Financing Decisions: Adapting to Cyclical Pressures

Macroeconomic factors, including interest rates and consumer spending, significantly shape the European food industry's capital allocation. The Capital Intensity Ratio ("CIR"), defined as the ratio of (annual) absolute investing and financing cash flows to (year-end) market capitalization, fluctuated between 22–30% over the last eight years.

1. Based on Damodaran's 2024 dataset of 47.810 global listed companies.
2. Companies with positive operating income in 2024.
3. Net operating profit after taxes (or EBIT minus taxes).

The CIR reflects the total magnitude of a company's or industry's financing and investing decisions relative to its market value. A higher ratio suggests more aggressive capital allocation, which could indicate growth pursuits (e.g., acquisitions, capex) or restructuring (e.g., debt repayment, divestitures), reflecting either a proactive strategy to expand and capitalize on opportunities or a reactive effort to address underperformance and stabilize the business. Conversely, a lower ratio may signal conservatism, limited opportunities or may highlight a commitment to financial prudence/discipline and effective operational management. By dividing by year-end market cap, the CIR ties capital allocation directly to how the market values the company post-activity. In essence, the CIR is a holistic measure of capital deployment intensity, capturing how much a company or industry is "moving" financially relative to its market value. It highlights the scale of strategic decisions and their potential impact on valuation, growth and risk.

Assuming market efficiency (i.e., prices are presumed to reflect all available information), the market capitalization embodies the present value of future cash flows, adjusting seamlessly to the outcomes of capital allocation decisions. A CIR of 22% to 30% implies that, roughly every three to five years, the industry's financing and investing activities could account for its entire market value (if the market accurately prices these actions). It suggests that the scale of capital decisions is substantial enough to redefine the firm's financial narrative within this timeframe.

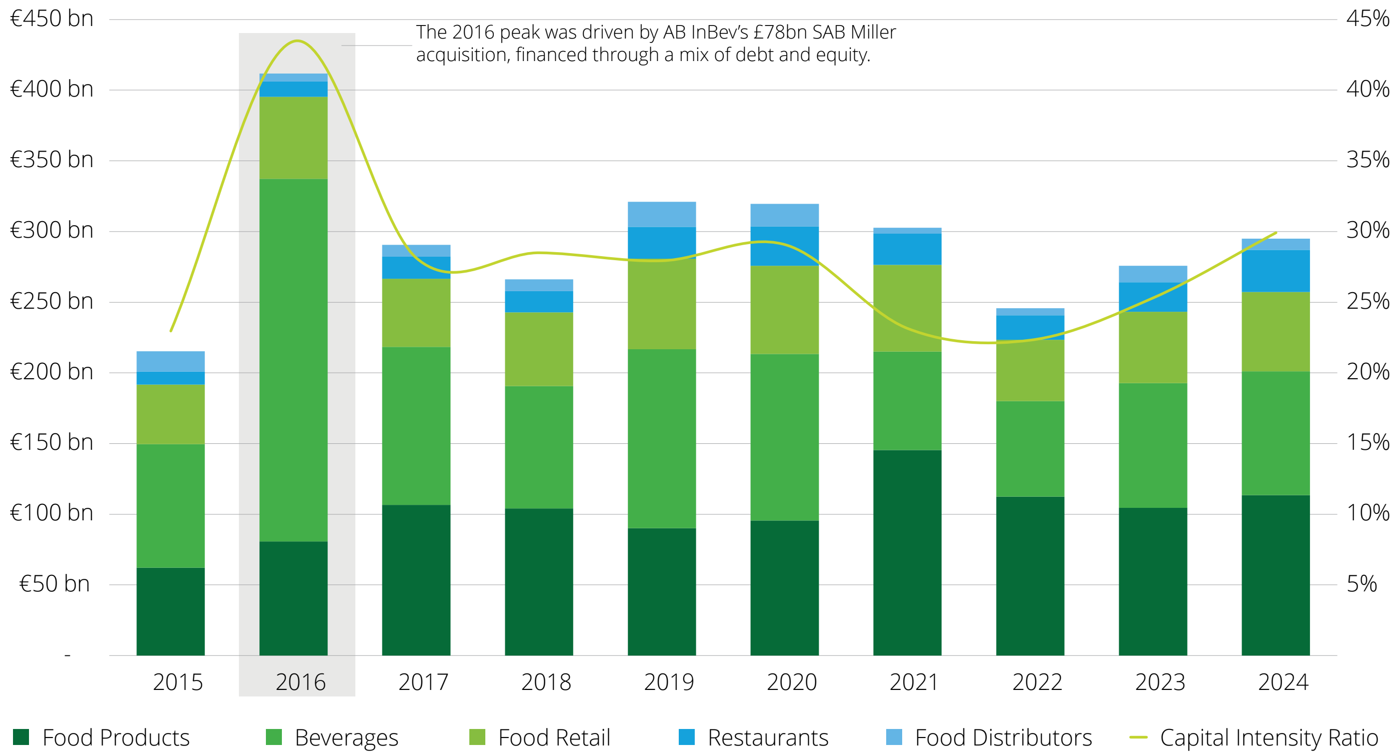
Yet, the story of the CIR is not without its nuances. A high CIR signals brisk or dynamic capital intensity, but it does not inherently guarantee value creation. The investments (and related financing) deployed annually could fuel profitable growth, such as acquiring cutting-edge technology, or they might reflect less fruitful efforts, like overleveraging to mask operational struggles.

In 2015, European food companies were still integrating large-scale consolidation of prior years amid heightened geopolitical and economic uncertainty (sanctions on Russia, collapsing oil prices and domestic political impasse dampened confidence). Firms pulled back on new capex and M&A, opting instead to strengthen balance sheets and focus on internal efficiency, resulting in low investing and financing cash flows that year.

In 2022, the sector again faced post-pandemic supply chain bottlenecks and input cost inflation (exacerbated by Brexit-related disruptions), a sharp rise in energy prices and rapid interest rate hikes by the ECB that drove up financing costs, forcing many companies to delay or scale back investments and transactions. This led to one of the lowest investment and financing intensive years of the past decade.

Macro-economic developments shape cyclical investing and financing choices

Investing & financing cash flow decisions (absolute values and relative compared to market cap), over the last decade in €bn



2.2. Capital Sourcing: Resilient Cash Flows and Debt Capacity

The European food industry primarily relies on operational cash flow to fund its activities, supplemented by significant gross debt issuance to support its operations in a maturing market. Over the last decade, they collectively produced about €867bn in operating cash flow (c. 10.3 % of sales), while issuing €712bn of debt (c. 8.4 % of sales). The industry's funding is to some extent influenced by the industry's two juggernauts, Nestlé and AB InBev, as their contributions (in absolute terms) are more substantial compared to others in terms of spending and sourcing cash flow.

Despite substantial debt issuance, net debt levels have remained flat. Equity issuances were minimal, with companies returning more cash to shareholders through dividends and buybacks than they raised through new equity. This funding structure highlights the operational strength of individual companies within the industry, while also indicating their reliance on debt to fuel expansion, even if the industry as a whole does not significantly grow or take on additional net debt. However, rising borrowing costs seen over the last years necessitate careful debt management to maintain financial stability.

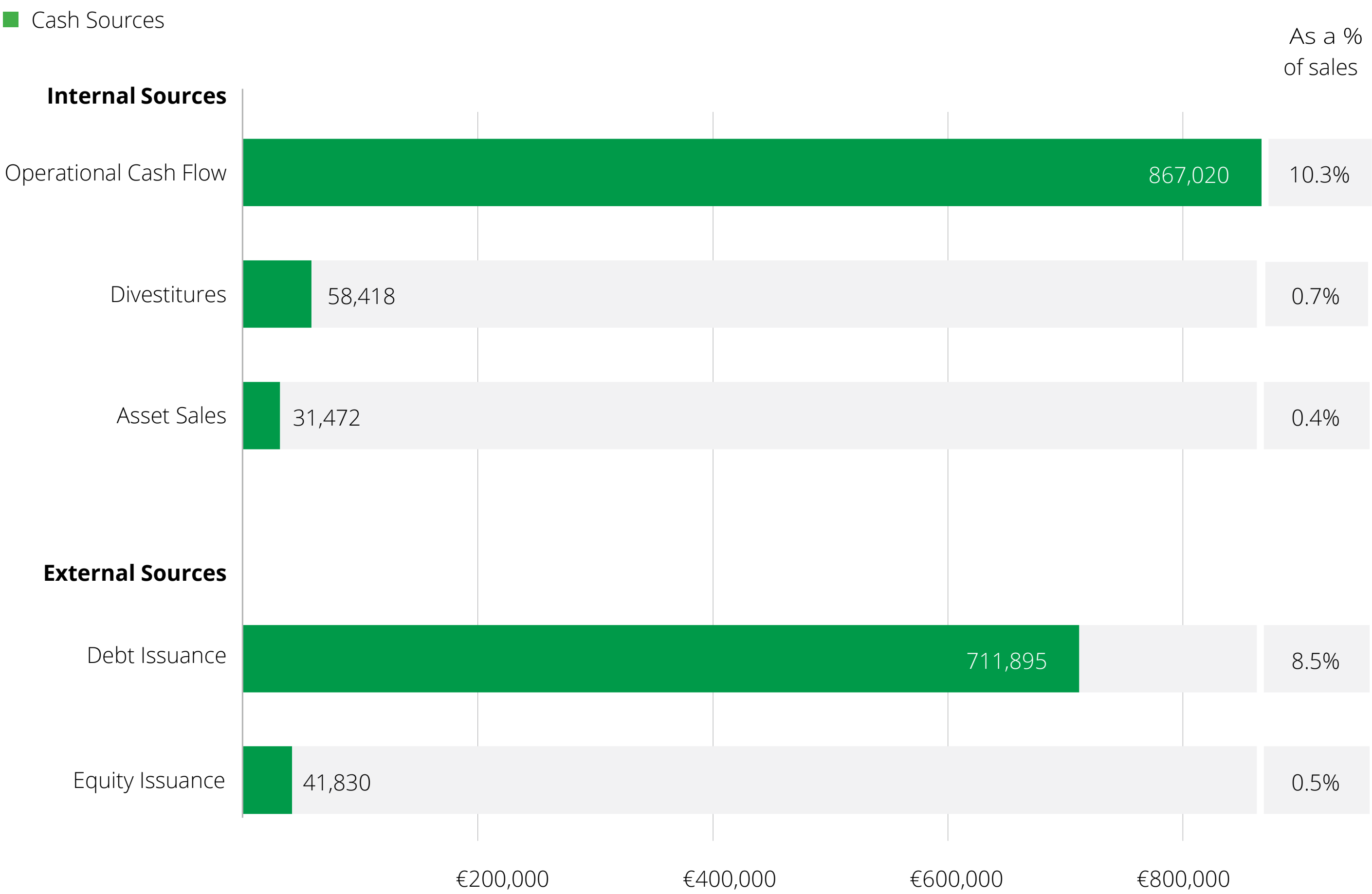
2.3. Cash Deployment Priorities

Over the last decade, the European food industry prioritized debt repayment over growth-oriented investments (capital expenditures, research & development and acquisitions) and share buybacks combined. While reducing debt can lower interest costs (unless refinancing increases borrowing expenses), it may limit funds for innovation and growth initiatives. This trade-off is a critical consideration in capital allocation, as companies must weigh immediate financial stability against the pursuit of long-term competitiveness and value creation.

Capital spending followed at 4.1%, funding maintenance, capacity upgrades and supply chain improvements. Dividends absorbed 3.4%, while M&A (cash acquisitions), share buybacks and Research & Development ("R&D") each accounted for smaller shares. The hierarchy underlines a cautious, balance-sheet-first mindset (the need to maintain financial flexibility) in an industry sensitive to cost fluctuations.

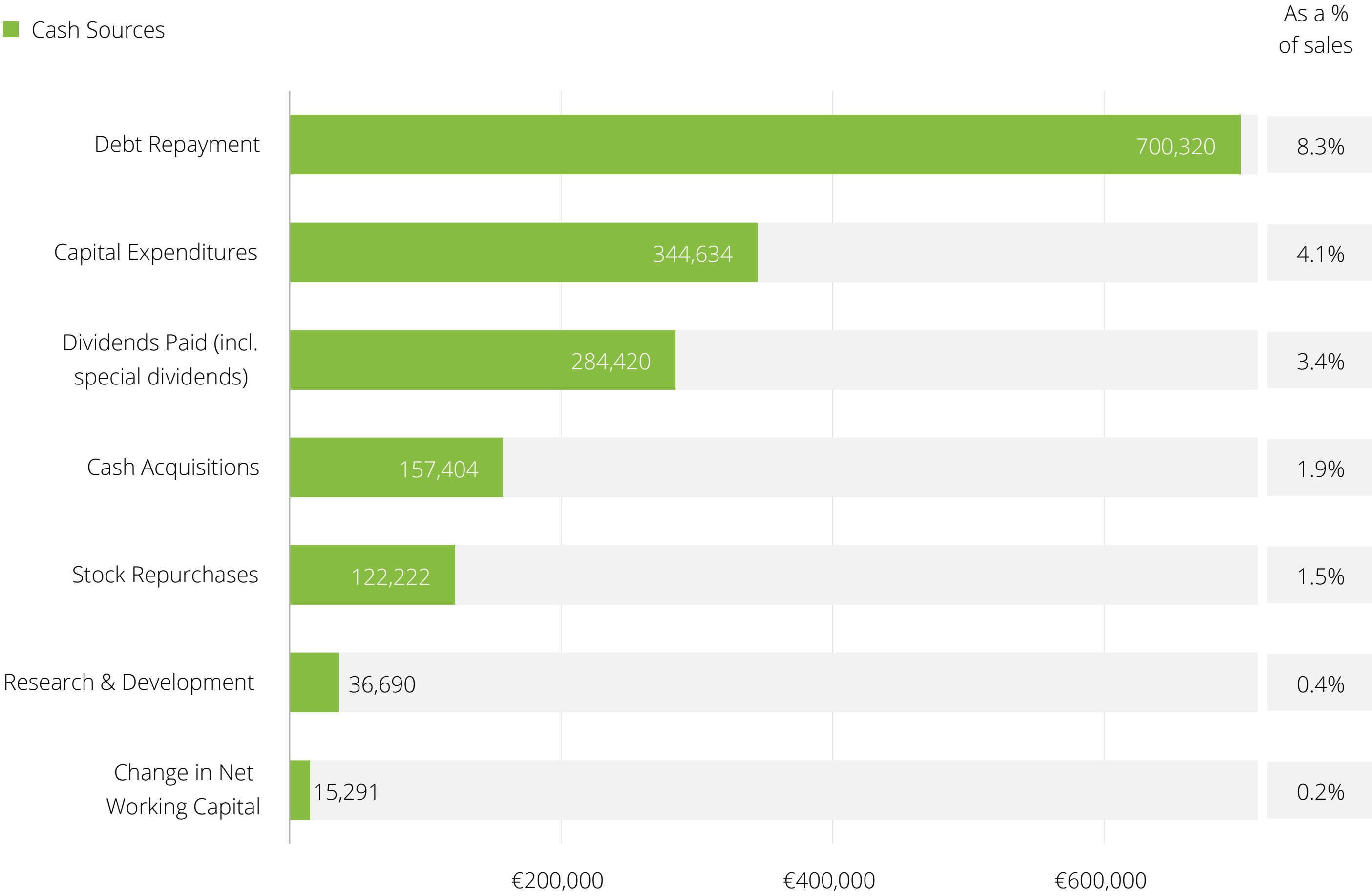
European food industry is primarily funded by operational cash flow while issuing significant gross debt (net debt remains flat)

Cash sourcing in the European food industry, over the last 10 years in €m



Operational cash flows are channeled to growth (Capex, R&D & cash acquisitions) and shareholders

Cash deployment in the European food industry, over the last 10 years in €m



2.4. The Balancing Act: Shareholder Distributions vs. Debt Repayment Cycles

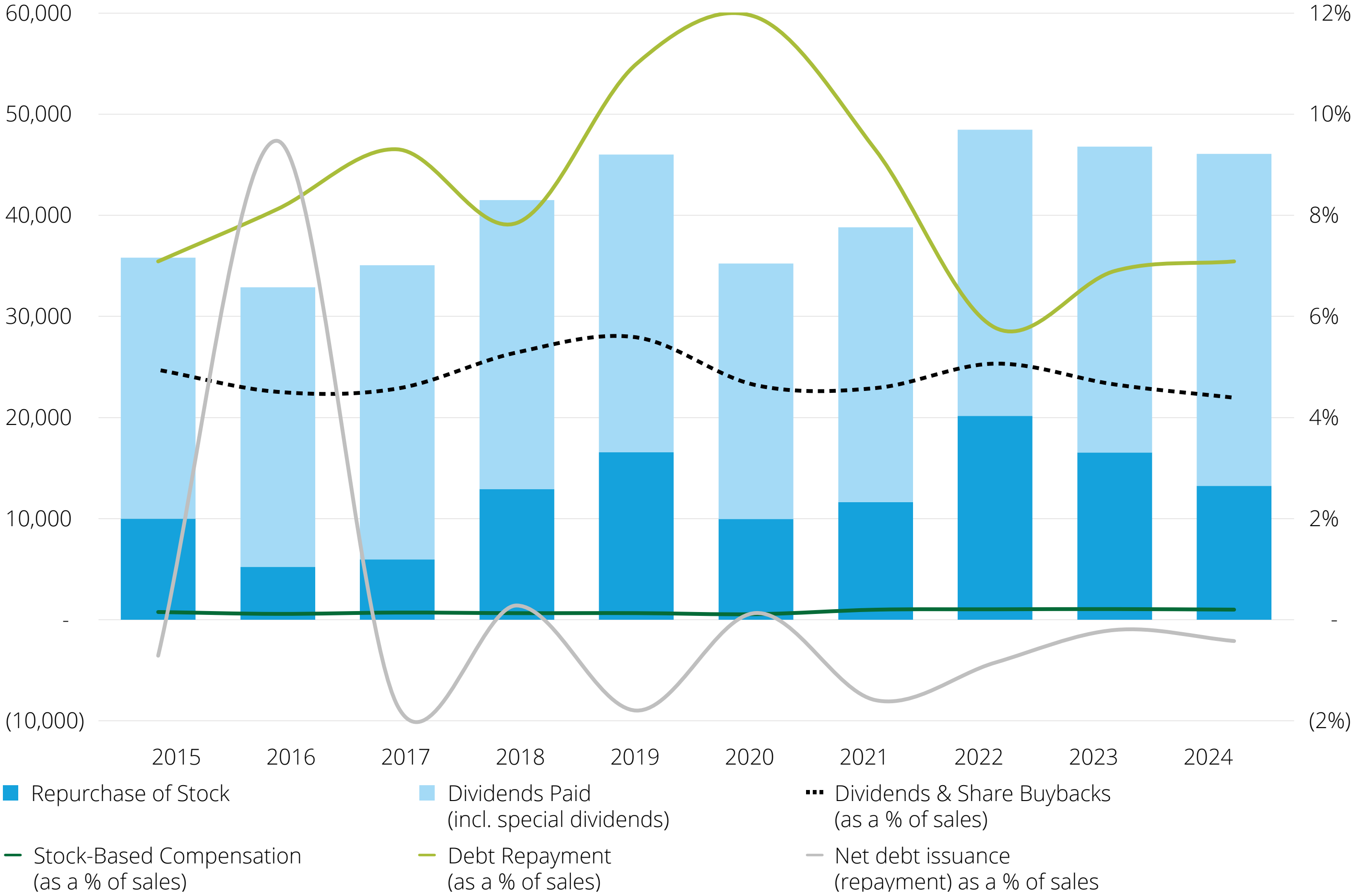
Our analysis suggests that the European food industry has maintained stable shareholder returns through dividends and buybacks, providing predictability for investors. Dividends have remained remarkably stable (within 3% to 3.8% of sales), reflecting managements' reluctance to cut payouts even during downturns. Share buybacks, however, have followed more cyclical peaks - surging when cash flows were stronger, evidenced by strong positive yearly correlations between free cash flow (calculated as operational cash flow minus capital expenditures) and share buybacks, except for 2016. The industry experienced a 10-year aggregate correlation of 0.78 between free cash flows and share buybacks Stock-based compensation, profoundly dominated by the large caps, remained stable around 0.2% of sales.

This stability in shareholder returns contrasts with the flexibility required in debt management, highlighting the need for adaptive capital allocation strategies in response to cyclical and macroeconomic shifts, changes in consumer behavior and surges in inflation-driven input expenses. Net debt issuance (or repayment) has generally been negative, reflecting a net reduction in debt levels.

In 2020, the ratio of gross debt repayments to sales in the European food industry spiked despite the broader economic shock. At the heart of this was a dramatic collapse in goods output: Eurostat reports that overall EU industrial production (which encompasses food and beverage manufacturing) plunged by 6.7% in 2020 versus 2019, the steepest annual drop of the decade and roughly in line with the 7.8% drop in the industry's revenues. With crowd hosting or on-site channels (restaurants, catering, hospitality) effectively shut, food & beverage volumes contracted even more sharply, so that every euro of contractually scheduled principal payments translated into a larger share of a diminished sales base. Moreover, leading issuers — Nestlé, AB InBev, Diageo, Heineken, Danone and peers — accelerated (long-term) debt paydowns in 2020. The prioritization of scheduled repayments to preserve investment-grade ratings further lifted the debt repayment-to-sales ratio against a depressed sales denominator.

European food industry steadily returns capital to shareholders, while debt repayment declines in high interest rate periods

Cash flow uses to share & debt holders and employees, over the last decade in €m (left axis) and % of sales (right axis)



In 2022, the repayment ratio dropped as goods output rebounded and financing pressures shifted. Eurostat notes that EU production of manufactured goods rose by 5% in 2022 on a year-on-year basis, while the industry's revenues jumped by 12.9%. At the same time, acute cost-inflation and tighter monetary policy forced issuers to reprioritize liquidity: producer prices for the manufacturing sector climbed by over 56% between January 2021 and September 2022 (Eurostat, 2025) driven largely by energy costs, while the ECB's main refinancing rate rose sharply in mid-2022. Faced with higher borrowing costs and margin squeeze, companies preferred to conserve cash for working capital needs rather than prepay debt. Many companies refinanced maturing tranches into longer maturities, flattening near-term scheduled principal payments.

Taken together, the 2020 peak and 2022 low in debt service intensity reflects the interplay of goods-output volatility and financing necessities — urgent deleveraging once home-consumption resumed versus liquidity preservation under high costs and tighter policy.

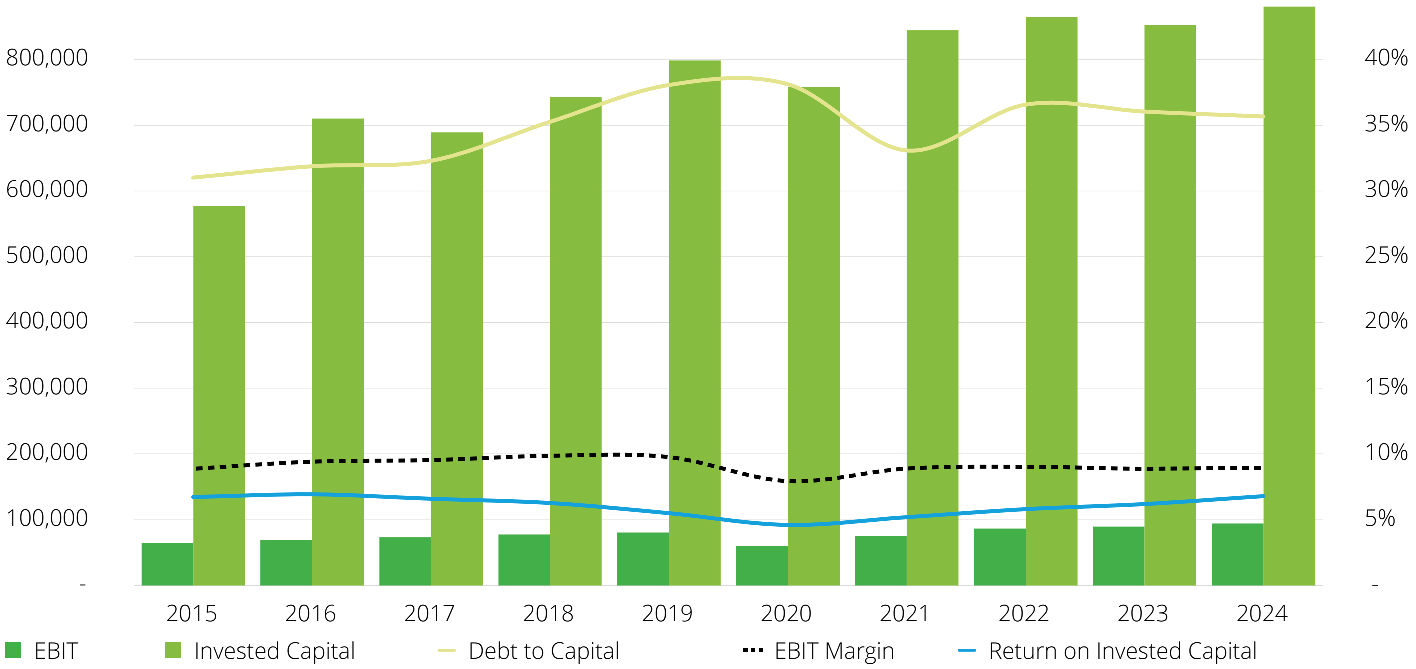
2.5. Optimizing Capital Allocation in a Mature Industry: Flat Returns on Growing Capital Bases

Over the past decade, Earnings Before Interest and Taxes ("EBIT") margins remained fairly stable between 8-10% (dipping briefly in 2020 before rebounding) and (median) return on invested capital fluctuated around 5-7%. Meanwhile, total invested capital rose steadily as firms expanded capacity and upgraded facilities. The combination of flat profitability margins and growing asset bases resulted in aggregate returns on invested capital remaining relatively unchanged, indicating that most firms have not redirected capital to higher-return opportunities. In such a mature industry, with stabilized EBIT margins and flat return on invested capital trends, optimizing capital allocation and directing strategic investments towards value-creating initiatives is crucial. The focus shifts from growth to efficiency, requiring companies to enhance operational and capital efficiency.

Together, these trends illustrate an industry that generates steady cash but struggles to redeploy it for higher returns. In the next section, we'll unpack how top performers break this pattern by pairing margin discipline with efficiency.

In a mature industry, optimizing capital allocation is key: stabilized margins and capital investments indicate a priority of efficiency over growth

EBIT (margins) and (return on) invested capital of the European food industry over the last 10 years in €m (left axis) or % (right axis)



3. Strategic Capital Allocation for Competitive Edge

Return on Invested Capital (in short; "ROIC") stands as a cornerstone metric in corporate finance, offering a lens through which to evaluate a company's **efficiency in deploying the capital** entrusted to it by shareholders and debtholders. In the European food industry, where capital allocation decisions shape competitive positioning and long-term growth, ROIC serves as both a diagnostic tool and a strategic guide. It measures the percentage return a company earns on the capital invested in its operations, and is calculated as follows:

$$ROIC = \frac{\textit{Net Operating Profit After Taxes ("NOPAT")}}{\textit{Invested Capital (i.e., Equity + Debt)}}$$

Where:

- **NOPAT** represents the profit generated from core operations after accounting for taxes but before interest expenses. It reflects the earnings available to both equity- and debtholders, calculated as EBIT minus taxes.

- **Invested Capital** is the total capital employed in the business, typically the sum of shareholders' equity and interest-bearing debt.

ROIC expresses how effectively each euro invested (whether through equity financing or borrowed funds) translates into after-tax operating profit. A higher ROIC indicates that the company is generating more profit per euro invested, reflecting operational excellence and strategic discipline. In the food industry, which encompasses capital-intensive segments like manufacturing and processing, ROIC is particularly relevant. Companies must invest heavily in production facilities, supply chains and branding and ROIC helps assess whether these investments are yielding adequate returns.

A low ROIC may suggest that a firm struggles with efficiency, highlighting the need for rigorous capital allocation frameworks. For example, a beverage company considering the acquisition of a smaller craft brewery would calculate the expected ROIC based on projected NOPAT and the capital required. If the ROIC exceeds WACC, the acquisition is likely to create value; if not, it risks diluting shareholder value. This disciplined approach helps companies **avoid value destroying investments** and provides a clear **principle for prioritization.**

To create long-term value, companies must do more than just earn a return above their cost of capital, they must direct strategy and efforts to build and sustain a competitive advantage. This is what allows a business to consistently outperform peers, maintain pricing power, defend market share and deliver superior financial returns over time. In mature industries like food and beverage, where growth is limited and input costs are rising, competitive advantage becomes a key differentiator between firms that survive and those that lead.

At its core, competitive advantage means being able to deliver value in a way that is difficult for others to replicate. That might be through a unique product offering, a strong brand, superior cost structure or more efficient operations. But none of these advantages develop on their own; they are built through a **series of decisions** about **where to invest,** how to fund growth and what to **divest.** In other words, competitive advantages are shaped by **strategic capital allocation.**

This section explores how capital allocation choices influence and reinforce different types of advantage. Some firms allocate capital to brand-building, product innovation and marketing: investments that support differentiation and allow them to command a price premium. Others direct resources toward scale, automation and process improvement; enabling cost leadership and higher asset efficiency. The connection between these approaches and long-term performance becomes clear when we look at ROIC, and more specifically, its two components:

$$= \frac{\textit{Net Operating Profit After Taxes ("NOPAT")}}{\textit{Invested Capital (i.e., Equity + Debt)}}$$

$$= \frac{\textit{NOPAT}}{\textit{Sales}} \; X \; \frac{\textit{Sales}}{\textit{Invested Capital}}$$

$$= \textit{NOPAT Margin} \times \textit{Invested Capital Turnover}$$

The first component, NOPAT margin, reflects a company's ability to convert sales into profit. It is influenced by **operational efficiency, pricing power and product mix.** The second, invested capital turnover, reflects how efficiently a company uses its capital to generate sales (a higher ratio means a company can generate more sales with the same amount of capital invested into the business). It is shaped by **business model decisions** such as **store formats, supply chain setup or working capital management.**

Together, these two levers help explain not only how a company earns its returns, but why some companies are able to consistently outperform. A firm with high margins and low turnover may be a differentiator, relying on brand strength, quality and customer loyalty to justify premium pricing. Another firm with lower margins but very high turnover may be a cost leader, operating on thin margins but leveraging scale and capital efficiency to deliver strong ROIC.

Understanding this decomposition is essential for senior management and investors alike. It allows them to **assess whether returns are driven by sustainable advantages or temporary conditions** and, crucially, **whether capital is being allocated in a way that reinforces a company's strategic positioning.** Does R&D spending support product differentiation? Is capex improving supply chain productivity? Are acquisitions aligned with the firm's core strengths?

3.1.ROIC Drivers: Margin Expansion and Asset Efficiency

ROIC is a widely accepted benchmark for measuring how effectively a company generates value from its capital base. But understanding how companies earn their ROIC is just as important as the metric itself. The decomposition into two drivers reflect distinct strategic approaches. In strategic terms, high margins typically indicate differentiation (e.g., premium pricing, brand value), while high turnover points to cost leadership (e.g., efficiency, scale and asset intensity).

The accompanying graph segments companies in the European food industry into three ROIC categories, decomposed into NOPAT margin and invested capital turnover, over the period 2015–2024, and offers several actionable lessons:

01. Strategic clarity and execution is essential for low ROIC companies:

Low ROIC Companies (0–5%) cluster in the lower-left quadrant of the graph, characterized by both low NOPAT margins and low invested capital turnover. This positioning suggests that these companies may struggle with the execution of their strategic direction and capital allocation decisions, as they neither achieve high profitability per unit of sales nor efficiently utilise their capital to generate revenue. In strategic terms, they are often described as "stuck in the middle," failing to execute either cost leadership or differentiation very effectively. Consequently, firms with low ROIC often benefit from building a competitive advantage by prioritizing spending on one of the two strategies.

Attempting to pursue both strategies without sufficient resources or execution often leads to mediocrity, as seen in the "stuck in the middle" positioning of low ROIC firms that are unable to excel due to misaligned efforts or execution. Capital allocation demands financial rigor, channeling resources into high-return projects that align with the chosen strategy, avoiding the temptation to spread resources too thinly.

02. Medium ROIC companies should refine their focus:

Firms in the medium ROIC range (5–15%) have the potential to improve by identifying and enhancing their stronger component (margin or turnover). These firms should use the ROIC decomposition as a diagnostic tool to assess their strategic position and prioritize investments that boosts their ROIC.

03. High ROIC companies demonstrate strategic excellence: The success of high ROIC firms (>15%) lies in their ability to execute focused strategies with precision. Whether through differentiation, cost leadership or a hybrid approach, these companies allocate capital to reinforce their competitive advantages

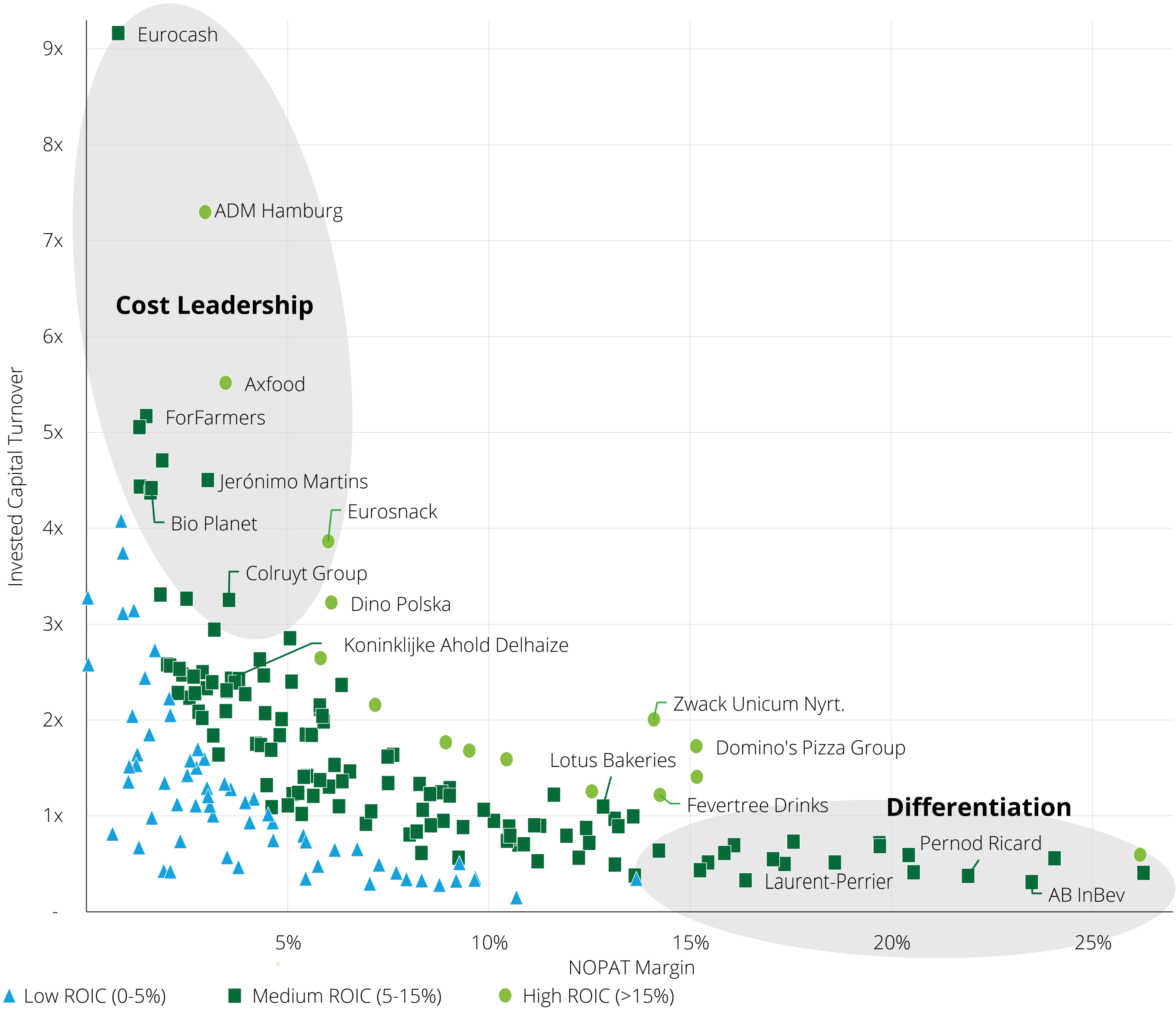
The lesson for all firms is that, in order to achieve high ROIC, companies can benefit from pursuing a clear strategy paired with disciplined execution, where capital allocation decisions are consistently aligned with strategic goals. Companies can regularly analyze their ROIC decomposition to identify areas for improvement.

3.1.1. Cost Leadership: Driving Efficiency Through High Capital Turnover

Cost leaders build their advantage on operational scale, process discipline and asset efficiency. These companies operate on thinner margins but compensate through rapid asset utilization and strict cost control. Their ability to generate high sales volumes from a relatively modest capital base results in strong ROIC performance, even when profitability per unit is low.

Companies in the European food industry[1] pursue both cost leadership and differentiation strategies

Drivers of ROIC of European food companies, cumulative over the last 10 years



[1] For companies with at least 10 years of listing, a market cap exceeding €10 million as of Dec '24 and positive ROIC.

Eurosnack, a private-label snack manufacturer, competes on price in a low-margin segment but achieves high capital turnover. The company uses high-throughput production lines, a focused portfolio and tight inventory cycles to maximise revenue per euro of capital. Investments are directed toward automated manufacturing, packaging upgrades and lean supply chains, focusing on efficiency and cost reduction rather than brand-building or innovation, embodying a cost-leadership strategy.

3.1.2. Differentiation: Earning a Price Premium Through High Margins

Differentiators generate value by offering products that stand out. Whether through branding, quality, innovation or consumer experience. Their margins are materially higher, as they can command price premiums, but capital turnover is often lower due to more focused or specialized operations.

A compelling example is Fevertree Drinks, a UK-based premium mixer brand. Fevertree operates with strong NOPAT margins, driven by its ability to sell at significantly higher price points than standard mixers. The business is built around brand positioning, product innovation and premium packaging, rather than manufacturing scale. Capital allocation reflects this: investments go into marketing, product development and geographic expansion, rather than heavy infrastructure. Much of Fevertree's production is outsourced, allowing the firm to remain asset-light while focusing capital on brand value and distribution partnerships. This reinforces its differentiation strategy, driving value through margin rather than turnover.

3.2. Industry-Wide Positioning: Cost Leaders vs. Differentiators

Plotting all companies in the industry shows two clear clusters. Cost leaders, often retailers and distributors, operate with slim margins but high turnover, squeezing out volume advantages. Differentiators, notably some beverage and specialty-food producers, achieve strong margins on more modest invested capital turnover, commanding price premiums through brand, quality or innovation. A significant amount of firms are in the middle, combining moderate margins and capital turnover, but not that many companies earn a top-decile industry ROIC without a clear strategic focus.

Sub-industry trends show food retail and distributors favoring cost leadership, beverages leaning towards differentiation, food products balancing both and restaurants lacking clear advantages.

This becomes clearer when examining the dispersion across sub-industries. The graphs on sub-industry level below illustrate the interquartile range between the lower (1st) quartile, representing the value below which 25% of companies in the European food industry are found (i.e., the bottom of the bar), and the upper (3rd) quartile, representing the value below which 75% of companies in the European food industry are found (i.e., the top of the bar). The middle line represents the median. The following patterns are observed:

- Food products: A mix, some players pursue premium lines, others compete on price and volume.
- Food retail & distribution: High-turnover, low-margin operators leveraging scale and efficient supply chains.
- Beverages: Often premium brands with higher margins, sustained by R&D and marketing investments.
- Restaurants: Fragmented economics, with no dominant cluster; results vary by format, geography and brand strength.

Invested capital turnover dispersion per sub-industry, 1st quartile/median/3rd quartile

NOPAT Margin dispersion per sub-industry, 1st quartile/median/3rd quartile

3.3. ROIC Leaders in the European food industry

Examining the ten firms with the highest ROIC, across large, mid and small-cap categories, reveals **no single formula for success.** Among these top performing companies are, for example, ultra-efficient discount retailers as well as producers with niche, high-margin offerings.

Small caps often outperform due to their agility and niche focus, while large caps face challenges managing diverse portfolios. Large caps often have a longer history and maturity, making it challenging to sustain high ROIC over time. This underscores the importance of having a clear capital allocation framework to remain attractive to shareholders, as evidenced by larger companies actively engaging in selling brand/product portfolios and carve-outs.

3.4. Building and Sustaining Competitive Advantages: Key Drivers

To translate strategy into lasting performance, European food & beverage firms must align capital deployment to amplify their competitive edge.

Below, we illustrate how targeted investments reinforce each advantage.

Competitive advantages drive ROIC through (not exhaustive):

- **Price Premium:** Innovative products, quality, brand, customer lock-in and rational pricing.
- **Cost/Capital Efficiency:** Innovative methods, unique resources, economies of scale and scalable processes.

By understanding the source of competitive advantage and, consequently, channeling resources into these focused areas — whether through R&D, targeted capex, M&A or digital platforms — European food & beverage companies can reinforce the pillars of differentiation or cost leadership. The key is strategic alignment: ensuring that every euro committed supports the firm's chosen path to competitive advantage and drives ROIC well above the cost of capital.

Top long-term return on capital performers per market cap category[1]

	Large caps		Mid caps		Small caps[2]	
Rank	Company	ROIC	Company	ROIC	Company	ROIC
1	Compass Group	14.4%	Dino Polska	19.6%	Zwack Unicum Nyrt.	28.3%
2	Jerónimo Martins	13.6%	Axfood	19.1%	Domino's Pizza Group	26.2%
3	Diageo	13.4%	Royal Unibrew	15.8%	ADM Hamburg	21.5%
4	Nestlé	12.7%	Greggs	15.5%	Nichols	21.3%
5	Carlsberg	10.1%	Lotus Bakeries	14.1%	S.C. Vinalcool Arges	17.5%
6	Coca-Cola HBC	10.1%	Sal Mar	14.1%	Fevertree Drinks	17.1%
7	Kerry Group	9.6%	Viscofan	13.5%	Kri-Kri Milk Industry	16.6%
8	Chocoladefabriken Lindt & Sprungli	9.5%	Cranswick	12.3%	Olvi	16.0%
9	Koninklijke Ahold Delhaize	8.7%	AAK	12.3%	Kopparbergs Bryggeri	15.8%
10	Coca-Cola Europacific Partners	8.3%	Mowi	11.8%	Krynica Vitamin	15.4%

[1] For companies with at least 10 years of positive EBIT.
[2] For small caps above € 10 million in market cap as at Dec '24.

4. Value Creation: Maximizing Shareholder Returns

Value creation, the ultimate goal of capital allocation, occurs when companies generate returns exceeding their cost of capital, driving economic profit and shareholder returns through strategic capital allocation. Below, we explore how economic profit translates into market valuations and shareholder returns, demonstrating that disciplined allocators outperform over the long term.

4.1. Economic Profit as a Measure of Value Creation

The primary significance of ROIC lies in its relationship with the Weighted Average Cost of Capital ("WACC"), which represents the opportunity cost of a company's capital, weighted by the proportion of debt and equity. When ROIC exceeds WACC, a company generates returns above the cost of its capital, creating economic profit or "excess return". This positive spread (ROIC - WACC) is a direct measure of value creation, as it indicates that investments are yielding more than the minimum return required by investors. It signals that each euro invested delivers more value than it costs to raise. Simply reporting accounting profits can be misleading: "positive earnings" or growth does not guarantee that shareholders are better off as it can actually destroy value when the return falls short of the cost of funds.

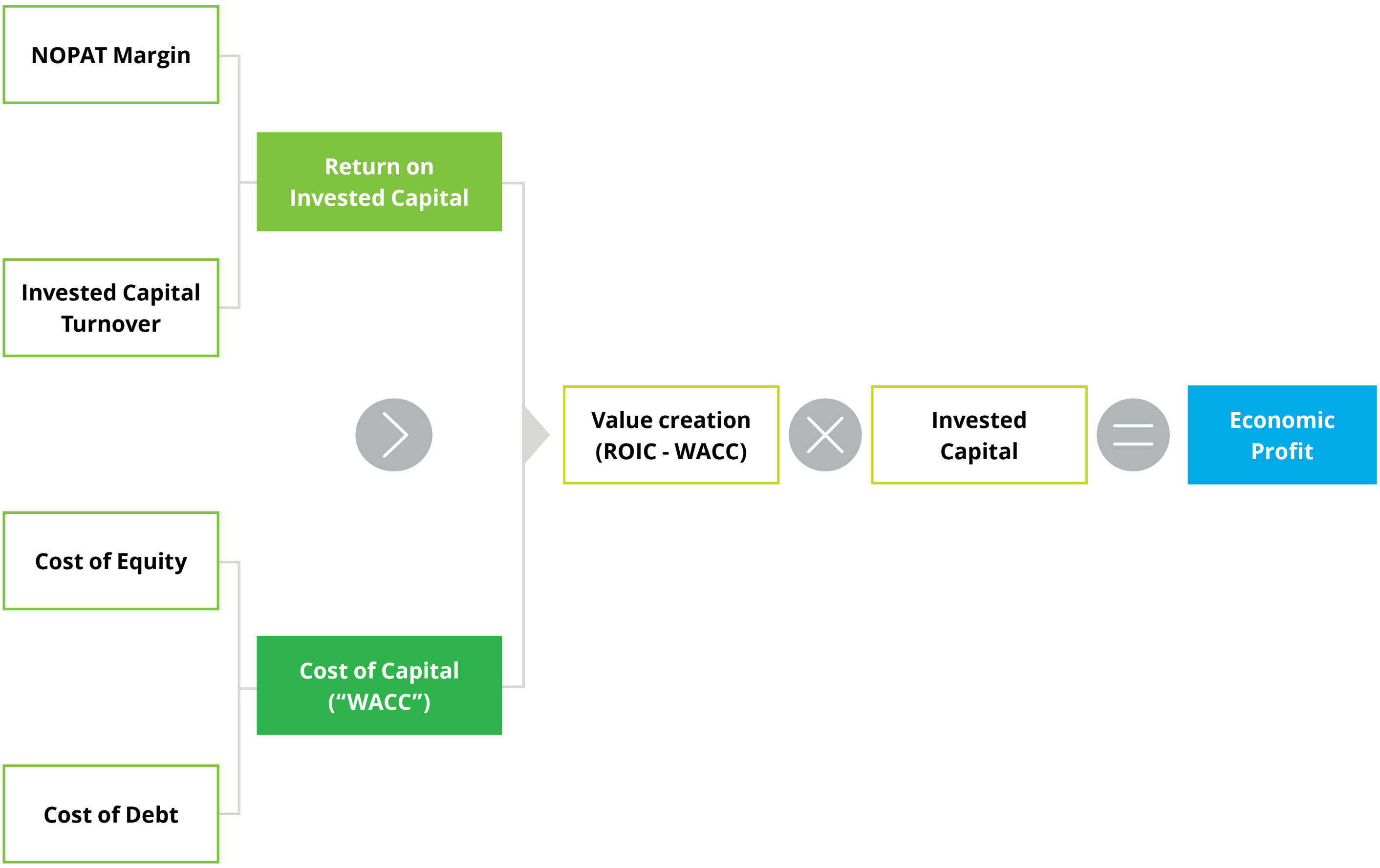
Academics and practitioners long emphasize that growth only builds value when invested returns exceed cost. A firm that repeatedly reinvests at returns above its WACC (sustained positive spreads) will see its intrinsic value rise as it grows, whereas one investing at or below its cost of capital will erode value with expansion. In short, by embedding economic profit into decision-making, management can ensure capital allocation drives sustainable growth and shareholder value. Throwing more capital at the business (adding debt or equity) without earning a corresponding excess return simply dilutes value.

4.2. Valuation Dynamics: How Markets Price Economic Profit

Financial markets price companies based on their expected future cash flows and the quality of those cash flows.

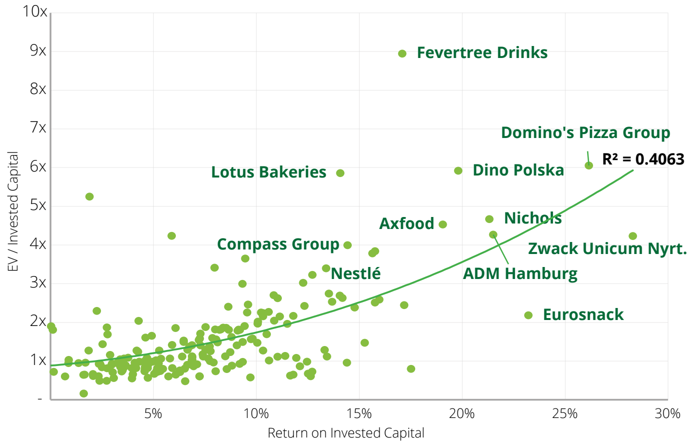
First, consider the relationship between a company's ROIC and its market valuation, expressed as enterprise value over invested capital multiple ("EV/Invested Capital" or "EV/IC"). Our analysis shows a moderate positive correlation ($R^2 \approx 0.41$, indicating that 41% of valuation variation is explained by ROIC differences) with a clear trend, suggesting that companies generating higher returns on their capital are rewarded with elevated market valuations. This trend is not confined to a single segment but holds across all sub-industries indicating a universal principle: efficient capital utilization appeals to investors.

If a company has invested successfully (reflected in a positive spread between ROIC and WACC) then we would expect the market to assess an enterprise value at a premium to the amount of invested capital. In practice, high-return firms usually enjoy premium multiples (or prices), while companies with low or



Returns and valuations: correlation between efficiencies in capital deployment and enterprise values

Enterprise values and NOPAT compared to invested capital for European food companies, cumulative over the last 10 years

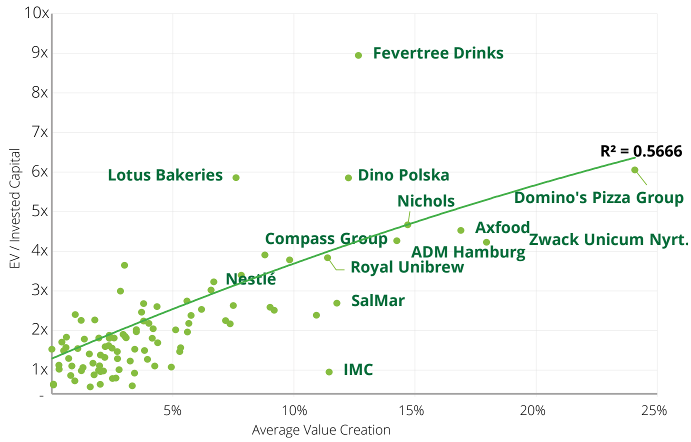


negative spreads trade at or below their capital base. Across all sub-industries (food products, food retail, food distribution, beverages and restaurants) the valuation multiple (EV/IC) vs. ROIC relationship remains consistently positive, though the slope varies by segment. This pattern, based on 10-year data, underscores that economic profit drives valuation regardless of business model. While each sub-industry faces unique challenges, the underlying principle of maximizing returns on capital transcends these differences. It's a reminder that no company, regardless of its niche, can afford to ignore the discipline of capital allocation.

The relationship also holds true between EV/IC and average value creation across the European food industry which yields an even stronger correlation ($R^2 \approx 0.57$), indicating that valuation multiples reflect sustained economic profit more than raw ROIC alone. Markets reward consistency in value creation over time. Growth, of course, plays a role in valuations. But the market, over the long term, differentiates between high-growth firms that earn economic profit and those that do not. Higher growth generates higher value for firms that earn a return above its cost of capital.

Valuations clearly reflect the power of value creation

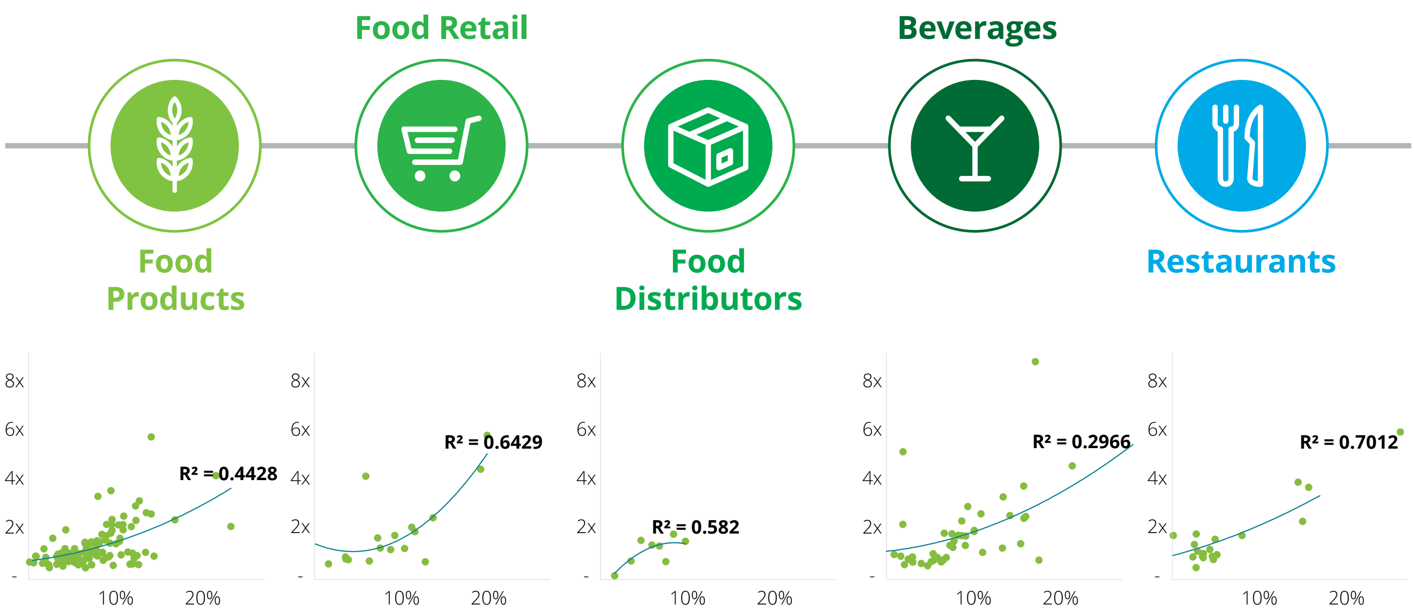
Enterprise values over invested capital (cumulative) and value creation for European food companies, over the last 10 years



Conversely, in mature industries, where profitability drives value and unprofitable firms see lower multiples, a higher growth business earning below its cost of capital destroys value and tend to receive a reduced multiple. High-growth companies in emerging industries may still command high valuation multiples. This implies that investors expect current investments in growth to yield future profitability and a strong competitive position, creating value over the long term. However, such premiums depend on a credible path to achieving returns above the cost of capital eventually.

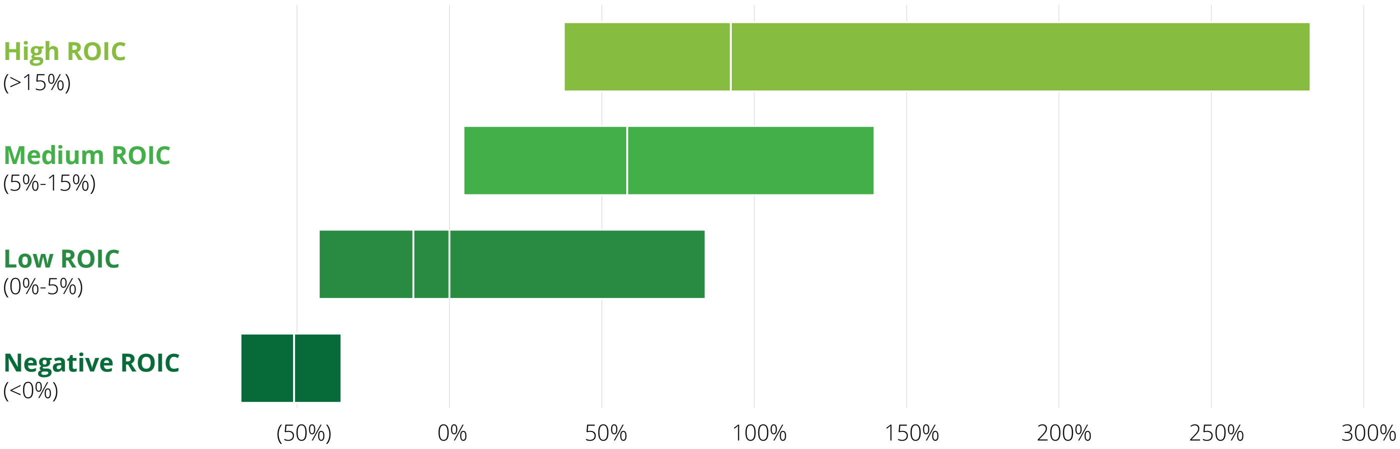
4.3. Market Winners: How the Market Rewards Value Creators

A short analysis of Total Shareholder Return ("TSR") (i.e., total of price appreciation and dividends reinvested) from 2015 to 2024 reveals that a portfolio of the top decile of long-term value creating companies in the industry, has significantly outperformed major American (S&P 500) and European (EuroStoxx 50) market indices. In contrast, the bottom decile value destroyers (i.e., a portfolio of the 10% worst performers in long-term ROIC-WACC spread) clearly underperformed the major indices over the long term with a negative 10-year total return.



Efficient capital strategies drive higher long-term shareholder returns

Total shareholder return (%) per ROIC category over the last decade, 1st quartile (left bound) - median (middle line) – 3rd quartile (right bound)



The top decile of value creating companies has delivered an annualized TSR of 13.5%, surpassing the market's 11.1% annualized total return (S&P 500) and, by a wide margin, the bottom decile value destroyers who had a -2.0% annualized total return over the same period.

The message here is that disciplined capital allocation, leading to high long-term and steady economic profit, can yield market-beating returns, even in a mature low-growth industry with significant operational and financial challenges. Companies seeking to emulate this success must adopt a proper approach to investment decisions, prioritizing projects with high expected ROIC and divesting from underperforming assets. This involves not only financial analysis but also strategic alignment with industry trends, such as the growing demand for digital solutions and sustainable practices.

Top value creators[1] consistently outperform the market over the long term

Daily total shareholder returns for **top decile** and **bottom decile** European food value creators (equally weighted) vs. **European** and **American** markets, in %

The relationship between a company's efficiency in utilizing its capital and the returns it delivers to shareholders is vividly illustrated in the dispersion of TSR across different ROIC segments in the European food industry from 2015 to 2024. By categorizing firms into high, medium, low, and negative ROIC groups, a clear gradient emerges, revealing not only the rewards of capital efficiency but also the perils of inefficiency.

- High ROIC firms demonstrate a remarkable range of TSR outcomes, from 38% in the 1st quartile (left bound) to an extraordinary 208% in the 3rd quartile (right bound). This wide dispersion suggests that while high ROIC sets a strong foundation for superior shareholder returns, factors such as strategic execution, market positioning and operational agility can amplify these gains.

- In contrast, firms with low ROIC firms (0–5%) show a mixed picture, with TSR spanning from -43% (1st quartile) to 79% (3rd quartile), indicating that while some manage to achieve positive returns, many struggle under the weight of inefficient investments. Interestingly, half of the low ROIC companies did not manage to generate a positive TSR.

- Finally, companies with negative ROIC consistently deliver negative TSR, underscoring the severe consequences of failing to generate adequate returns on capital.

4.4 Value (Creation) at Stake: An Industry Reality Check

Despite some companies excelling, 63% of European food companies did not manage to build any long-term value, with negative median ROIC-WACC spreads. In other words, **more than 6 out of 10 European food companies did not succeed in creating any value over the last 10 years.**

While every company has its own story, common causes often generally include overinvestment in low-return projects, paired with proportionally overleveraging and lack of strategic clarity. Again, a testament that underscores the need for disciplined capital allocation, focusing on high-return opportunities.

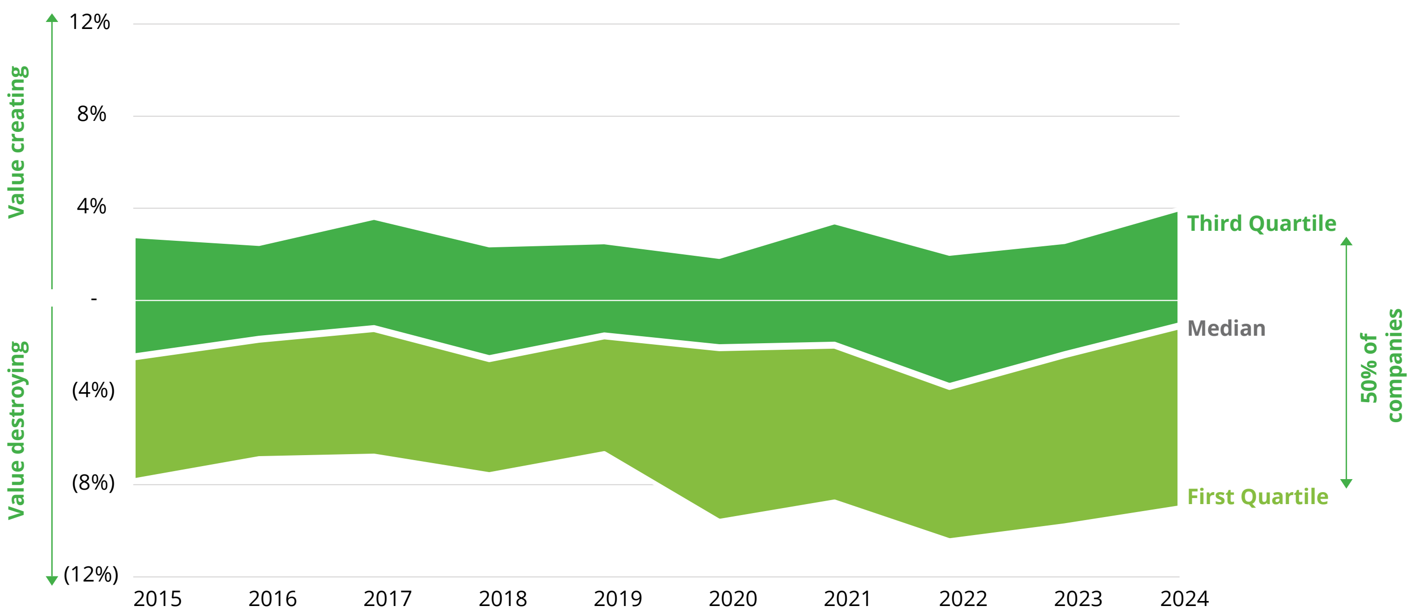
4.5. Value Creating Pioneers: Inside the Industry's Champions

A table of the top 10 average value-creation firms (by market-cap category) spotlights those that sustained the largest positive ROIC–WACC spreads.

Among the standout performers, Domino's Pizza Group PLC (i.e., related to its UK and Irish stores), who exemplifies the power of effective capital allocation with a remarkable long-term value creation spread of approximately 24%. Domino's success is rooted in its franchise-based business model, which minimizes capital intensity by shifting store ownership and operational costs to franchisees. This structure allows Domino's to generate high-margin revenue from royalties and supply chain sales, which contribute substantially to revenue but require minimal additional capital investment. The company's strong brand and dominant market position in the UK and Ireland further enhance its profitability, enabling economies of scale in marketing, supply chain management and technology investments. Domino's recession-resistant business model — pizza being an affordable dining option — ensures stable demand, even during economic downturns, supporting consistent cash flows and high ROIC. Strategic investments in digital ordering platforms and delivery optimization have further bolstered efficiency without requiring massive capital outlays, cementing Domino's position as a value creation leader.

63 % of European food companies did not create value[1]

Value creation in the European food industry over the last 10 years, 1st quartile - median - 3rd quartile



[1] On average over the last 10 years

Top long-term average value creation performers per market cap category[1]

Rank	Large caps – Company	Large caps – ROIC	Mid caps – Company	Mid caps – ROIC	Small caps[2] – Company	Small caps[2] – ROIC
1	Compass Group	8.9%	Axfood	16.9%	Domino's Pizza Group	24.1%
2	Diageo	7.8%	Dino Polska	12.3%	Zwack Unicum Nyrt.	18.0%
3	Nestlé	6.7%	Sal Mar	11.8%	Nichols	14.7%
4	Jerónimo Martins	6.2%	Royal Unibrew	11.4%	ADM Hamburg	14.3%
5	Carlsberg	5.1%	Greggs	9.8%	Fevertree Drinks	12.5%
6	Kerry Group	3.7%	Lotus Bakeries	7.6%	S.C. Vinalcool Arges	9.2%
7	Coca-Cola HBC	3.5%	Mowi	7.4%	Olvi	9.0%
8	Koninklijke Ahold Delhaize	3.2%	B/F Bakkafrost	7.2%	A.G BARR	7.5%
9	Coca-Cola Europacific Partners	3.1%	AAK	6.6%	Hawesko Holding	5.6%
10	Chocoladefabriken Lindt & Sprungli	3.0%	Cranswick	5.8%	Acomo	5.3%

[1] For companies with at least 10 years of positive EBIT.

[2] For small caps above € 10 million in market cap as at Dec '24.

5. Conclusion

Throughout this paper, we have shown that capital allocation lies at the heart of sustainable value creation in the European food industry. In the context of a mature industry and availability of clear strategic options, too many companies remain locked into familiar spending patterns and consequently aggregate returns on invested capital have often remained mostly under the cost of capital, leaving more than half (63%) of firms destroying value rather than building it.a

Breaking ROIC into its two core drivers — NOPAT margin and invested capital turnover — revealed dual paths to competitive advantages. Cost leaders have leaned into scale, automation and streamlined supply chains to drive high turnover at low margins, while differentiators have invested in premium brands, R&D and quality assurances to secure higher profitability per euro of sales.

A clear link emerges between appropriate capital allocation and market outcomes. Firms that consistently create value enjoy richer valuation multiples and translate those advantages into stronger total shareholder return performance, well above the S&P 500 and EuroStoxx 50 benchmarks. By contrast, companies that fail to reallocate away from low-return assets or underinvest in their core strengths see both their profitability and market valuations suffer over time.

The path forward is straightforward in principle, though challenging in execution:

01. Measure precisely: adopt consistent ROIC frameworks, fully capturing the projected investments and cost of capital.
02. Benchmark rigorously: compare returns not only across peers but across sub-segments and business units to identify over- and under-earning assets.
03. Reallocate dynamically: shift capital from underperforming operations into the highest-return projects, whether that means capacity upgrades, targeted M&A or brand innovation.
04. Maintain financial flexibility: match funding sources to investment horizons, keeping leverage at prudent levels to seize opportunistic acquisitions or ramp up growth when conditions are favorable.

In an industry defined by mature markets and margin pressure, disciplined capital allocation stands out as a critical driver of success. Companies that master transparent, data-driven frameworks — rigorously assessing capital efficiency and redirecting resources to high-return opportunities — unlock higher ROIC, resilience and lasting shareholder value. Navigating this complex landscape requires deep insight resulting from capital allocation frameworks that link strategy to financials. Moreover, the effectiveness of these strategies hinges on disciplined execution and vigilant monitoring to ensure that capital allocation decisions translate into value creation. For those looking to sharpen their capital efficiency and secure a competitive edge, the path forward lies in exploring these proven strategies further.

Get in touch with us to learn more

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