greencore group

Results

For the half year ended 30 March 2018

DISCLAIMER – FORWARD LOOKING STATEMENTS

Certain statements made in this document are forward-looking. These represent expectations for the Group's business, and involve risks and uncertainties. The Group has based these forward-looking statements on current expectations and projections about future events. These forward-looking statements may generally, but not always, be identified by the use of words such as "will", "anticipates", "should", "expects", "is expected to", "estimates", "believes", "intends" or similar expressions.

By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future and reflect the Group's current expectations and assumptions as to such future events and circumstances that may not prove accurate. A number of material factors could cause actual results and developments to differ materially from those expressed or implied by forward-looking statements

You should not place undue reliance on any forward-looking statements. These forward-looking statements are made as of the date of this presentation. The Group expressly disclaims any obligation to update these forward-looking statements other than as required by law.

AGENDA

OVERVIEW
Patrick Coveney, CEO

FINANCIAL REVIEW
Eoin Tonge, CFO

STRATEGIC & OPERATING UPDATE
Patrick Coveney, CEO

Q&A

OVERVIEW

Patrick Coveney, CEO

KEY MESSAGES

- Challenging first half for the company and shareholders
- Strong underlying revenue growth across the Group
- Reviewed and refined US strategy and organisation
- Improving cash generation as strategic capex normalises
- FY18 EPS guidance reiterated

SUMMARY H1 PERFORMANCE (1/2): US DIVISION

Features

- Good growth, but profitability behind expectations
- Strong momentum in former Peacock Foods business
- Significant performance and utilisation challenges at several 'original' sites

Actions

① Refined strategy to capture Branded Food Partner opportunities

② Delivered new business wins

③ Tightened commercial development pipeline

④ Rightsized manufacturing network and initiated sale process for Rhode Island facility

⑤ Strengthened leadership team and enhanced capabilities

SUMMARY H1 PERFORMANCE (2/2): UK DIVISION

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Features

- Strong growth, especially in Food to Go
- Challenging market conditions in Q2
- Mitigating cost inflation
- Evolving UK grocery industry

Actions

① Deepened leadership in food to go market

② Delivered demanding manufacturing network investment programme

③ Deployed productivity programme with up to £15m gross benefit

④ Sold Hull facility; progressing plan for Q3 exit of Evercreech

FINANCIAL REVIEW

Eoin Tonge, CFO

P&L SUMMARY[1]

£m	H1 18	H1 17	Change (as reported)
Group Revenue	1,238.5	1,010.3	+22.6% (pro forma +7.1%)
Adjusted Operating Profit	59.7	55.3	+8.0%
Adjusted Operating Margin	4.8%	5.5%	-70bps
Adjusted Profit Before Tax	47.2	44.7	+5.6%
Adjusted EPS (pence)	5.5	6.3	-12.7%
Basic EPS (pence)	0.3	1.7	-82.4%
DPS (pence)	2.20	2.10	+4.8%

[1] The Group uses Alternative Performance Measures ('APMs') which are non-IFRS measures to monitor the performance of its operations and of the Group as a whole. These APMs along with their definitions are provided in the Appendix

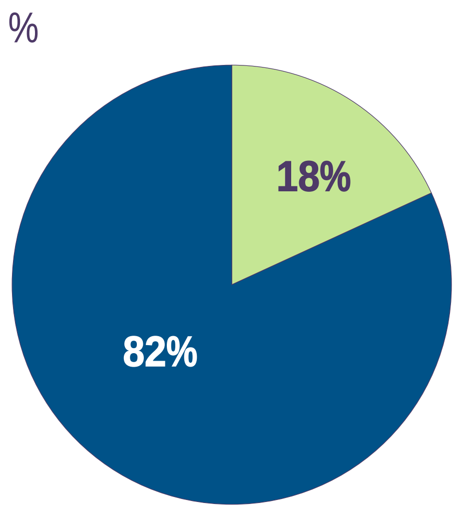
CONVENIENCE FOODS US

£m	H1 18	H1 17	Change (as reported)	Change (pro forma)
Revenue	503.6	324.6	+55.1%	+5.8%
Adjusted Operating Profit	12.6	8.5	+48.2%	
Adjusted Operating Margin	2.5%	2.6%	-10bps	

- Good overall revenue growth despite declines in original part of the business
- Adjusted Operating Profit growth impacted by the challenges in original part of the business
- Ceased production at Rhode Island on 25 March 2018

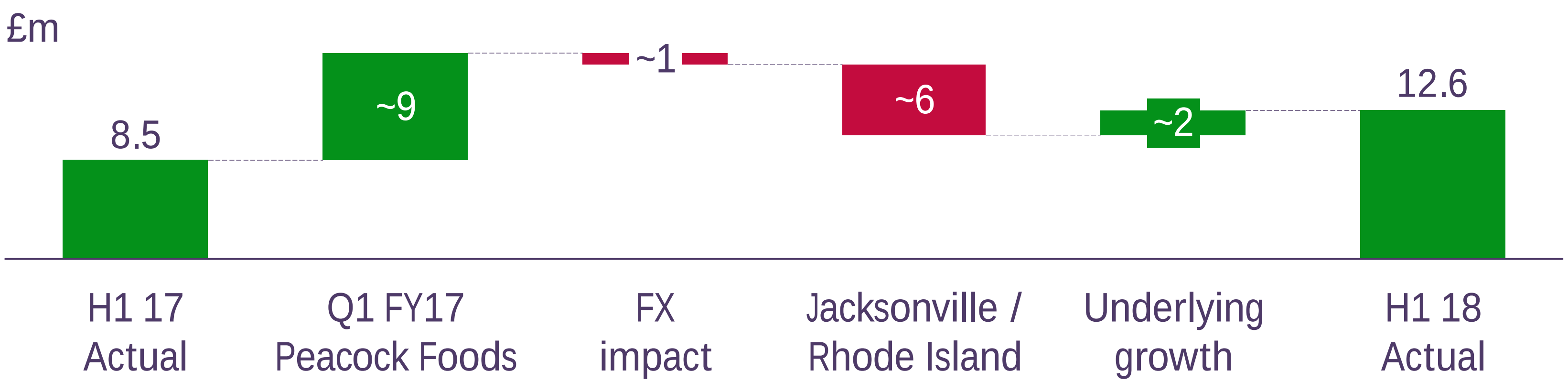
CONVENIENCE FOODS US

Share of US revenue



Pro Forma Volume Growth components

Adjusted Operating Profit bridge



CONVENIENCE FOODS UK & IRELAND

£m	H1 18	H1 17	Change (as reported)	Change (pro forma)
Revenue	734.9	685.7	+7.2%	+8.2%
Adjusted Operating Profit	47.1	46.8	+0.6%	
Adjusted Operating Margin	6.4%	6.8%	-40bps	

- Strong revenue growth with Food to Go pro forma growth of 9.5%
- Conversion of volume growth offset by ready meals margin and adverse weather
- Hull disposal completed and exit from Evercreech on track

EXCEPTIONAL ITEMS

£m	H1 18	Cashflow* H1 18
US network rationalisation	(25.8)	(0.2)
Exit from cakes & desserts	(15.0)	(1.1)
Integration and reorganisation	(11.6)	(8.7)
Pre-commissioning / Start up costs	(0.7)	(0.7)
Total pre-tax	**(53.1)**	**(10.7)**
Tax credit on exceptional items	4.3	-
Tax credit on US rate change	20.6	-
Total	**(28.2)**	**(10.7)**

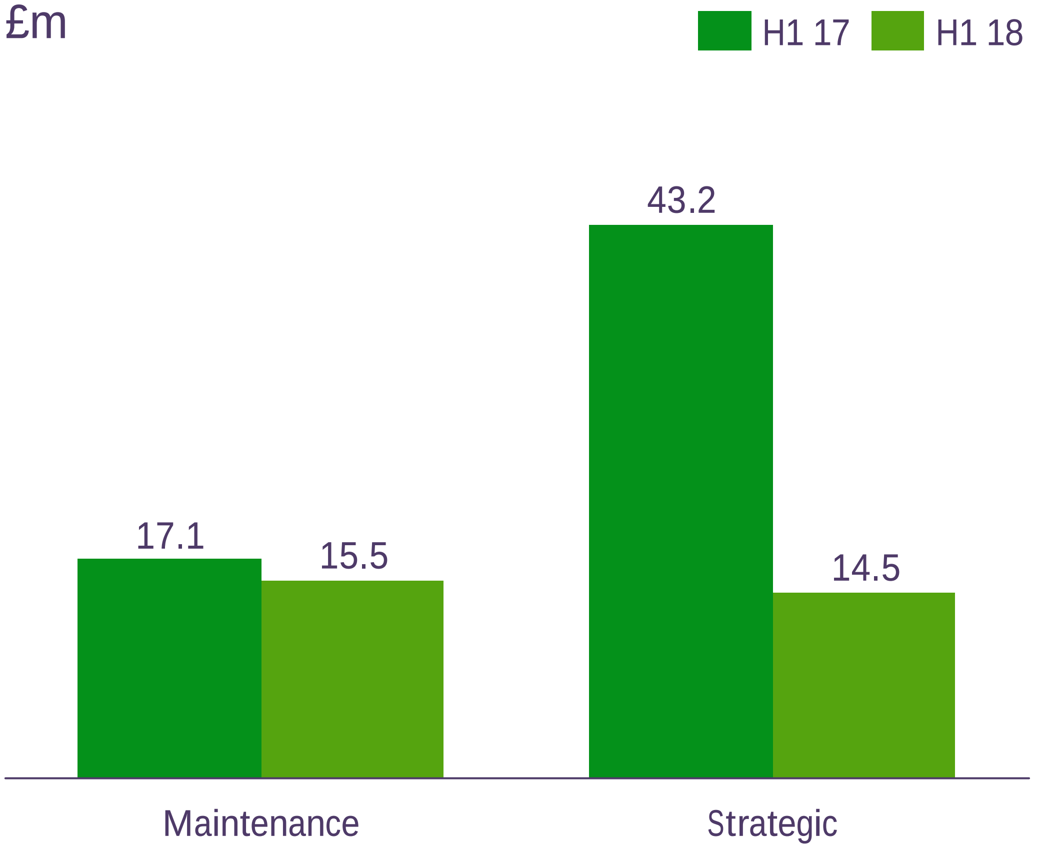
* Up to £5.9m additional cash outflows in future periods

CASH FLOW

£m	H1 18	H1 17
EBITDA	86.5	79.1
Working capital	(26.2)	(20.2)
Maintenance Capital Expenditure	(15.5)	(17.1)
Exceptional cash flow	(13.3)	(19.5)
Other	1.2	2.0
Operating Cash Flow	**32.7**	**24.3**
Strategic Capital Expenditure	(14.5)	(43.2)
Pension, Tax & Interest	(21.2)	(15.3)
Acquisitions & Disposals	-	(602.1)
Shares purchased for EBT	(2.1)	(7.2)
Proceeds from issue of own shares	0.2	427.0
Dividends	(13.0)	(6.1)
Other including FX	14.9	(2.2)
Change in Net Debt	**(3.0)**	**(224.8)**

CAPITAL EXPENDITURE

Normalised level of expenditure



FY16-FY18 strategic investments

- Food to Go capacity
  - Northampton
  - Park Royal
  - Bow
- Direct to Store infrastructure and systems
- Ready meals expansion
  - Warrington (ongoing)
  - Wisbech
- Carol Stream expansion
- Romeoville development

BALANCE SHEET

£m	H1 18	H1 17	Change
Net Debt	(522.2)	(556.6)	+34.4
Net Debt:EBITDA (x)*	2.5	2.7	
Pension deficit (after tax)	(89.0)	(109.9)	+20.9

- Continued focus on cash generation
- Committed debt facilities of £707m, weighted average maturity of 4.1 years
- Pension contributions stable after completion of valuations with trustees
- Further progress towards benchmark leverage ratio of ~2x Net Debt:EBITDA

Return on Invested Capital: 9.7% - a structural low point

*Net Debt:EBITDA leverage as measured under financing agreements

FY18 OUTLOOK

Convenience foods UK & I

H2 17 Adjusted Operating Profit of £60.0m

H2 18 drivers

- Strong Food to Go volume growth
- Phased impact of operational efficiency programme

Convenience foods US

H2 17 Adjusted Operating Profit of £24.8m

H2 18 drivers

- Strong growth in Peacock Foods
  - Underlying category growth
  - Impact of new business wins
  - Momentum in salad kits
- Rhode Island closure offsetting Jacksonville volume decline
- FX translation

The Group reiterates its FY18 guidance of Adjusted EPS in range of 14.7p-15.7p

STRATEGIC & OPERATING UPDATE

Patrick Coveney, CEO

STRATEGIC & OPERATING UPDATE

	Core strategic choice	Our execution
US	1 Capitalise on structural growth in food industry outsourcing	2 Reviewed and refined US strategy to deliver on this growth
UK	3 Extend leading position in profitable fast-growing food to go market	4 Deepen commercial relationships and drive sustained profit progression

❶ THERE IS STRONG STRUCTURAL GROWTH IN US FOOD INDUSTRY OUTSOURCING

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Driver	of 47 CPG companies surveyed...
There is **a large, accessible outsourcing market** in the US	**>90%** currently outsource >20% of their production or packaging
This level of outsourcing is **expected to grow**	**>80%** expect outsourcing to grow over the next five years
Customer **relationships are increasingly long-term and strategic** in nature	**>85%** of outsourced production arrangements run for 3 years or more
Customers are seeking **more than just low cost**	Food safety, wider capability and geographic reach also cited, with price less significant for larger customers

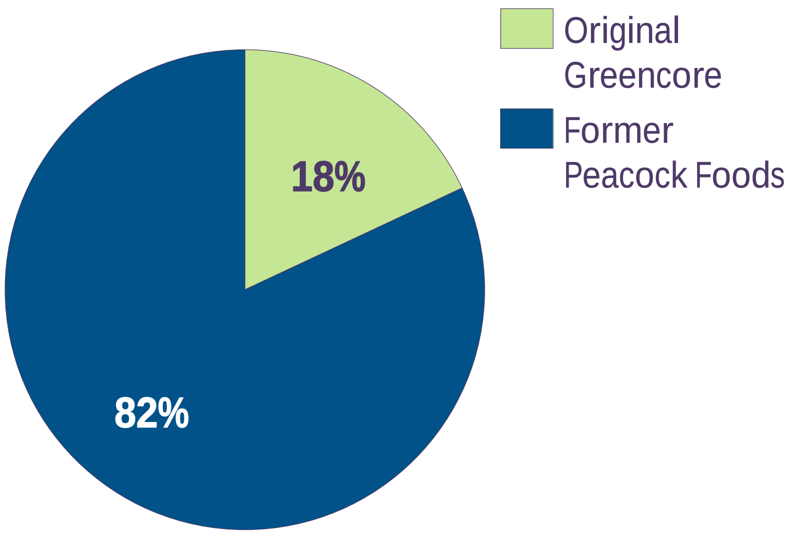
"*CPG companies will need to rework and refine network design more frequently to accommodate the market's rapidly changing needs*": BCG/CMA[1]

Source: Greencore-commissioned survey of 47 US CPG companies, April 2018
1 'How CPG supply chains are preparing for seismic change', BCG/GMA, January 2018

① US BUSINESS SET UP FOR GROWTH AND RETURNS

Share of US revenue

%



Key features

- Long-standing outsourcing partner to Branded Food Partners and selected Retail Partners
- Proven track record of growth with Branded Food Partners
- Deepening positions in growing sandwiches, salad kit and snack kit categories
- Well-invested 13-site network that can deliver across multiple temperature regimes

Large, value-added, assembly-led convenience foods manufacturing business

② REFINED US STRATEGY

	What's consistent	What's reset
Where we compete	▪ Participate in growing convenience food categories ▪ Deliver value-added, assembly-led manufacturing solutions ▪ Offer supply solutions across multiple product temperature regimes	▪ Focus on large, structurally growing Branded Food Partner channel ▪ Selectively participate in 'fresh', but only where scale is possible
How we execute	▪ Create deep, long-term commercial partnerships ▪ Deploy common Greencore Production System ▪ Combine Greencore and Peacock capability ▪ Build deep technical and food safety expertise	▪ Tighten commercial and development pipeline ▪ Right-size production network to match current demand and pipeline ▪ Rapidly embed Greencore Production System to all sites ▪ Heighten focus on near-term returns and capital allocation

② RIGHTSIZED US NETWORK

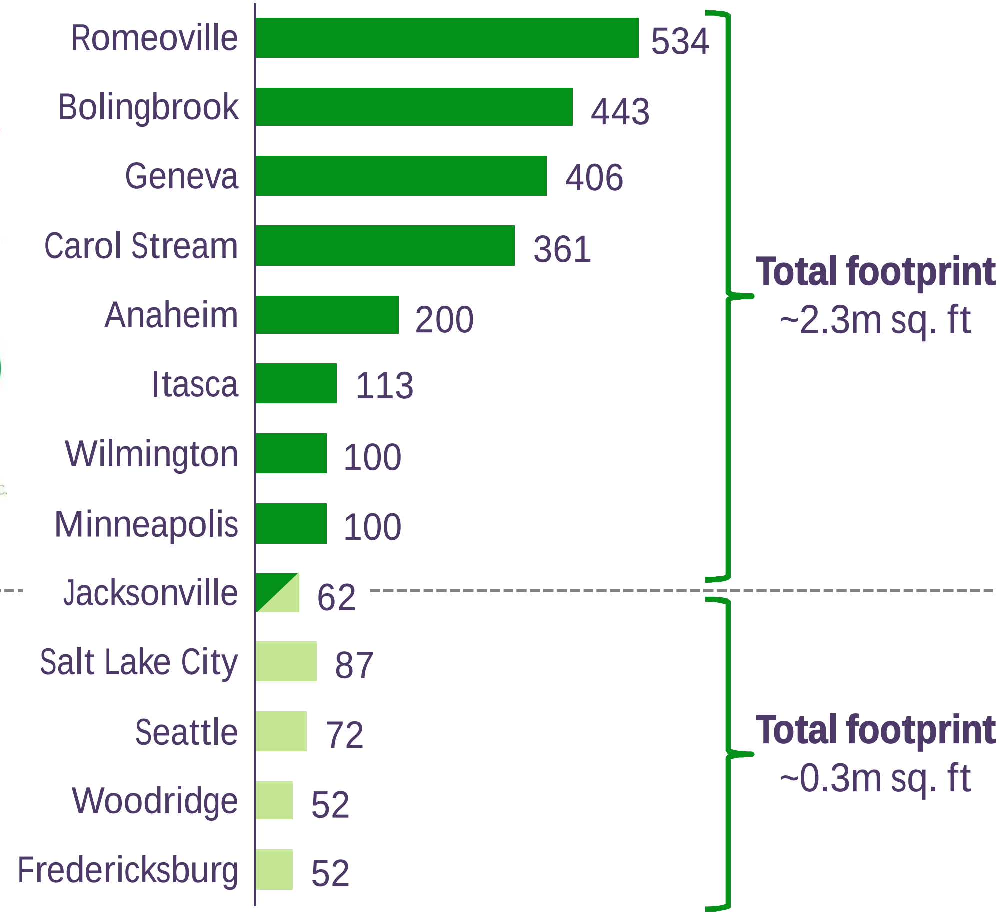
Priority

Drive strong growth with Branded Food Partners

Focus on key Retail Partners

Selected customers

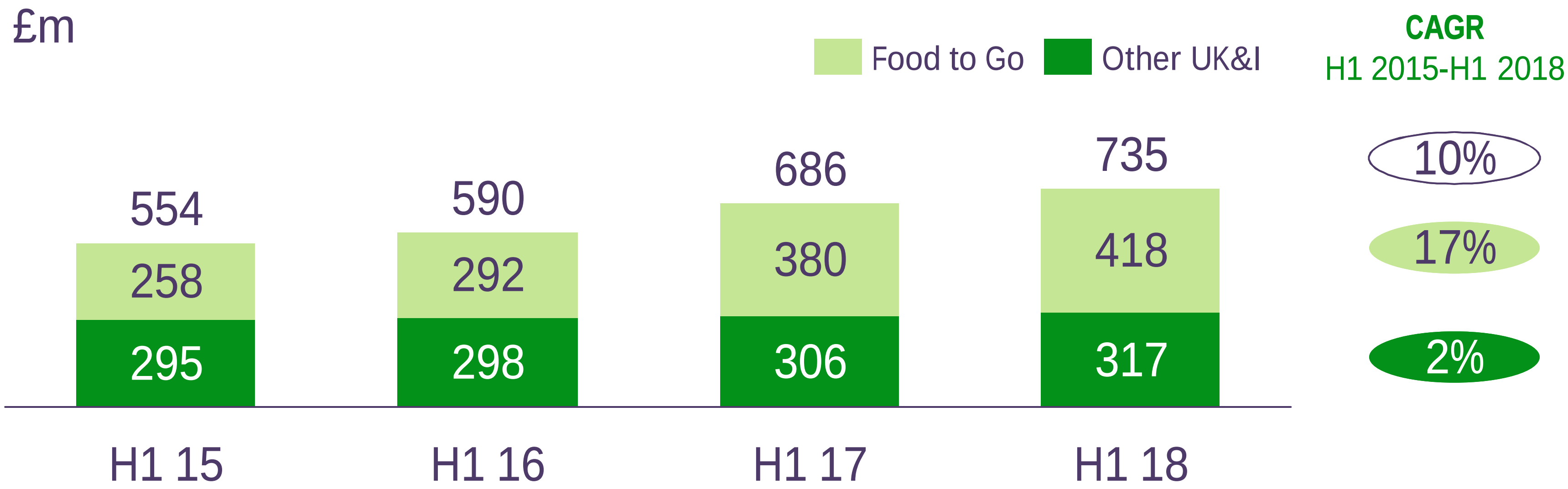
Facility footprint, by size ('000 sq. ft)



Underpinned by The Greencore Production System

③ WE ARE PLAYING IN ATTRACTIVE UK FOOD CATEGORIES

UK&I revenue, by category



Food to go remains exciting part of the food market

- Consumer and channel dynamics continue to drive long-term structural growth
- Strategic importance to our customers, driving footfall and attractive returns
- Recent grocery industry changes strengthen importance of category

④ WE HAVE STRENGTHENED UK COMMERCIAL RELATIONSHIPS

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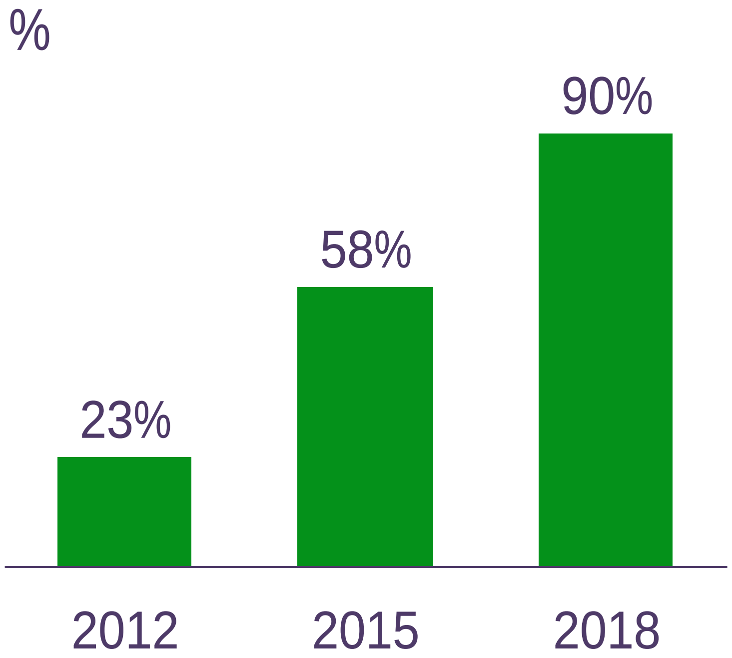
Share of UK net sandwich sales in 3-year + contracts



- Expanded depth and scope of several sole supply arrangements
- Extended contracts with 3 of our 5 largest customers in H1
- Added several new Food to Go customers in new channels
- Well-positioned to manage impact of grocery market changes

4 WE HAVE A PLAN IN PLACE TO DRIVE PROFIT PROGRESSION IN THE UK

STREAMLINING STRUCTURES

Simplified UK organisation

- More compact divisional structure
- Greater consistency of support functions

GREENCORE PRODUCTION SYSTEM

Deploying a common programme to drive labour productivity and waste reduction through:

- Continuous improvement
- Technology enablement
- Project management
- Change management

Combined annual gross benefits projected of up to £15m

CONCLUDING REMARKS

- Diversified convenience foods model; leveraging common skillsets
- Structural growth in underlying UK food to go and US outsourcing markets
- Long-standing and deep customer relationships, validated by multiple ongoing business wins
- Well-invested networks, leading capabilities and focus on operational improvement
- Well positioned to drive profit growth, enhance cash generation and drive returns

Q&A

Patrick Coveney, CEO
Eoin Tonge, CFO

APPENDIX

DEFINITIONS OF APMS

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The Group uses the following Alternative Performance Measures ('APMs') which are non-IFRS measures to monitor the performance of its operations and of the Group as a whole

Pro Forma Revenue Growth

- Pro Forma Revenue Growth adjusts H1 17 reported revenue to reflect ownership of Peacock Foods for the full period and excludes revenue from our Cakes & Desserts business following our disposal of this business in February 2018. Pro Forma Revenue Growth adjusts H1 18 reported revenue to exclude revenue from our Cakes & Desserts business and excludes the impact of the Heathrow acquisition completed in June 2017. These figures are also presented on a constant currency basis

Adjusted EBITDA, Adjusted Operating Profit & Adjusted Operating Margin

- Adjusted Operating Profit is calculated as operating profit before amortisation of acquisition related intangibles and exceptional charges. Adjusted EBITDA is calculated as Adjusted Operating Profit plus depreciation and amortisation. Adjusted Operating Margin is calculated as Adjusted Operating Profit divided by reported revenue

Adjusted Earnings and Adjusted Earnings Per Share (‘EPS’)

- Adjusted Earnings is calculated as Profit attributable to equity holders (as shown on the Group’s Income Statement) adjusted to exclude exceptional items (net of tax), the effect of foreign exchange (FX) on inter-company and external balances where hedge accounting is not applied, the movement in the fair value of all derivative financial instruments and related debt adjustments, the amortisation of acquisition related intangible assets (net of tax) and the interest expense relating to legacy defined benefit pension liabilities (net of tax). Adjusted EPS is calculated by dividing Adjusted Earnings by the weighted average number of Ordinary Shares in issue during the period, excluding Ordinary Shares purchased by Greencore and held in trust in respect of the Annual Bonus Plan, the Performance Share Plan and the Executive Share Option Scheme, and after adjusting the weighted average number of shares in the prior period for the effect of the rights issue and related bonus issue on the average number of shares in issue. Adjusted EPS is also referred to as Adjusted Basic EPS.

Adjusted Profit Before Tax ‘(PBT’)

- Adjusted PBT is calculated as Profit before taxation, excluding tax on share of profit of associate and before exceptional items, pension finance items, amortisation of acquisition related intangibles, FX inter-company and certain external balances and the movement in the fair value of all derivative financial instruments and related debt adjustments

DEFINITIONS OF APMS

Capital Expenditure

- The Group defines Maintenance Capital Expenditure as the expenditure required for the purpose of sustaining the operating capacity and asset base of the Group, and of complying with applicable laws and regulations. It includes continuous improvement projects of less than £1m that will generate additional returns for the Group

- The Group defines Strategic Capital Expenditure as the expenditure required for the purpose of facilitating growth and developing and enhancing relationships with existing and new customers. It includes continuous improvement projects of greater than £1m that will generate additional returns for the Group. Strategic Capital Expenditure is generally expansionary expenditure creating additional capacity beyond what is necessary to maintain the Group's current competitive position and enables the Group to service new customers and/or contracts or to enter into new categories and/or new manufacturing competencies

Operating Cash Flow

- The Group calculates Operating Cash Flow as Adjusted Operating Profit plus deprecation and IT related amortisation, share-based payment expense, dividends received from associates, movement in working capital, maintenance capital expenditure, cash outflow related to exceptional items and other movements within operating activities

Net Debt

- Net Debt comprises current and non-current borrowings less net cash and cash equivalents

Return on Invested Capital ('ROIC')

- The Group calculates ROIC as Net Adjusted Operating Profit After Tax ('NOPAT') divided by average invested capital. NOPAT is calculated as Adjusted Operating Profit plus share of profit of associates before tax, less tax at the effective rate in the Condensed Income Statement. Invested Capital is calculated as net assets (total assets less total liabilities) excluding Net Debt and the carrying value of derivatives not designated as fair value hedges, it also excludes retirement benefit obligations (net of deferred tax assets). Average Invested Capital is calculated by adding together the invested capital from the opening and closing balance sheet and dividing by two

TAX RATE RECONCILIATION

	H1 18			H1 17		
	Pre Exceptional	Adjustments	Adjusted Earnings	Pre Exceptional	Adjustments	Adjusted Earnings
Adjusted Operating Profit	59.7	-	59.7	55.3	-	55.3
Amortisation of intangibles	(11.0)	11.0	-	(7.9)	7.9	-
Finance costs[1]	(13.1)	-	(13.1)	(11.2)	-	(11.2)
Pension financing	(1.7)	1.7	-	(2.0)	2.0	-
Taxable earnings	**33.9**	**12.7**	**46.6**	**34.2**	9.9	**44.1**
Taxation	(3.8)	(3.4)	(7.2)	(2.7)	(3.1)	(5.8)
Tax rate	**11%**		**15%**	**8%**		**13%**

1 Excludes pension financing, FX on inter-company and certain external balances and the movement in the fair value of derivative financial instruments and related debt adjustments expensed

THE GREENCORE WAY DESCRIBES WHO WE ARE AND HOW WE SUCCEED

people at the core

Keep people healthy and safe

Respect, recognise and reward everyone's contribution

Ensure responsibility is owned by the right people

Support one another to fulfil each person's potential

Build a sense of excitement and fun into the work environment

great food

Deliver industry leading food safety standards every day

Put great tasting food at the heart of our culture

Continuously innovate food recipes and technologies

Establish industry recognised food expertise and credibility

business effectiveness

Drive growth and performance with and for our customers

Operate as a lean enterprise - right across the supply chain

Align our resources to our strategy

Maintain control and discipline across the business

cost efficiency

Embed the importance of cost efficiency

Develop a constant pipeline of cost initiatives across all parts of our business

Challenge the status quo to deliver substantial value for all stakeholders

Share a strong sense of personal responsibility and care for all Group resources

IR CALENDAR & CONTACT

Q3 Trading Update	31 July 2018
FY18 Financial Year End	28 September 2018
FY18 Full Year Results	4 December 2018
Q1 Trading Update	29 January 2019
Annual General Meeting	29 January 2019

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