Greencore Group Plc Interim Results H1 2019

Tuesday, 21st May 2019

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Welcome

Jack Gorman

Head of Investor Relations, Greencore Group Plc

Okay, good morning, let's begin. Good morning to everyone here in the room and on the line. You're all very welcome to Greencore's Results Presentation for the Half-Year period ended March 2019. My name is Jack Goreman, Head of investor Relations at Greencore. I'm joined on the stage here today by Patrick Coveney, our Group CEO and Eoin Tonge, our Group CFO. Before we begin, just a few housekeeping items. For those in the room you'll find on your seat a copy of the presentation that we're going to go through today. And for those not in the room the presentation is available online or via the webcast on the IR section of our website. I would also draw your attention to the forward-looking statements on slide two and the agenda for this morning's presentation that's outlined on slide three.

So with that, thank you and I'll hand over to Patrick Coveney, our CEO. Thanks.

H1 19 Highlights

Patrick Coveney

CEO, Greencore Group Plc

New introductions

Thanks Jack and good morning everybody. And just before jumping into the presentation I just wanted to make a couple of other introductions. We've got for those of you who are in the room afterwards our Chairman, Gary Kennedy is here and several members of our Senior Management Team. And also our newest Board member, Peter Haden, who we announced onto our Board today. And, you know, those of us – those of you who know us, you know, we have a really ambitious growth orientation in terms of what we're trying to do with the business. And Peter's played a big part in that and we're just delighted actually as a Board, and Eoin and I in particular as the existing executive directors, are delighted to welcome Peter onto our Board and into the revised role of Group COO that he's going to take on. And he'll give us a real leadership platform to take the business forward and Peter you're very welcome. And for those of you who don't know him pop up and say hello afterwards.

Agenda

Right, in terms of what we're going to do this morning, Eoin and I are going to go through the results and we'll focus on the performance but also some of the really interesting capital structure reset work that we've undertaken as we've exited the US business. And then I'm going to come back in after he's done that to describe some of the operating highlights from the first half of the year but also to talk about how we're thinking about the strategic agenda as we go forward.

Key Messages

Good performance in H1

In terms of key messages and for those of you following on the conference call I'm on slide five here. We've had a good performance in the first half, we think in every respect. Eoin will run through each of those financial metrics for you in more detail but we've had good revenue growth, good profit growth and a good margin progression, strong earnings per share growth and a strong increase in the interim dividend. And Eoin will explain how all of that links together over the next little while.

This has also been a six-month period or maybe even a nine-month period since the start of the year that has been quite dramatic for us over the course – over the course of this period. And indeed sometimes I think to do this job you have to move on quickly and forget about some of the things and [inaudible] that happened in the past. But it actually is in this first half that we announced and then executed the sale of our US business and following on from that that we announced and then executed at the end of January the very largescale share buyback of over £500 million of Greencore stock that we bought back. So there's been a lot of reset activity through that period that's also resulted in us reducing both our level of indebtedness and our level of leverage, and we think sets our business up very, very well in terms of balance sheet, resources and momentum to progress the strategy of our business.

Focused strategy

It's important that I just say a couple of comments about our business because I think sometimes with all of the portfolio change just the scale, the quality, the growth prospects, the role within the UK food market and indeed more broadly UK society, that our business plays and the exciting new stuff that we're working on is sometimes missed. And we as a Board spent a good portion of this financial year so far and in particular the kind of January through April period really stepping back and looking hard at how do we evolve our strategy in the UK? How do we think about the best way to complement what we've already done and accelerate the growth and returns profile of our business? And I'll touch on that more when I come in after Eoin. And indeed I'll touch on that more through the remainder of this year because hopefully you will see and hear a consistent narrative in terms of what we're doing through this announcement, through our Q3 trading statement, through the Capital Markets Day that we're scheduling at the end of September and then into our results, with a very, very consistent level of theme – a consistent set of themes on how we're thinking about growth, how we're thinking about returns and how we're thinking about combining what we do with the organic growth prospects of our core business. And in terms of really how we complement that over time with M&A opportunities as well.

The three themes that I'll touch on in that context are, one, just the real criticality of being in the right part of the market, being where the growth is, being where the excitement is, being in the parts of the market where your products and your proposition really matter both to consumers and to the customers with whom we trade. Secondly, how we are evolving our go-to-market model, building on some of the strengths that we have spoken about for much of the last decade. But really refining our model over the course of the last 18 months in terms of our structures, in terms of our capability programmes, trying to enhance and embed a sustainable and replicable model for driving growth, productivity and consistency of returns. And then thirdly, touching on how we're thinking about broadening our proposition within the

Food to Go market, at what additional product areas can and should we be in, at what additional channel areas can and should we be in and what new capabilities do we need to complement what we're already doing to capture growth and returns in those parts of the market.

So I'll come back in after Eoin has run through the results to talk about each of those opportunities and I look forward to doing that. Eoin?

Financial Review

Eoin Tonge

CFO, Greencore Group Plc

H1 19 Financial Highlights

Strong pro forma revenue growth

Thanks Patrick and good morning to everyone here in London and to everyone on the line. So as Patrick has said, we're very happy with our performance in the first half and indeed the shape of the Group now that we have exited the US. The Group has now lower debt, lower leverage and a higher returns profile, overall a strong foundation from which to grow. The key highlights from the period are listed on slide seven. So once again we had strong overall pro forma revenue growth, 5.4%, led by our Food to Go categories.

Profit progression on track

Albeit we had modest adjusted operating profit growth in the half, profit progression is on track. We are continuing embedding our excellence programmes.

Reset balance sheet

Overall we have transformed the balance sheet with a full reset post US disposal, which of course completed in the period at the end of November. This included the £509 million return of capital to shareholders through the tender offer which is executed at the end of January. I will take these highlights all in turn in the next few slides.

H1 19 P&L Summary

Before I do, I'm just going to go through some of the highlights from the income statement on slide eight. For continuing operations group revenue fell by 4.6% in reported terms. The decline due to exit from our cakes and desserts businesses last year and the phasing out of our longer-life ready meals manufacturing at the Kiveton site this year. There was also a very modest impact from the implementation of the new IFRS 15 accounting standard. Adjusting for these, pro forma growth is 5.4%, which I mentioned.

Despite the fall in reported revenue, adjusted operating profit advanced moderately in the period to £44.7 million with adjusted operating margin increasing to 6.4% reflecting an overall improved mix following the business exits. Group operating profit was very similar to adjusted operating profit with a large increase year-on-year primarily due to the significant reduction in exceptional items. The only exceptional at this level in the P&L is the £3 million charge relating to the GMP equalisation that most UK defined benefit pension schemes have had to adjust for.

Adjusted EPS, which includes contribution from both continuing and discontinued operations, the latter for two months, grew strongly by 16.4% to 6.4 pence. Much of this driven by a reduced financing charge following the disposal and a reduced number of shares following the tender offer. To put this into context, if you imagine that the US disposal and the capital restructure happened at the beginning of the period the adjusted EPS would have been about 7 pence.

We reported an overall exceptional credit of £28.8 million in the first half. Other than the £3 million GMP equalisation charge, the other exceptional items all relate to the US disposal with a £56.7 million credit to the profit on the disposal itself and a £25.4 million charge relating to the debt restructuring post the disposal. When work back in this net exceptional credit basically EPS was up considerably year-on-year to 10.5 pence. On dividends we're delighted to say we're increasing our interim dividend per share by 11.4% to 2.45 pence in line with our progressive policy.

Strong Pro Forma Revenue Growth

So, on slide nine, where I'll just focus on revenue performance in particular, as discussed pro forma revenue for the continuing business was 5.4%, an excellent performance in a period still characterised by continued intense retail competition, in particular in that period, a high street consumer that remained cautious, especially given the Brexit uncertainty and by ongoing inflationary pressures.

Of this 5.4% pro forma growth, there was 7% in food-to-go categories and 2.8% growth in the other convenience categories. Revenue from food-to-go categories was £447 million in the first half, accounting for 64% of group revenue. The 7% growth was broadly balanced between underlying product revenue growth and growth in the revenue of the distribution of third-party products. The latter grew strongly again in the first half, benefiting from the annualised impact of business wins secured during FY 2018.

Product revenue growth continued to outperform the market. The rate of growth did improve as the period progressed, particularly as we didn't have the repeat of the significantly adverse weather from last year in the second quarter period.

We continue to make excellent progress in these categories, which are focus areas for growth for all of our customers. In our other convenience categories, pro forma revenue growth was driven by our ambient cooking sauce business, as we won share in a market where own-label penetration continues to increase.

In ready meals, pro forma revenue was broadly unchanged and there were modest advances across the rest of the portfolio.

Profit progression

Turning to slide ten and a focus on profit, in the first half, as I said, we generated modest profit growth as measured at adjusted EBITDA and adjusted operating profit levels. Drilling into that performance a little bit, for food-to-go categories in the period, both volume growth and a strong overall operational performance helped us generate good profit growth. This continues the trend seen in the second half of FY 2018. This was offset by the impact of the network reset in our ready meals business, now that we are in full production in the refurbished Warrington facility and have phased out longer-life ready meal production at our

Kiveton site. Together, these completed initiatives set us up nicely for future growth in that category.

There were modest advances in profit elsewhere in the business. Raw materials and packaging inflation was a little lower than previously reported, at just over 1%. Direct load from inflation was approximately 5%, as anticipated. We continue to make really good progress in our excellence and efficiency programmes across the group and Patrick will share further detail on these programmes in a bit and how they play such a critical element of our future strategy pathway.

In summary, we were very happy with the profit performance in the first half. I have to note, as always, that this was the seasonally less significant period for the group but is in line with overall expectations for the year.

Normal H1 free cash flow also impacted by US disposal

So, moving on from profit to cash flow on slide 11, right, there's a lot more than usual going on given the disposal of the US so I thought it would be useful to go through the components in a little more detail this time.

The slide outlines how we define free cash flow. In the period, we had an outflow of £19.4 million, albeit impacted by the final US cash flows, which I'll come to. Walking through the free cash flow, we start with adjusted EBITDA from continuing operations of £52.5 million. Working capital in continuing operations was an outflow of £30 million, a little higher than we would typically see at this time of year, in large part reflecting a modest outflow relating to Brexit planning and the exit of ready meals from Kiveton. Maintenance CAPEX was £12.8 million, in line with plan. It's worth noting that exceptional outflows of £7.7 million all related to prior-year charges. Interest, tax and pensions were all broadly as anticipated, with interest reducing post the US disposal. Overall, we then had a free cash flow of £19.4 million. This included some of the transactional flows from the US. In free cash flow, this amounted to a net outflow of £12.2 million, made up of EBITDA of £9.1 million offset by working capital outflow of £21.2 million. This reflects both the unwind of working capital from September and the finalisation of working capital adjustments now completed. This outflow is partially offset by an increase in the considerations discussed on the next slide.

Excluding these US movements, the outflow in free cash flow would have been £7.3 million. This was broadly in line with last year for continuing operations, with a lower level of exceptionals and reducing interest offset by the modest increase in working capital.

Similar to the profit comments, the first half is typically the less cash-generative half in our business, given the seasonal working capital outflow and of course this year impacted by the US. The second half will also benefit from continued reduction of prior-year exceptional outflows.

Net debt reduced significantly

So, moving on below free cash flow to net debt, I am now on slide 12. Net debt reduced by some £217 million from the end of September 2017 levels. Now, a few items to note here: cash dividends trebled, reflecting the changing of the phasing of past payments. In essence, both the interim and the final dividend for FY 2018 were paid in the first half to shareholders.

We continued low levels of strategic CAPEX, reflecting the well-invested nature of our manufacturing footprint. US net disposal proceeds were £810.4 million. As I said, this partially offset some of the working capital outflow discussed in the previous slide. These proceeds were used to repay the £509 million to shareholders via the tender offer and the remainder to reduce leverage. This included £12.6 million associated with the termination of swaps following the reshaping of our debt and derivative portfolio.

Overall, we ended the first half with net debt of £284.1 million. A couple of points to note, just before I leave net debt: following our refinancing in January, we now have overall committed facilities of £461 million with a weighted average debt maturity of a very healthy 4.5 years. Our net debt to EBITDA leverage ratio at the end of the first half is 1.9 times. It's important to note that, given the phasing discussed, we are still on track to be at the bottom end of our 1.5–2 times range at year end.

On track to deliver FY2019 objectives

Which brings me nicely to the outlook on slide 13 before I hand back to Patrick. Overall, a very good performance in the first half, which sets us up well. The second half is by far the seasonally more significant period in profit terms and we are confident that we can deliver on our FY 2019 financial objectives and expectations.

The principal features of the second half outlook are as follows. Firstly, continued strong underlying revenue growth, in particular in our food-to-go categories, where the balance of growth is moving back towards product revenues. Secondly, we expect growth in adjusted operating profit, underpinned by the revenue growth as well as improved operational performance for all elements of the business, including some central cost reductions. Thirdly, our free cash flow metrics will be strong in the second half, as EBITDA growth is accompanied by working capital inflows, continued low levels of CAPEX, lower exceptional items and lower interest charges year on year, leaving net debt to EBITDA at the bottom of our range.

And finally, we expect to continue to have a strong returns profile, broadly in line with last year's continuing return on invested capital of 15.6%, as underlying profit growth and the invested capital base, offsets the impact of the moderately higher tax rate experienced in the first half.

So, with that, I'll hand you back to Patrick for the strategic and operating update and I'll pick up some of these themes in the Q&A. Thanks.

Operating and Strategic Update

Patrick Coveney

CEO, Greencore Group PLC

Achieving our strategic priorities

Thanks Eoin. And for those of you following me online, I'm now on slide 15. I think Eoin has given a very good summary of what I would characterise as good performance in line with our expectations in the first half of the year and that's certainly how we anticipate the second half of the year unfolding in terms of performance.

I wanted actually to do a little bit of a kind of step back and then step forward in terms of the strategic direction of our business. For those of you who have followed us for some time, for seven or eight years now, we have had a strong performing, high-growth, strong-returning and we think dynamic and exciting business in the UK with an improving culture, deep customer relationships and an increasing relevance to the food and nutrition requirements of the UK population. What we've done in the first half of this year is to step back from this somewhat and think quite hard about how do we evolve or complement what we're doing beyond the momentum, position and dynamics of the UK business that we have at the moment, particularly conscious that in so doing we have more financial resources, more leadership capacity and more focus that we can bring to bear on driving growth and accelerating returns in our UK business.

In that context, over the next ten minutes or so I wanted to touch on three themes. One: the importance of competing in the right parts of the market and how that governs so much of the portfolio choices that we've made and we continue to make as we go forward. Secondly, to talk about how we're evolving proposition and model in terms of how we're organised and the nature of our proposition to customers, suppliers and consumers in the UK. And then to begin a conversation which we think will play out over the next number of years around how we broaden and extend the product channel and capability profile of our business within the parts of the market that we broadly define as food to go to sustain growth and to accelerate returns as we go forward.

A dynamic UK food market

There is, as always, a lot going on in the UK food market. It's a dynamic market, with many moving parts and within that it contains many different sub-segments, or categories of activity that are going on. What mattered to us for a long time is the structural attractiveness of the immediate consumption of food-to-go parts of the market. And that plays out in a number of different ways: firstly, the growth that's attached to that and what you see on this slide is a combination of the average levels of growth for food-to-go categories, broadly defined, over the last four years and some of the factors that drive that growth in terms of the growth of snacking, the growth of delivery, the growth of at-home consumption, the growth of convenience and that we think will sustain and underpin growth. It is difficult to be absolutely precise about that but our planning assumption is that the underlying level of growth of this part of the market will probably continue to be close to twice the level of growth that you see in the food market overall. So growth is important but it's not the only factor that makes this part of the market attractive to participate in from our perspective.

The second factor – and I willingly concede it's not completely separate from growth is the strategic importance of these categories to our customers. You see that in the role that they play in driving footfall into stores, in driving margin performance, in driving differentiation, one customer to the next. And just to be a little bit more clear about what we mean by that: the nature of the consumer that shops these categories is actually more attractive than the consumer shopping other food categories. It tends to be younger, it tends to be more affluent, it tends to spend more, it tends to be less price-conscious, it tends to be more gender-balanced, it tends to be in and out of the store more quickly. And when you put all that together, it's the sweet spot of what customers are looking for in terms of moving forward their business, their brand loyalty, their differentiation, their returns.

And you see that play out now in a series of interesting new innovations around product and you can see that in the very, very accelerated growth of hot food, other food-to-go offerings beyond sandwiches, the snacking propositions which are borrowed or developing from around the world. Really, really interesting executions around food trends like veganism, free from and that dynamic consumer activity that is playing out in different products and different technologies in stores is very, very important.

The second thing that we're seeing is changes in the channel environment. Those of you who have listened to me for a long time will have heard me talk in the past about the very, very positive match between our capability and the accelerated roll-out of convenience store formats, new stores across our customers. We think that's waning a little but it's being supplemented by very interesting and equally positive dynamics in terms of the technology and capital investment into the existing store estate, in terms increasingly of some of the stronger retail brands in food-to-go being leveraged outside of their own store network and into other store networks. So the announcement yesterday about Co-op and Superdrug, individually modest, would be an announcement of that. Clearly the M&S-Ocado relationship would play to the same space; the Marston's-McColl's supply agreement; the M&S-WHSmith supply agreement. All of that plays to taking strong, interesting, innovative product forms and accessing new outlets going forward. And we think again that will be very important in terms of the growth prospects and the returns prospects of this part of the market.

So the message to take from this is this is the part of the food market that you want to be in and it so happens that in product form today it represents a little over two-thirds of the total revenue of Greencore.

Winning

Of course, whilst just being in the right part of the market is insufficient to generate growth and returns: you have to have a proposition that can win in that part of the market. And again, what you see on this slide is a series of themes that we have spoken about for some time updated for specific developments that happened in the first half of the year.

So it matters a lot to Greencore that we have leading positions in the product categories in which we play. You can see that in our sandwich business, you can see that in our sushi business, you can see that in our Italian ready meals business and you can see that strengthening – and you'll hear me talk more about today and going forward – about what we're doing in the salad market. Because with those market share positions comes a level of influence and a level of scale and a level of partnership with customers to evolve and develop those categories to deliver returns for them and also returns for us.

Specifically in the first half of the year – and Eoin touched on these numbers earlier in more detail – what you saw was us delivering good, maybe even strong, growth, overall on a pro forma basis and in the food-to-go category, 7% revenue growth in the food-to-go part of our business, broadly mixed between – split between products that manufactured ourselves versus products that we actually sourced and complemented our manufactured range into customers. All of that revenue growth was driven by volume, reflecting us selling more product and meeting the needs of consumers and customers in that regard.

We've seen, actually, a lot of activity around product in the first half of the year. And it's really important – it's always been important to us and I think it's important to people in

understanding Greencore just to recognise how important product proposition is in terms of what we're doing. So you've seen, for example – in our core sandwich range, you've seen a set of new premium offerings, our best-ever ranges, premium ranges into our two largest customers. You've seen us actually innovate very heavily around the vegan theme. In fact, about 30% of all of the new product launches in the first half of the year played to the theme of veganism across our customer sets. You've seen us actually focus hard on extending our product propositions in snacking, in salad, in sushi. I'll say more about sushi a little later in this presentation. And the reasons I cite all of that is that, ultimately, if we're going to sustain growth and we're going to sustain relevance, both with consumers and customers, we have to have really great-tasting products and really innovative products and we certainly delivered that in spades in the first half of the year.

It matters a lot to us to have a consistency in terms of our relationship with customers. I feel like I'm a little bit of a broken record in sessions like this talking about contract extension but in effect what we've done is with four of our top-ten customers, we have rolled forward our supply agreement such that we sustain that 4–5-year average forward-contracting period as we roll out across our customer base. So, again, a very significant supply agreement renewal activity in the first half of the year. And then we've focused a lot on building relationships and capabilities that extend beyond physical products: into order management, into distribution, into category insight, into taking more direct ownership and responsibility of food safety, quality, technical standards. Effectively, that responsibility has been outsourced now by many of our customers to us, which leads to a more end-to-end and joined up proposition than might have been the case two, three or four years ago.

A differentiated model

I wanted just to talk for a minute about what I signalled earlier which is around the importance of this differentiated model in terms of what we're doing. I'm conscious that in the way in which we generally and I in particular talk about our business, I've tended to, over the years, focus a lot on customers, a lot on categories, a lot of on consumers in terms of what we're doing. And of course over the – all of those things matter and the proposition that we've put together in terms of how we compete and how we service the market has played very much to those things: to growth, to customer relationships, to consumer insight, to technical standards and food safety and also to cost over the last number of years. And that we have very deliberately in the course of the last 18 months made what we believe to be a pronounced change in emphasis within our business in terms of trying to build a more systematic and more analytic model in terms of how we drive excellence in manufacturing and increasingly excellence in commercial and excellence in purchasing as well. And it plays to the group leadership structure that we put in place last summer. A big, big part of what Peter and his team, in his role, are taking on is trying to get more systematic and more consistent delivery of initiatives right the way across the totality of our estate so that you don't have this divisional emphasis by which we drove performance and capability in the past. Instead, we've got a more consistent, joined up emphasis in terms of how we're going forward.

We started, in FY 2018, in our sandwich sites in terms of doing that and we are working hard now to extend that manufacturing approach, that systematic way of driving excellence in manufacturing across the rest of our food-to-go sites and the rest of our business, such that if

you go to any Greencore site now, same methodology, same way of thinking about it, same commitment, same consistency of how we're driving manufacturing.

To bring that to life a bit in terms of what's different, it's different in terms of people. In less than a year, we've now brought in 50 new roles into our business, focused on continuous improvement and end-to-end, and that is a different skill set. It's a different skill set in three very particular ways. It's much more focused on data analytics, alright? And the analytic capability, the background of the people who are coming in to do these roles in our business, is markedly different from any recruitment that we would have done before. It's much more different than change management, because the only way that analytic skill can actually take root in our business is if we can – if those individuals can work side by side with the factory management teams, the supply chain teams, the purchasing teams, in our business. And thirdly, it's different in terms of orientation around empathy, collegiality, in order to get that done.

So we are really excited about the kind of business, culturally and capability that we're building here. And what will come out of that we think is two things. One, it'll give us an ability to progress margin while taking on board all of the sometimes sighted and sometimes unknown hits that can come to our business, whether that be sustained levels of labour inflation, volatility within ingredient bases. So we think we can at worst maintain our operating margin in the light of all of that but also possibly nudge that forward as we progress through the months and years ahead. And secondly, we think it will give us a bedrock or a foundation to enable us to add other things into our portfolio. So you can't separate the how-to-compete business model, business proposition decisions that we're making, from our growth agenda. I think that's going to be very important as we go forward.

Future strategy

Growth

I want to just touch now on the theme for future strategy that we're working on. I'm sure in doing this and in the Q&A I'm going to be unable to reply to all the questions that you'll have about our business, but we will broaden out this conversation through the rest of this year and into next year and of course by virtue of the actions that we take as a business. But the starting point for our strategy and proposition is that we're about growth and returns. We have always, by which I mean over the course of the last 12 years, valued growth. Not just because it creates excitement and interest and opportunity for our teams, for our customers in terms of what we're doing, but also because we believe in this type of business, if you don't have growth, you don't have relevance. And if you don't have relevance with customers, it's really, really difficult to be right at the heart of the agenda and to be able to sustain returns and margins going forward.

Returns

The second piece of this is we're also about value and returns. We see the platform that we've built, the returns profile that we have, the level of capacity and capability in our business, as giving us a wonderful opportunity to be able to progress returns to equity and with very strong margin, strong cash flows, strong returns to capital as we go forward, and that's very, very important.

Enhancing leadership position

So the core elements of our strategy will be about extending our leadership positions in a broadly defined set of immediate consumption of food-to-go opportunities. That plays to category extension, channel extension and enhanced capability profile to go after that. What I mean by the last bit, just demystifying it a little bit, is we have a conviction that hot eating is going to be hugely important in immediate-consumption food going forward. And in order to get into that, it's going to bring us into technology, equipment, partnership, service, a set of capabilities that we're experimenting with but we know we have to do more with as we go forward.

We can't deliver on that without continuing the momentum that we've got around our replicable, repeatable operating and commercial model that I touched on a minute ago. We anticipate that the core of the value creation in our business will come from the organic growth profile and returns profile of our existing business, but we fully anticipate complementing that with a whole series of inorganic initiatives over the course of the next two, three, four, five years. This will be a strategy, we anticipate, which will deliver value from our core business and complement that with multiple acquisition activities that will play to one or ideally several of product initiatives, channel initiatives and capability initiatives as we go forward.

And of course what's kind of interesting about that is that this isn't just a theoretical or aspirational or what-we're-going-to-do tomorrow plan. If you look at what we've actually done in the first half of the year, we're actually already running against many elements of this. We are rapidly accelerating our proposition in salads. Right, we've added new salad customers around side of plate and we're bring food-to-go salads to market with two of our large customers this summer, which will be completely new in terms of the nature of the proposition that we're bringing to those customers and highly complementary to the salad and sushi range that we have with them. We've actually worked technically to crack something that no one previously had cracked in traditional sushi manufacturing, which is actually the seemingly straightforward task of actually having raw sushi and having that safe and delivered on time with a proposition that works for customers in terms of shelf life, availability and supply chain to get it in and if necessary out of storage to ensure that consumers are safe, but that you are able to get the type of quality sushi in retail stores that you can get in sushi specialists going forward. We think that's really important.

Grocery theatre

We're working on channel extension activity with existing grocery customers. I touched on kind of those themes earlier. The essence of this is that we have a conviction that food store and in-store theatre in grocery stores is going to become more and more important and we need to be relevant to that with ideas, propositions and capability and then enable them to go after that.

New business outside grocery

We've continued to win new business outside of grocery. In [inaudible] with discounters and in food service in ways that are new and additive to our existing business. And as you know, we have a view that in order to access all these opportunities, it's really, really important for us to have a complementary distribution capability. And again, and you've seen a step on our

distribution revenues to enable our customers to go after these opportunities and in a number of cases, where it makes sense, to add new customers to our group.

And as you pull all that together, this combination of organic initiatives and, we think, kind of an unfolding but individually modest M&A agenda, we think sets us up very nicely to be able to sustain growth and drive returns in the months and years ahead.

Conclusion

On track to achieve all goals

So in conclusion then, we are clearly, if you reflect on the last nine months and the first six months of the year in aggregate, a lot has gone on. In terms of the re-step in every sense of exit from the United States, but what's really encouraging here is that our Half 1 financial performance has been good. Exactly in line with what we hoped it would be and our guidance exactly in line with what we hoped it would be when we started the financial year. We think we're on track to achieve the financial, strategic and organisational goals for our business this year and we have an emerging road map within our leadership team and within our board around how we evolve and build growth and value in terms of strategy going forward, which I think sets us up well to progressively build returns to shareholders in the months and years ahead. So thank you very much for listening to us and we're more than happy to take questions now.

Q&A

Operator: If you wish to ask a telephone question, please press star and one on your telephone keypad.

Charles Hall (Peel Hunt): Patrick, you talked about bringing in new technologies, new capabilities, and at the same time expect to at least maintain margins. So are you seeing that as being a steady increase in capabilities, i.e. people and technology, to be able to still deliver the margin, or do you need to go sideways for a bit as you add that expertise before you can proceed further?

And then on the technology front, is this – could you just give an update on where you see CAPEX and particularly with capacity and if you're needing to bring in new technology, do you need additional capacity and resources to do that – deliver on that?

Patrick Coveney: Yeah, if I take the first one and you, Eoin, take the second on CAPEX?

Eoin Tonge: Yeah.

Patrick Coveney: I mean I think the – our intent, Charles, you can never be quite certain month-on-month or quarter-on-quarter in terms of how opportunity's going to unfold. But our plan is to do this in a smooth way, where we're not sitting here talking at a, you know, quarterly or half year about having to take some hit because we've made an investment. And the reason I wanted to cite this specifically as I did, the investment we're making in capability and in continuous improvement and in end-to-end; but you know, the 15 new people we brought into our business that Peter has championed is an example of us doing all of that without making any, you know, song and dance around the impact that has on margin in the period in which we're doing it.

So we think crudely and at a high level, whether it be in terms of margin progression or investment, that would be self-funding, and that's the kind of principle where – that we're planning against in relation to all this. Now, can I give you, like, an absolute guarantee that something won't come up that we would choose to do that would require us to talk differently about that? I can't. But the kind of intent and direction of travel here is that it would be self-funding in all respects.

Eoin Tonge: Yeah, I mean, actually I think the concept of self-funding is probably the right concept to take away, actually. I think that probably the only exception to that is if we do inorganic activity in relation to this. In terms of how to think about margin is kind of a self-funding approach and back to what we've previously said around looking to try and kind of slowly build margin.

And I think it's the same principle from a capital perspective. You know, where there's kind of almost a self-funding element to that as well which is if we can drive new technology, whether it be technology in relation to more effective manufacturing, or different types of manufacturing, which in the case of – in some cases [inaudible], or increase automation. That does reduce some of the existing envelop of capital as well. So we'd expect that capital levels would still continue to be sort of similar levels.

Nicola Mallard (Investec): Nicola Mallard. Can I just ask on distribution business? I think we've previously been sort of indicated that where you've taken it it's been a bit of a step change and you weren't intending to do a lot more of it, but your comments there I read as being perhaps a slightly different take on that, that maybe distribution is a way into new channels. And I guess that comes back to the margin that clearly distribution is a lot lower than manufacturing. So do we need to be aware of or think of distribution differently than we might have thought of a step change and it's washing through the system and that will be it?

Patrick Coveney: Yeah, I mean, I think in aggregate the emphasis on distribution – I'll say more about it specifically in a second – shouldn't have an impact on overall margin. In other words, it's in keeping with this sort of self-funding kind of emphasis on model that we have.

Let me kind of be specific on the kind of stuff that we're doing. So first of all, let's just start with the facts, right? There's – yes, on a standalone basis it's lower margin, but it's actually very strong returns on capital. So it's just important that you – you don't, in this obsession with operating margin, end up concluding that we're doing something that's value destructive. On the contrary it's – the returns to capital are really, really good, even off low operating margin.

But the kind of thing we're doing, so you know, I don't know if you mind my saying this, but by far the largest customer of Greencore is Co-op, right? And our proposition to them is heavily led by what we do in terms of manufacturing, but complemented by the fact that we do a whole series of supply chain stuff, including physical order management and distribution of what are very short shelf-life products, most of which we make but some of which we actually bring in alongside the products that we make. To be very specific, if you look at the food-to-go [inaudible] in Co-op, they are indistinguishable in every respect from the sandwich products in Co-op, except we don't make them – but we do order manage them, we do distribute them, we do co-merchandise them with the food team.

And so as long as they continue to grow more – faster than the rest of the UK food market – which they are doing and which we are delighted with and supportive of – you are going to see our distribution revenue go up, because every single product that's purchased in store by a consumer is actually distributed through a Greencore van.

I don't think, though, that's at the core of your question. The question is, are we adding meaningful new customers and distribution that we're not manufacturing for? And the answer is not really. For – or if we are choosing to do it, it's because we think it gives us a potential [inaudible] over time to be manufacturing as well.

So we're not in the market to have a standalone distribution business. That's not what we want to do. We think it needs to be embedded with our manufacturing and category management proposition to customers, albeit there could be quirks with timing around how things unfold between distribution and manufacturing.

Doriana Russo (HSBC): Doriana Russo at HSBC. I would like to understand a little bit your view on the food-to-go market as such. You mentioned that you are happy to be in a such a growth area of the market, but you also mention that most of the growth that you're having is volume-based rather than price-based. So how do you see that equation evolving over time? Do you think by becoming closer to your customer you will be able to add maybe not price but mix to just straight volume? Because at one point there is only a certain amount of time which you say we can eat. That's my first question.

My second question is coming back to channel. You mentioned that you started selective range distributing to the discounters. How far are you into getting into that part of the sort of food retail market, and where would you like that to be?

Patrick Coveney: Yeah. Eoin, could you do that?

Eoin Tonge: Yeah, sure. I mean, actually, just like the points around mix and price, I think actually that's the really important part of our business, particularly in food to go. I think over the last number of years as we've moved to sell supply in the categories – where all the customers that we supply, what that's really brought is – I mean, people talk about a partnership model, but bluntly both of us are trying to do the same thing, right, which is grow our combined businesses. That's working very closely together on category management to drive the effectiveness of the range from the mix perspective.

So I think there's just quite a lot of huge amounts of both opportunity, but also just recent experience about where we've been able to influence our mix and so on. Maybe less price, but certainly mix. So I think that's a very important part of the business we see in food-to-go.

On discounters, I mean, we trade well with the – both the primary discounters in the UK, both in food-to-go and some other non food-to-go categories. And you know, we've been doing that for a number of years. It's – for us it's a – it's just part of our business now. It almost goes – it's fair to say. I mean, some of their business models have evolved a little bit that they're becoming more like dealing with the rest of the – the rest of the grocery retail, to be fair. So – but they're important customers as part of our portfolio now.

Damian McNeela (Numis): Morning, guys. It's Damian McNeela from Numis. A few from me. Firstly, I think Patrick, you mentioned that the food-to-go market, you'd – your product

revenues had outpaced the food-to-go market in the UK in the period. Can you just give a few more specifics about what the market growth rate is and perhaps where you were, please?

The second question is on hot food. I mean, hot food has been a hot topic for a long time, and it hasn't materially sort of – or you've not really made a big impact as far as we can see in hot food, yet we're still sort of seeing prices like places like Greggs deliver very strong like-for-like growth. What's changed in the marketplace or your view of how to address that marketplace that you think that's an opportunity medium-term?

And then just finally just I hear what you're saying about margins. Can you give us an idea of where you think ROIC might be going on a medium-term view?

Patrick Coveney: Yeah. Okay. The food-to-go revenues. So a lot of this is kind of caught up in industry definition stuff in terms of what the market is or isn't, whether you use Nielsen or IRI data and so forth. But our best sense on a traditional grocery channel basis is that the market was growing at between 1% and 2% and we growing 1 or 2 percentage points faster than that in the first half of the year. And that seeds through, then, to the sort of 50/50 split between manufactured products and distributed products in the 7% food-to-go number that we had. The – but again, there is a big issue there around how you define the addressable market and which people are in and out in that, but that would be our best sense.

In terms of hot food, I mean, I think you are – there are several points that you made that I would violently agree with. The first is that we haven't made much of an impact in it to date, second is that it's a medium-term opportunity rather than it's going to happen overnight. I think what's critical to how we are engaged on that topic is the increased focus that our customer set is now placing on those kinds of propositions, alright. And I need to be a little bit careful of the specific customer on that but we have seen just a very, very significant step up in emphasis around – you know, I made this point on the evolving kind of capex programmes of some of our customers away from the kind of rapid roll out of new to franchise stores towards investing into the proposition in stores. I think you can extend that point to actually things like in-store food service, be it cafes, counters, different – the whole term cafés and all the myriad of different types of propositions. So we see that whole space as being really important to the performance of our customers in the food to go space and our performance serving into them and our view is that thoughtfully put together hot propositions, which will of course be less comprehensive than special food service operators, the thoughtfully put together hot offers will be most particularly for early kind of breakfast or early day products.

Last point in relation to ROIC. I mean, we had, I think, 14.6% with our ROIC in this period. Obviously we make more money in the second half typically than the first, so we'd expect our full-year ROIC to be stronger again than that. This might sound like a strange way of putting it but I think we need to be cautious about aspiring to take the ROIC up too much higher. There's a danger with a WACC of 7.5 or 8% but if you end up fixating on having a high teens ROIC that you turn down value creating opportunities for shareholders. But our best – you know, our best sense as we talk about this kind of self-funding plan broadly defined is that we should have a good chance of sustain or modestly progressing ROIC from that mid-teens number that it's now at on an after-tax basis as we go forward and I think if we can do that in

a way that's very respectful of the equity base that we have, it should feed through to good returns for shareholders going forward.

Jason Molins (Goodbody): Good morning, Jason Molins from Goodbody. Just on the Warrington site, I think you mentioned you're now in full production. Can you just clarify what sort of level of capacity utilisation that site is running at? And overall how do you see the ready-meals category? We've obviously seen some contract share with some of your customers and also your competitors. Just an update, that would be useful.

Second question is around your stranded costs at the time of the US announcement. You called out the level of stranded costs that were in the business. Just an update on how that's progressing and how we should think about that improvement, whether it's second half or next year.

And then just final questions around working capital. Obviously significant outflow on the first half, maybe just drive some of the leavers there and where you expect that to be for the second half. Thanks.

Patrick Coveney: Okay, thanks Jason. I'll – let me touch on the ready meal question and Eoin will address the stranded costs and working capital piece.

Yeah, I mean, we're actually – let me kind of start by giving you kind of a snapshot what is our ready meal business today because it might help. So we have a petty much brand new well invested – very well invested, actually, facility in Warrington that we believe makes the best Italian ready meal propositions in the UK market and that has a very stable customer set centred around one very large customer, which gets a huge proportion of the product that comes out of that site. Our ready meal business for that customer has not been impacted any way by the reasonably high profile set of changes around ready meal supply that's flown through the rest of the market with that customer and that's all I'm going to be comfortable saying in that regard.

Second thing that we have is a second somewhat lesser utilised facility in Wisbech that makes broadly similar products to what we make in Warrington. And you put those two sites together, that is our short shelf life Italian focussed ready meal proposition and it's – in aggregate, it's centred around supplying three customers with a very, very stable positive set of relationships with all three across those two sites. First thing is – goes to what Eoin touched on earlier, which is the rationalisation in Kiveton that he referenced, right. And here, what we have is we had two separate sites that were both doing much longer life ready meals. And what we've observed over the last number of years is that consumers and customers – for the most part wanted to step away from that type of ready meal towards fresher shorter life and typically better tasting products. And as part of that, we've rationalised our network from two sites to one with a – kind of pretty simply seeking to fill up the sites that we have in Consett and come out of the production that we have Kiveton. And so that's why you see the different moving parts. I think importantly, all of that or in particular the two big parts of that completely finished in the first half of the year and are not relevant to the second half going forward. In other words, the on-boarding of all of the new capacity in the new Warrington site has fully unfolded now and the withdrawal effects of Kiveton and the transfers into Consett and this has also fully happened in the first half.

So we actually have – notwithstanding kind of widely discussed across the industry around the ready meal market, we actually had a pretty stable both sort of capabilities and ethnicities that we focus on and customers set that draws from those two different parts of our business. Okay, do you want to…?

Eoin Tonge: Yeah. I mean, Jason, just one final point on ready meals, utilisation isn't kind of a challenge across those two facilities, Warrington and Wisbech. And our overall outlook for the ready meals category, particular our part of it, it's pretty positive now that we've done all of these resets.

On stranded costs, I've got no real news there other than it's progressing well. You know, we've – we set the organisation post the US business. As I said at the back end of last year, we kind of expect to see the benefit of those in the overall cost structure because it's now embedded in the overall cost structure to start to come through towards the end of this year into next year.

And in terms of working capital, I guess there's – obviously, there's two elements of the working capital in the first half of the year. You've got the 21.2 million relating to the US. I think you have to look at that in the context of the overall cash flows for the US, the 810.4 million and indeed some of the FX translation. So that's done. I mean, that will obviously be there for the full year but that's done in terms of the US. And then the other element of working capital is the 13 million outflow. As I said, it's – you know, it's a little bit higher than we typically see at this part of the year. Typically, we do have a seasonal outflow in this first half of the year, which unwinds through the second half of the year. We still expect that to happen. Some of the reasons why it was a little bit higher this year are temporary, which is the Brexit planning. Some a little bit more permanent, which is the small amount of business exits. But in terms of sort of, for want of a better word, guidance on working capital that hasn't sort of changed. We expect on a full-year basis to have a modest outflow for the continuing business.

Cathal Kenny (Davy): Good morning. Cathal Kenny from Davy. Two questions from me, please. Firstly, Patrick, you mentioned new product development, think you mentioned a figure of 30% within the broader category. Just wondering are you seeing greater levels of fragmentation, perhaps maybe a shift away from large process runs towards batch to accommodate, I guess, that rate of churn within the market, particularly with the advent of vegan.

And secondly, just listened to you on food service and the operations on in store over the medium term potentially growing important to Greencore, is that something we should think about in terms of maybe a partnership or maybe an associated different revenue model? Just wondering if you could elaborate on that. Thank you.

Patrick Coveney: Yeah, I mean, on the NPD that spoke about is that we typically have about 30 to 40%. It changed pretty down a little actually but 30 to 40% of all of our SKUs in any given year that year. And what I'm saying is that in the first half of the year, 30% of all the products that came to market were vegan focussed this year, right, which is actually a pretty significant commitment on behalf of our business and our customers to going after what we think will be an enduring theme around food for years and years and years and slightly to build on that and upscale back, that's our judgement.

I mean, I think inevitably there is a healthy tension between the kind of pure operational and manufacturing mindset of wanting to make a smaller number of SKUs as possible but as long – as possible and of course how that can be reflected both in our pricing but also our customers' pricing through to end consumers. And the need to also be able to be kind of sharp and alert to emerging trends, try things, see if there's scale and then – and we try to put together a network to enable us to do that in a sensible a better way that's possible, all right, and I'll give you two such examples.

So one way to think about our sandwich network is that we have a dedicated complex for sandwich and related food to go companies for one of our customers and then we have a five or six other sites that play to the rest of the market. And so in both actually what we have done is to configure either a portion of the campus in Northampton or a particular size, most particularly which can either be Heathrow or Atherstone in the context of sandwiches and we're actually setting ourselves up to be able to do batch production and innovation or regional short [inaudible] like propositions in a way that doesn't compromise the efficiencies you always want to get around core range and some of our larger sites like Manton or Park Royal or [inaudible] and Northampton.

So we're trying to work our way through that. But I think that the principal will be that we have got to keep our business relevant to what consumers want to eat and what consumers want to buy and then find a way of making money on the back of maintaining that relevance. And so you can argue that the modest element of tension, I believe, we're quite pretty well equipped to be able to manage our way through that.

In terms of the food service, I mean, I'm glad that you picked up the nuance of what we were talking about in relation to food service because this is not – and I just want to be – this is not a kind of a Greencore strategy of let's jump all over the food service market. That's not the core of what we're talking about here. What we're looking the view we have from engaging with customers is that serving a theatre in-store will become more important whether that's done through – you'd see this most particularly for example in sushi counters around the UK, which by the way is replicated in many other markets as well.

You also see it in propositions around café, drop-in, convenience. And so what we're looking to do is to really work hard on how we pilot test with the capabilities to help our current customers go after that. With that kind of broad objective, I don't think we're not close-minded to whatever the right business model is to go after that with our customers. I think it's more likely than not but this will be a – we make our money and the manufacture product to establish than I wouldn't close down the other step depending on what it does but the focus is dealing with a principally with existing customers.

Jack Goreman: I think we'll take one more question in the room and we have one question on the call. So we'll take the next question from the room.

Question: Hi. Just a very quick follow-up question. You mentioned the changes that you have adopted in the ready meal business. Do you see any other portfolio changes, any other scope for rationalisation within the food to go business as it stands at the moment?

Patrick Coveney: No, we don't. Now, I mean, try give you a kind of what's your view on that. Where – you could always see modest tweaks in what we're in and out of but the – we

knew we needed to make for a couple of years the change around our network for long life readiness and we got on. We're doing that in the second half of last year.

Having done that and having made the decisions we made last year around cakes and desserts, we actually found a planning perspective. We are really comfortable with the portfolio that we have and actually say that we can grow it from here. The two centre pieces of that are our cooking sauce business and our ready meal business, and we think both are well set up in terms of the network that we now have to build from here and so that would be [inaudible].

Operator: We have a question from Arthur Reeves from Barclays. Arthur, your line is open.

Arthur Reeves (Barclays): Good morning everyone. Thanks for taking my question. It's two parts. Just going back to growth, I think you've said this morning that the growth in half one was volume related. Does that mean that we're not managing to recover the higher input prices? That's my first question. And my second question is could you bring us up to speed at what's happened to growth since the end of the half please? Thank you.

Patrick Coveney: Yeah, hi Arthur. Sorry you're not here in person. It's Patrick answering your question. Yeah, I mean, I think in terms of principally volume-related – in fact Owen[?] is showing right here and you can't see.

Arthur Reeves: No, I can't.

Patrick Coveney: There was actually a very modest uptick in price about half a percentage point of the growth that came from price that's predominantly volume related, so to clarify that. I mean, but also to set that that does not at all imply that we're not recovering inflationary pressures or protecting or indeed even enhancing margin because the – we operate with a range that sits at every point on – the pricing architecture of our customers.

In a market that's softer or more price sensitive, they choose to upweight the ranges of more entry level on brand ranges. Then you'll see our – you'll see that reflected in the price volume mix that we have without there being any negative consequences for our margin whatsoever. So certainly we would absolutely observe.

For one it's worth maybe this is something to the Greencore mindset, we actually prefer volume growth to enterprise-led growth. We think that's a – continues to dial up relevance and we got more consumers picking up our products and our categories are churning faster and store up customers. So we actually think it's a good thing that the growth is coming from value rather than price. But we're – but we don't lead into that there's any element of non-recovery of inflation through that.

And I think the second question. Eoin, you might want to –

Eoin Tonge: Yeah. Well, I mean, we are – the only thing I can really refer you to is our integrated guidance here which was this – which was our reconfirmation of our expectations for the full year as we described that in the points that I think any – you can see this Greencore watcher will know is that the product range that we have heavily indexes to some. And so in good summer weather, our volumes are stronger than weak summer weather. And so that's how we would look at it. And so we're not issuing the guidance that we're giving. We're not being heroic around the assumptions around what will or won't happen in terms of weather. We have this debate every year internally. We've been assessed for a while around

what constitutes the normal summer and we can't issue a guidance consistently with that and that's what we've done today.

Arthur Reeves: Thank you very much.

Patrick Coveney: Thanks Arthur. Great. So listen, with that, we said that we'd try to finish close to 9.30. It's just after that, so thank you everyone for joining us in the room and then thank you to those who've joined us on the conference call. I'm happy to take the questions afterwards and look forward to speaking to everyone when we next issue our results, which should be our Q3 trading statement at the end of July.

[END OF TRANSCRIPT]