Greencore Group Plc
Interim Results

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Results for the Half Year Ended 27th March 2020

Jack Gorman

Head of Investor Relations, Greencore Group Plc

Thank you, John, and good morning to everyone on the line and on webcasts. My name is Jack Gorman and I'm Head of Investor Relations at Greencore. I'd like to thank you all for taking the time to join us today for our Half-One Interim Results Conference Call, which covers the six-month period to 27th March 2020. I'm joined on the call today by our Chairman, Gary Kennedy, our CEO, Patrick Coveney and our CFO, Emma Hynes, and before we begin just a few housekeeping items. This is a webcast presentation and a copy of the presentation slides and appendices is available on the investor relations page of our website, and I would like to draw your attention to the forward-looking statements on slide two of the presentation and the agenda for this morning's presentation that's outlined on slide three. So with that, thank you and I'll pass it over to Gary Kennedy.

Introduction

Gary Kennedy

Chairman, Greencore Group Plc

Thank You to Our Food Heroes

Thank you, Jack, and good morning everybody and thank you for joining us here this morning in what are slightly unusual circumstances. It's our first opportunity, really, since the pandemic hit to engage with the investment community, so we're very much looking forward to that engagement, and I sincerely hope that both yourself and your families continue to be safe and well. Before handing over to Patrick and Emma, just a few things I'd like to say, really on my own behalf but probably on behalf of the board as well, and the first of those is a big and very sincere thank you. Firstly, there are a lot of other frontline workers that have been working tirelessly, which has made our ability to serve our customers a little bit easier, I'd like to recognise them. Very importantly, our customer base for the ongoing proactive engagement that we have had with them, facilitating our response to what has been a fairly spiky market demand. We have had a tremendous relationship, ongoing, with our supply base, which has allowed for flexibility in terms of being able to serve that business. But, maybe more importantly, to the extensive network of colleagues that we have, and I'm talking about all our colleagues here; those that happened to furloughed but also those that are working at home, and, indeed, those who have been heroically performing in terms of our factories and logistics.

I do recognise the personal impact that this pandemic has had on people. There has been sickness amongst our colleagues and their families and, in some cases, fatalities, which is very regretful. The restrictions that we have on travel – I normally get out to meet people on a little more regular basis; unfortunately that has not been something that has been feasible, but I look forward to that in the future. But I certainly want to recognise the heroic response of our colleagues, which makes myself and the board very, very proud of both them and the company.

Rebuilding and ramping up the business

Before handing over to Patrick and Emma, I suppose you'll see a theme coming through the presentation today, and certainly the focus that we have had on keeping our people safe, feeding the UK and protecting our business has served us very, very well, particularly in the ramp down of our business model. And I suppose our attention has turned, in more recent times, to rebuilding our business and ramping up, and I think that model will still serve us very, very well. I suppose the unknown that we have, and unknown variable, is time and that's the one that we all wrestle with.

Board changes

Again, before handing over, there have been some changes, particularly at the executive level, on the board. We've appointed a couple of non-exec directors, which you will have seen the announcements on, but today is Eoin's last day officially with Greencore. He's had an incredible career, much of which I've enjoyed the experience of dealing with him, and I certainly wish him very, very well in future endeavours with Marks and Spencer. And as one person moves it's an opportunity for somebody else and I'm delighted that Emma has chosen to become our CFO and Director, which comes into effect today, and she certainly has my good wishes and best luck as somebody who I know for a long number of years and very much enjoying – and looking forward to enjoying a profitable and fruitful working relationship in the future.

So with that, I'll hand over to Patrick.

COVID-19 Update

Patrick Coveney

Chief Executive Officer, Greencore Group Plc

Thanks Gary. And if I can just welcome everyone to the call and thank you for joining us today, and also to echo Gary's sentiment which I do hope that all of you on the call are safe and well, and that your families are safe and well, as we all work through this pandemic. I wanted not only to thank Gary personally, but also just to acknowledge the tremendous support that I and the executive team have had from our board, from our wider stakeholders and from the wider leadership team across Greencore. As we've worked our way through this, you know, the way in which we've worked has been characterised by being collaborative, being pragmatic, being calm, being resolved, but also being optimistic and positive as we reset our business and think about the potential for our business to come strongly out the other side of this.

Of course there are huge differences in terms of context now from when I would last have spoken formally on this conference call format to shareholders, either last November for our then full-year results or with the conference call for our Q1 results in January. You know, we've seen the impact of this pandemic on society, on the economy, on the food industry, on Greencore as a significant player within the UK food industry, on our colleagues, our teams, and on the families of our colleagues and teams. And I do want to echo Gary's comments and words of thanks for my team and our colleagues, up to 15,000 of them across Greencore, who truly have been food heroes in terms of everything that they've done over the last two and a half months.

The structure of today's conversation is going to be less, actually, about reporting specifically on half one and more about the impact of COVID-19: the scale and speed of that impact; the comprehensive and rapid nature of our response to that; and the way we're thinking about the future in terms of the detailed plans collaboratively put together with our customers and positive in orientation.

Before starting into that, I did want to also thank Eoin for his 14 years in Greencore and the role that he's played in architecting the business and the culture that Greencore is and has today. But also, at a personal level, to welcome Emma, who I've known for a long time. She's been six weeks with us now; she's an absolutely outstanding finance leader who knows every corner of Greencore and every aspect of our economic and financial model, and is actually used to weighing in to respond to big challenges and opportunities. In terms of how Emma and Eoin have worked together over the course of the last six weeks, Eoin worked very specifically on delivering the half-one results and supporting the business in the initial ramp-down phase, end-March, early April, for our business, and Emma took up the mantle to really put in place the liquidity and financial flexibility that we're going to talk about more today, and to support our business in beginning to think about different ramp-up scenarios and how we configure our business to do that. But together they've worked hand-in-glove to ensure that the board and the executive team have the finance leadership and support through all of this.

Key Highlights

H1 profitability and cashflow in line with plan until mid-March

I'm turning now, for those following me on the results presentation, to slide seven. The four key highlights are messages in the results and in the presentation that Emma and I wanted to share with you today. Firstly, to say specifically on half-one performance, as we set out and summarised in our March 18th market announcement, our business was on plan in terms of profitability and cashflow with – in line with our financial expectations for the year before the arrival of the COVID pandemic in the middle of March. The shape of that plan had been to be flat in terms of profit in the first half, with strong growth in the second half coming from the commercial pipeline that we had put in place, but also from the productivity and margin-enhancement programmes that we would have spoken about back in the Capital Markets Day last September, which we really saw the value – anticipated the value of that coming through in H2. We were hit, and hit pretty hard actually, in the middle of March by COVID-19. That has had a significant impact on all aspects of our people and our business, and in particular from a demand perspective on food to go volumes.

Comprehensive and rapid response to COVID-19

We've put together a comprehensive and rapid response to that and we'll outline elements of that over the course of this presentation, and that response has been characterised by high levels of collaboration, internally but also externally with our supply base and, in particular, with our customer set. Our model has demonstrated extraordinary flexibility in terms of our ability to scale the model up and down in different parts of our business, and we've been decisive in the decisions that we've taken through this period.

Conserving balance sheet strength while building liquidity

Critical to our response has been preserving balance sheet strength, building incremental liquidity and financial flexibility, and Emma will take us through that in more detail on the presentation.

Planning with customers to build back our business

Importantly, we feel the business has stabilised in terms of that response and in terms of the market environment as we've transitioned from April into May, and we are already planning, and indeed actioning, aspects of our build-back programme, a programme that's going to: build on strong foundations, foundations of resilient economics today; flexibility in terms of our model's ability to respond to rises and falls in demand; very high levels of customer relevance and support; and a consistency in terms of what we're trying to do in terms of strategy, liquidity, culture and leadership as we go forward. And our aim as we build back will not be to simply return the business to where it was before, but to build back what will actually be a better business in terms of simplicity, productivity and relevance as we go forward.

Decisive, Clear and Rapid Response to COVID-19

Keeping our people safe, feeding the UK and protecting our business

I'm turning now to slide eight. You know, our business has, and our leadership team has experience of dealing with big challenges and big opportunities before, and we know that in response to that clarity, leadership and decisiveness matter. Since the outbreak of COVID-19 and the scale up of that in the middle of March, three priorities have governed everything that we've done: keeping our people safe; feeding the UK; and protecting our business. Our organisation, at all levels, is functioning and engaging brilliantly in delivering against those three priorities. For example, from a communication and engagement perspective our senior leadership team: engages twice daily together; we bring the top 200 leaders in our business up to speed every week in terms of the totality of what's going on; we have a regular and choreographed cascade and engagement with up to 12,000 colleagues across our organisation at all levels, all sites, using multiple different media; and I personally have had direct engagement now with more than 1,000 colleagues in remote, typically conference call formats over the course of the last eight weeks. As we do this, we're clear in terms of what we're trying to do, we're aligned, we're resolved, we're supportive of each other and we're positive in terms of where we're taking the business.

Keeping Our People Safe

Comprehensive set of actions to support safety

So if I start, now, with priority number one, keeping our people safe. I want just to briefly describe the comprehensive set of actions that Greencore has taken in this regard. In that sense, I'm immensely proud of how our organisation has responded in this unprecedented time. This is a – let's all remember, this is a pandemic that brings with it not just risks to livelihoods but risk to life itself, and the bravery and support of our teams in responding to that has been notable. Our business actually, from a perspective of safety, started in a good place: the chilled food environment is well-invested and has very high standards of health and safety and technical capability built into it; we had a very – we have a very well-invested network in terms of the quality of our assets and the hygiene protocols that we run through; and we have a business that has had progressively improving engagement scores in terms of how we all work together on our shared agenda.

We've taken significant actions in terms of policy, be that around policies in relation to attendance or otherwise at our facilities, in relation to sickness, in relation to travel, in relation to personal protective equipment. We've moved about 1,200 of our colleagues to work from home. We've implemented hundreds, dare I say thousands actually, of social – specific social-distancing initiatives against themes like: how we configure lines in our factories; how we configure roles against those lines consistent with the two-metre social-distancing requirement; the immediate implementation of incremental screening, where we have challenges with the two-mister – two-metre social distancing; how we configure and start shifts; how we set up our canteens, our breaks, our changing rooms all consistent with keeping people safe. We now have temperature checks for colleagues coming on site and regular briefings consistent with, you know, new learnings in relation to policy. And we're providing lots of incremental support to colleagues, be that free food across all of our sites, the availability of our sites as collection points for groceries and lots of other initiatives designed to make our – the lives of our colleagues both safer and easier.

Industry context

Within the wider food industry, you know, what you're seeing here is that the food supply has been characterised as a critical piece of UK food – of UK national infrastructure to deal with COVID-19. All food manufacturing colleagues have been designated as key workers and our business is engaging proactively with critical government agencies like the HSE, like Public Health England, like Defra, and with peers across the food industry to share and enhance policy and to rapidly share and cascade out best practice. In all of that, our objective is to keep people safe.

Feeding the UK

Our second objective is feeding the UK. It's important, in this kind of environment, that a business has a sense of purpose, or mission, and can accurately and relevantly define its role in society. And in this particular context, we, as a critical part of the UK food infrastructure, have a role to play to keep Britain fed through the COVID pandemic.

Intensive ongoing customer engagement

A core part of that, the core part of it, has been how we're working with our customer set intensively in an ongoing way. So we moved immediately to simplify product ranges; that was partly to match falling levels of consumer demand in parts of our Food to Go business, but also, actually, to facilitate incremental production capacity and further growth in parts of our business, like our ambient cooking sauce business.

We've worked hard to maintain supply chain integrity, to maintain service and to make it easy for our products to flow through complicated and often full distribution units and distribution centres within our customers. We recognised quickly that we had to make the economics of our product range work for our customers in this fluid demand situation and we have put in place lots of initiatives around waste, around availability and tailored those by format and region, and, as always, we're sharing emerging consumer, shopper and channel insights two-way, back and forth, between us and our customers.

Community-support initiatives

The second part of this mission though has been community-support initiatives to bring food to parts of the UK that need it. Some of that is about national initiatives that we're running with; our support and leadership in the FareShare programme, our support for food banks and, in particular, the active role we're playing in providing food parcels to 1.5 million shielded households who – for whom it's unsafe to leave their homes. And then, across each of our 15 manufacturing centres and 20 different distribution centres, we're actually engaging with local communities, with local hospitals, with local care homes, with food shelters and with other parts of the food chain. So this initiative is national, it's collective, it's also at site level and it's on an individual level, and in all of these regards I wanted to thank our colleagues for going the extra mile to keep the UK fed.

Protecting Our Business

Revenue performance since period end

The third priority has been protecting our business. And I'm onto, now – on slide 11, just to talk about the revenue impact on our business, and here I'm going to be frank and clear around what's happened because we have had a serious economic impact on our business, especially since the 23rd March. So in the – you know, what happened here in the – from the end of March and into April is that volume fell rapidly, virtually overnight, in our Food to Go business and has – and continued to fall through early and mid-April. That volume in aggregate stabilised by the end of April, and we have seen that volume begin to pick up and grow back as we've transitioned into May.

Specifically within food to go categories we saw weekly demands of – weekly declines, sorry, of up to 70% on prior year levels as we saw significant elements of our channel set, food service customers, coffee customers, city centre convenience stores – outlets that catered for travelling consumers and office workers, principally in the UK – but also as we saw shopping behaviour move from basket shopping to trolley shopping with the imposition of social distancing since the 24th March.

So we did see declines, typically running through April, in the food-to-go part of our business of up to 70% on prior year. That's improved somewhat in May is on a nice – an improving trajectory. It's currently about 60% below prior-year level. We've actually seen sustained growth in other convenience categories. It has varied somewhat by product mix but we have seen growth step up since the end of March in aggregate across our other categories and it's currently trading at about 5% above our prior-year level. So if you pull that together, where we are today, six or seven weeks after the arrival of this pandemic, is that the group revenue is running at approximately 60% of prior-year levels right now and improving week on week.

Protecting our business

This demand environment required a comprehensive and rapid response in our model. And we've implemented a broad sweep of mitigating actions which we got started on in late March and had largely completed by the middle or end of April. Critical measures to defend our profitability included tightening our food-to-go production network. What that would have meant was temporarily ceasing production at some of our production units in Northampton and taking our production units in Bow, Atherstone and Heathrow temporarily out of production. We've also tweaked our shift profile across all of our food-to-go sites. We've furloughed colleagues consistent with the change in that production network and I'd have to say that, as a business, we were both impressed by and very grateful for the comprehensive, rapid and administrative ease of the UK government's furloughing scheme, which has enabled us to actually respond rapidly to the changes in demand. We've also eliminated non-essential overheads and operating costs across our business and as part of that we've put in place temporary fee and salary reductions for the board, for executive directors, for our group leadership team and for the wider leadership team at different levels across that.

What that means is, having taken the demand environment that I described a minute ago and put in place a suite of measures, is that we have now returned the group to a level that, in the month of May, is now delivering modestly-profitable EBITDA at these volumes, having put in place these mitigating actions.

Planning for build back

So we've reset the business, we're in control, we're stable and we're aligned. And in fact, we could continue to run the business at this demand level on a modestly-profitable basis for some time to come. But of course, the best protection for our business, as we look ahead, is to build back our volumes and to do that skilfully and thoughtfully. I will say more about that after Emma runs through the highlights of the first-half results, except to say, before transitioning to her, that we have reset the business. Nobody really knows how the food environment and the economy is going to respond over the next months and years; there are some fundamental unknowns and uncertainties there. But our sense here, based on everything that we've done, is that we have the capability, we've got the resources, we've got the flexibility and we've got the leadership team to respond to whatever shape of recovery unfolds and critical to that is our ability to maintain relevance and to work collaboratively with customers and suppliers on that build-back programme, no matter, as I say, how it unfolds.

So, with that, I'm going to transition to Emma and then I'll come back in and talk more about ramp-up, after Emma has run through the financial review.

Financial Review

Emma Hynes

Chief Financial Officer, Greencore Group PLC

Thanks, Patrick and good morning to everyone on the call. For those of you I haven't met previously, my name is Emma Hynes and I re-joined Greencore last month to become the new CFO, upon Eoin's departure today. I'm delighted to be back at Greencore once more and it is a business I've known for many years.

So, as Patrick said, since I've returned, Eoin and I have collaborated closely through the transition period, with each of us focused on what are different aspects of today's announcement. So, while Eoin focused on delivery of the half-one results seamlessly, I have focused on cash flow, balance sheet strength and liquidity. And my priority in doing this has been to ensure that the measures we have implemented were completed so that the business isn't distracted and can really focus on the build back of volume, as we see the social restrictions implemented as a result of COVID-19 ease.

So, over the next number of slides, I'd like to briefly outline the half-one results and performance but more particularly build on Patrick's earlier comments around how we're protecting our business from a cash flow and liquidity perspective.

H1 2020 summary

So, now turning to slide 15, let me provide – first provide an overview on half one 2020 results, a period which was progressing broadly to plan, for the first 5.5 months but was then overtaken by the first response to the events associated with COVID-19. So, much fuller detail is provided in the appendix and we would be happy to explore that as appropriate but for now what I'd like to do is highlight several key points from the results themselves.

So, as we noted, revenue and profitability were impacted in the second half of March as the first impacts of the UK government social restriction measures were felt by consumers and by our customers.

So, reported revenue, including the impact of Freshtime, grew by 1.6% in the first half, while pro forma revenue was broadly flat. The impact of COVID-19 was most particularly felt in our food-to-go categories, where there had actually been encouraging signs of improvement in the weeks preceding the outbreak. So, overall, pro forma revenues in food to go categories declined by 2.1% and within that we're estimating that the COVID-19 impact reduced pro forma growth by between 2–3 percentage points.

In our other convenience categories, pro forma revenue grew by 4%, with a COVID tailwind of about two percentage points. The Freshtime business, which we acquired last September, performed very well in the period and has been integrating really, really smoothly into the group.

If we talk about cash flow for a moment, cash flow trends were positive in the period. We saw an improvement with free cash flow as compared with the same period last year and while net debt to EBITDA of 2.1 times was slightly higher than year-end, this is to be expected due to the seasonal working capital outflow that we would typically experience in the first half of the financial year.

And finally, we did adopt IFRS 16 in the period. That's the new accounting standard for leases. So, as we transitioned to the standard, we used what's called the modified retrospective approach and following that approach, there's no restatement of comparative information for prior-year periods. And briefly, just to summarise the effect of IFRS 16, so this is outlined in detail in the statement and in the appendix to the presentation but really what happens is EBITDA increases, as a result of IFRS 16 but the overall impact on earnings is immaterial because the depreciation charge on the assets recognised broadly offsets the EBITDA benefit. Our net debt also increases to reflect the lease liabilities we're putting on our balance sheet and our assets increase to reflect the matching assets going on with that debt but the lease liabilities are not included in our covenant calculations. And again, as I said, there's more detail in the appendix to the presentation and in the notes to financial statements, if you want to have a more detailed look at that.

Strong liquidity position

So, with half one review, let's turn to slide 16 and our strong liquidity position.

So, conserving balance sheet strength and liquidity is essential in such an uncertain economic environment and this, as I said, is where I spent my time since joining the group. So, at the end of half one, we had financial headroom totalling $267.5 million in the form of cash and undrawn committed bank facilities.

Now, as we noted in our announcement on 30th March we agreed a new $75 million committed debt facility with our lenders and that matures in March 2021. Since that time, we've also secured a formal agreement with our lending banks to waive the net debt to EBITDA covenant condition for both the September 2020 and the March 2021 test periods and we're also at an advanced stage of discussions with our private placement noteholders regarding a waiver of the net-debt-to-EBITDA covenant condition.

And finally, we have confirmation of eligibility in principle under the UK government's COVID Corporate Financing Facility, or the CCFF, so the terms of this scheme would mean that we couldn't disclose the size of what our facility would be but just as a reference point for people on the call, the Bank of England's guidance, which is published on its website, states that corporates with Greencore's pre-crisis credit rating would be permitted to issue up to $300 million in commercial paper.

And look, as I noted earlier, our strong belief is that we should be as prepared as possible when it comes to our balance sheet resources and the combination of all these measures leaves us with very considerable resources and financial headroom to manage through the uncertain trading period ahead.

Relentless focus on cash flow management

Now, building on this, on slide 17, we've outlined the range of cash flow mitigation actions that we've implemented to date and we believe these actions are balanced in order to ensure we retain the fundamental strength of the business, which allows us to accelerate quickly as social restrictions ease and the economy comes back to life.

And so, if I just take you through our key mitigating actions on cash flow, firstly, we've reviewed all planned CAPEX and previously-planned CAPEX has been deferred wherever possible, with only essential projects still ongoing. Now, included in the ongoing projects is the work that we've been doing on modular automation projects which we talked about on our capital markets day and this remains key priority for the group, particularly as mitigation for the impact of social distancing in our facilities.

Secondly, we announced on 30th March that we weren't going to proceed with an interim dividend payment. As we worked with our leadership team and with our board on modelling scenarios and engaged with our lending group on the bank waiver group, we have also decided that we will not be paying either a final dividend for FY2020 or an interim dividend for FY2021 and this is in line with the duration of the covenant waiver period. We have a progressive dividend and it is our strong intention we'll reinstate dividend payments as soon as is practical, in accordance with our capital allocation strategy. From a working capital perspective, we're managing this really closely, especially given the nature of our food to go business, where a decline in volumes results in cash outflows from what is a negative working capital cycle. And finally, other mitigations on deferral of pension contributions have also been adopted. So, the effect of all of these actions and I think together with the covenant waivers is to leave us in a strong position from a liquidity perspective.

Performance since period end

And now, just moving to slide 18, where I'll build on Patrick's earlier comments on performance since the start of the second half. So, to echo Patrick, we've focused on rapidly adjusting the network and the cost base of the business during April, so the network is matched to reflect the changes in our consumer and customer demand. So, as a result, we did move from a short period of negative EBITDA performance to a period into May where both revenue and EBITDA progression is improving from these lows.

And while, plainly, the shape of recovery is uncertain, so the challenge for every corporate is to model the severity and the duration of the COVID impact for the rest of FY 2020 and indeed into the following years. And look, while clearly not guidance, we have modelled a range of stress scenarios regarding the duration of the COVID lockdown and the timing of recovery as the measures on social distancing are eased and these scenarios include varying levels of volume ramp, from current low levels, including the imposition of a second lockdown in winter 2020 and in all scenarios, we are assuming that the revenue run rate doesn't return to FY 2019 levels until October 2021, so not until our FY 2022 fiscal year.

And we've done a lot of work on this modelling and we'll continue to assess it as conditions evolve but I think it's worth stressing that, based on the resources and liquidity we have available, we're very comfortable that we can navigate successfully through any of the stress scenarios that we've modelled. And I guess overall what I'd say is that I've been through Greencore as we've worked through challenging times in the past and one of the things I saw then and I guess struck me again as we worked through the ramp down is really how quickly and flexibly the group can respond to change. And I think we've seen that, as Patrick outlined, in the steps that we've taken through the execution of the ramp down and it's really a key strength for us as we move into execution of the ramp up as well.

So, that's the financial review section. I'm very happy to discuss this in a little more detail during Q&A but for now I'll hand back to Patrick to address how we're thinking about building back the business.

Building Back for Better

Patrick Coveney

Chief Executive Officer, Greencore Group PLC

Thanks, Emma and what I wanted to do over the final ten minutes of this presentation is, first of all, just summarise where we sit as a business right now; secondly, share, in so far as you can discern learnings and observations that are relative – relevant to the future of the UK food market, what we're learning and how we're thinking about some of those changes; thirdly, talk about our strategy and how we're building on and where necessary tweaking aspects of the strategy that we shared with you at the capital markets day to win as we build back and finally to finish with just some of the key near-term priorities as we get on with building back our business as the economy begins to reopen.

Where we sit today

So, starting on slide 20 with where we sit today, four principles here. First of all, we have reset the business, as Emma and I have described earlier, to the lockdown levels of demand and in so doing now have a business that is modestly profitable at an EBITDA level, even at a 40% reduction in overall group volume.

Secondly, you know, we have the flexibility in terms of our model and the insight and experience on how to adjust our network and cost base to enable us to respond dynamically to the demand and supply environment going forward.

Thirdly, you know, what we've seen through this has been the relevance of our business and the role of our products and capabilities to the economics and strategies of our customers being reinforced and we're already putting in place and in some cases starting to implement jointly-owned, collaboratively-put-together build back plans with our customers. And finally, we have, as a business, the liquidity, the resources, in terms of people and financial capacity and the leadership and culture to manage the business through the lockdown but also, importantly, to build back the business as the economy begins to reopen.

The changing food landscape

I want to be thoughtful and not jump to superficial conclusions on what's happening in the food landscape through the period of this pandemic so far. Our assessment is that some of what's happened will endure but much will not. And in actually putting together this perspective, you know, what we combine is the learnings and perspective that we get from working very collaboratively with our customers and suppliers but also quite a significant level of Greencore specific insight and research that we track, in particular, for food to go shoppers.

And in that context, if I could just start with how people are shopping and consuming food. So, as I mentioned earlier, we have seen a marked shift from trolley – from basket shopping to trolley shopping or more particularly people shopping less frequently and indeed 43% of consumers are indicating that they are shopping less frequently than before right now but when they shop buying bigger trolleys and bigger – or bigger shopping baskets.

In that context, we've seen a reduction in on-the-go shopping occasions. Pre-COVID-19, 45% of all shopping occasions were on-the-go in nature. That's fallen to 15% during this two-month period.

Interestingly, we have not seen a fall in consumer's consumption of sandwiches. Sandwich consumption remains very strong. Indeed, of the shopping occasions that are food to go in nature, 71% of them still contain a sandwich and where people are actually making lunch at home, 60% of the time they are making – they are having lunch in the form of a sandwich.

Interestingly, what we've seen as we've tracked how consumers feel about at-home lunch preparation is that each week, for the last five weeks, consumer satisfaction with their lunch has fallen. In other words, consumers are getting bored and frustrated with the absence of choice and frankly with their inability to make sandwiches as well or as differently at home as they can when they procure them outside. We saw a similar effect, actually, ten years ago during the financial crisis, where people did move briefly to preparing lunches at home but within a period of 8–12 weeks had moved back, for reasons of variety and taste, to accessing externally-prepared products.

And importantly, from a shopping perspective, we've seen a sustained strong move towards digital and low-touch solutions where, across the grocery set in aggregate, they probably moved from having things like click and collect, or dot-com delivered solutions, representing 5–10% of their revenue to, now, 10–15% of revenue across the grocery set overall.

In terms of grocers, I think in general what we've seen is that the UK grocery sector and the key grocers within that have done an incredibly good job of keeping Britain fed, safely fed, through this pandemic. And that's been reflected in a marked increase in the trust and brand equity of the grocery sector overall. You see it in terms of consumers trusting those outlets more. They feel they're safer to shop and they feel that the large grocery stores offer better choice and availability of key ingredients than before.

In fact, as a sector, the UK grocery sector has moved to be the second-most trusted sector in the eyes of UK consumers, second only now to the NHS. We've seen a significant increase in overall grocery volumes, plus 10–11% in the period. A big part of that has been the fact that the food service competitive set is largely closed during this period and importantly what we are already seeing is the UK grocers moving to try to simplify and streamline their operations and to restore some of the profitable value-added elements of their product mix to enable them to mitigate a lot of the new costs, be they in terms of social distancing, pay, sickness and other costs that have come into their business which are – so that theme of simplification and the economic imperative to restore the attractive mix elements of convenience food is going to be quite important going forward.

And then more broadly, across the rest of the food industry, we've seen a very, very commendable focus on safety, which is just vital through all of this. We're seeing businesses that have scale and portfolio breadth do a little bit better and we're seeing businesses that have responded quickly and prioritised liquidity and balance sheet strength doing well.

Of course, there are going to be changes and casualties and I think consolidation and change within the wider food base through all of this but the businesses that will endure, as I say, will have that portfolio breadth and that speed of action on liquidity going forward.

Longer-term impacts

So it's – moving to slide 22, if we try to just pass this into what it might mean for our business as we begin to build for ramp up, you know, the first four of these themes are really demand in nature. We do think there is going to be a changing meaning to and a changing configuration of on-the-go food going forward. We anticipate, actually, that supermarkets, grocery stores and their formats will play an even bigger role in that going forward because they can implement better standards of hygiene than food service operators, because they can implement social distancing and because of the trust that they have with customers, we do think, in the next 12–18 months, that their convenience and food-to-go formats are likely to do disproportionately better than mainstream food service in the response.

We will see – from an on the go perspective we'll see a continued increase in the important of delivered solutions, whether that be delivered to home or to the workplace. I think you will see local play a bigger role. There will be some consumers who will choose to work from home. That doesn't mean they will necessarily prepare food at home. They may well pop out to local stores, local convenience stores in their village or towns, so we do think the role of local will be important. And undoubtedly, this move towards a wider product array of on-the-go food offers will remain important. Value will be very important, going forward. I think you will see a move and a reinforcement of everyday low price credentials across the grocer set. You know, consumers and citizens are going to be hit economically coming out the other side of this and then so it will be important to maintain and reinforce value. I think one of the learnings for the grocery sector in aggregate, coming out of the financial crisis, is that, with the benefit of hindsight, they probably did take price up too much and lost relative share to other formats in that period and I don't see them doing the same thing again.

The third issue is that, while health and wellness will remain very important, we see hygiene, social distancing, low touch, space, packaging playing a very, very important role alongside health and wellness going forward and that will be relevant to both the products themselves, how they're packaged and the channels in which they're sold. And certainly the move towards digital, or low-contact, channels, which is currently running and constrained only by the available capacity that's in the network, I think, will remain important going forward.

On the supply side, or within the business models of food players, I think we are seeing, right the way across society now, a reassessment and an appropriate reassessment of the value of frontline colleagues. That's going to feed through to, I suspect, a sustained desire to take up living wages, to reinvest in development and apprenticeships and to build capability and engagement and esteem and trust right the way through businesses, starting at the front line, where the – much of the heroic work in relation to COVID-19 is happening.

And I think for businesses like ours, it will also dial up the importance of automation, technology, structural productivity improvements and where we're combining engaged colleagues with useful technology.

I think, finally, what we're learning here is we're seeing purpose and sustainability for real through COVID-19 and I think the businesses that really configure themselves and set themselves up to do well going forward will embrace purpose, sustainability as an absolute core part of what they're doing, rather than, you know, what I fear has happened in some aspects of the business world, sort of viewing it almost more as a kind of compliance-type requirement, rather than being at the very core of what businesses are about.

Strategy remains relevant in new context

Last September we set out the framework that's described on page 23 here in terms of how to think about the building blocks of Greencore's strategy for the next five years, as playing against three themes of growth, relevance and differentiation and we think each of these themes remain highly relevant to how we're going to run our business as we ramp back up production and as we look to win for the years ahead but there are undoubtedly some learnings, or tweaks, against that, that we've seen over the course of the last couple of months.

So, if I just describe growth first of all, we think we're very well primed to return to growth in food to go as the economy begins to open up. I think there is a window in the next 12–18 months for food to go within grocery to capture a disproportionate share from other food to go channels because of the trust and hygiene credentials of those stores, although I do think more broadly and in the longer term, that broad channel of diversification of food to go will return. I think the opportunity to execute category diversification in food to go and snacking, the kind of stuff that we've learned and are benefiting from in Freshtime, will remain important and undoubtedly, there are going to be other strategic opportunities that emerge to Greencore that we need to think about proactively but also in a disciplined way as the kind of months and years unfold from here.

From a relevance perspective, I think distribution will become more important. We made significant investments, actually, in the first half of the year in a new distribution capability into Tamworth and a new distribution customer for our group on the back of that. I think the ability of us to use our distribution capability to support direct-to-consumer, direct-to-workplace offerings, be that click and collect or workplace or format-specific solutions, I think will be important.

And then I think the other thing that we've really learned here is the relevance of the breadth of portfolio that Greencore has: the food for later product propositions alongside our food to go propositions and how they work with each other.

And finally, just in terms of a differentiation, just to highlight, as I referenced on the previous slide here, you know, some of you will have seen us talk about and signal the role that automation and structural productivity in sandwich assembly is going to play for us going forward and I think that everything that we're seeing from a hygiene perspective, from a safety perspective and from an economic model perspective, reinforces the benefit of us continuing to drive that hard. And in all of the initiatives that Emma described earlier in relation to capital, what we haven't done is skimp at all on the investments into structural automation and structural productivity and I think we'll continue to push that.

Well positioned to build back for better

So, if I can just finish, then, on slide 24. You know, on the left-hand side of this slide are the four themes, four principles, that I described earlier, which is our business has already resized and is in nice economic shape, notwithstanding the fall off in revenue. We demonstrated again that we have the flexibility and insight into our model to adjust it wherever we need to bring it, depending on changes in the consumer environment, up or down. The relevance of our portfolio and the relevance of our business to customers has been enhanced and the plans that we have in development are going to be highly relevant to that and we've got the resources, liquidity and leadership to work our business through both the lockdown phase and all of the different build back scenarios that Emma referenced in her comments.

So I think what you'll see as we go forward is that, as we build back our business and build back our business for better, we will bring back a simpler, more productive, less complex business in terms of the production processes and range that we have in the market. We will do that while embedding many of the principles of social distancing that we've put in place for the ramp down to protect colleagues, to keep people safe and to maintain hygiene standards. I suspect many of those will be in perpetuity but most of them will be in situ for the next 12, 18, 24 months. We see significant opportunities for product and channel expansion as we go back. We're going to be very conscious of our balance sheet, we'll manage our liquidity tightly and we'll be disciplined around where we strategically invest and we will not only build on the resilience of our business but truly embed our sense of purpose in everything that we do from here.

So there – that's our – there's a lot that's happened, not only in the first six months of the year but in the near two months since. As I said, the – you know, half one was trading in line with plan until the COVID impact and it was modestly disrupted after that. You know, we've then seen a very, very significant impact from COVID-19 but I think, as a business, we've responded comprehensively, rapidly and effectively to that and we've put in place the balance sheet strength, the liquidity and the financial flexibility to manage our business through whatever scenario unfolds from here and we're already working collaboratively and intensively with our customers on a whole variety of plans to build back our businesses.

So, thank you for listening to us for the last 50 minutes and with that, Emma and I and Jack and Gary are happy to take any questions from the call.

Q&A

Jason Molins (Goodbody): Hi. Good morning. Few questions, if you don't mind. Just in terms of the commentary around modestly positive from an EBITDA perspective, I guess, through May – just wondering sort of what sort of drop-through that implies and how should we think about that trending over the second half or the next sort of four months of the period, given the various mitigation measures that you have in place?

Second question, really – I guess, Patrick, you briefly mentioned sort of likely consolidation opportunities – strategic opportunities, whether that's within your existing core products, or do you see outside of that? Just wondering if you could put a bit more colour on that, bearing in mind recent news articles referencing some of your competitors in the marketplace that you've been mentioned alongside as being a possible interest for you.

And then, sort of finally, in terms of the catalysts for returning to growth, particularly in food to go, where do you see those coming from, given the various easing in measures that we're seeing, but bearing in mind, I guess, restrictions that workplaces are putting on some of their workforces in terms of returning to work and various protocols that have been put in place at the moment? Thanks.

Emma Hynes: Thanks, Jason. It's Emma. Look, I'll take the first one of those, and then Patrick will deal with the other two.

I guess it's quite unusual, where we are, to be – to be talking about how we've traded, you know, through April and May, and to be at this granular level, but I think we would all acknowledged that we're in pretty unusual circumstances at the moment. And the reason we're doing that is because it's so difficult to forecast. And, you know, we haven't – and still remain in a position where we've withdrawn guidance from the market, because, you know, forecasting is too challenging. We've run our scenarios and taken all of the steps and implemented the measures we talked about regarding liquidity, to respond to that, but I don't think we can really be explicit on what that means for the rest of the year.

Patrick Coveney: Yeah. I mean, I – I mean, I think all we – all we were flagging here – and it'll be relevant to the – your final question on growth is that, at current volumes, the business is – by which I mean lockdown volumes, the business, net of everything we've done, is modestly positive on an EBITDA basis. And that's really all we can say, because everything else gets into kind of future guidance.

I mean, in relation to investment, Jason, I mean, we're – you know, I flagged in the presentation the – that, while we are being appropriately disciplined in pruning back strategic and capital investment for the year, based on, you know, what's happening to volumes and the uncertainty there, we have prioritised the continued investment into some of the automation areas, most particularly around sandwich assembly, that we would've shared in outline terms at the capital markets day back last September. And, as a business, you know, clearly our risk appetite around strategic investment will be tighter now, with volumes where they're at, and our management and leadership priority has to be doing a really, really good job in building back volumes as the economy begins to reopen, reintroducing SKUs correctly, bringing, you know, thousands of colleagues back as we reopen the sites and units that are temporarily closed. So – and that's really the key area of management emphasis. If there are things that we can do that are modest in nature that are a very good fit with our strategy and where we can have kind of clarity on the returns that are available, then, you know, we'd be – we'd be biased to want to look at that. I think it would be our job to do that. But we'd have to be – we'd have to be confident that any such investments met the – that kind of criteria – they weren't coming with consequences that compromised the liquidity of the group or the ability of the group to do a really nice job in ramping back our business.

And finally, then, your third question, which was on growth from here and what are the kind of catalysts from here. So, first thing I'd say is that the – you know, there is positive momentum on volumes anyway, as we referenced – you know, as you're – as you're in the – we're in the very early stages of the release of the lockdown, and as people are kind of finding ways to live and consume food in the current environment. I mean, one of the – might sound almost a little bit kind of warm and fuzzy in my – in my comments earlier, but, like, it – you know, we are observing consumers are frustrated with some of the taste restrictions, or bored with having to continue to make food day after day, for every mealtime, at home. And so there is a desire to access food prepared out of the home in one way or another. But if I was to cite what I think the big catalysts will be for strong further growth from here, it'll be more people going back to work and the change in family behaviour associated with kids going back to school. And so, as that unfolds in various ways, through different sectors, regions, timetables over the course of the summer and into the autumn, you know, you'll see – you know, you'll see volumes in the food-to-go area come back, and come back strongly.

The – I think we're cautious about – not so much that they'll come back strongly in the near term, but how long it might take to get back to pre-COVID volumes. And I think our best judgement, but it's – it's a little bit more than guesswork – is that we're probably, you know, 18 months or so away from getting to that kind of level. But the initial step-ups, I think, through summer, autumn, winter this year will be – will be very material relative to where we are right now.

Jason Molins: Good. Thanks very much.

Arthur Reeves (Barclays): Good morning. Thanks for taking my questions. They're pushing you further on what's happening now and what might happen over the next few months. You say that consumers are getting bored with making food at home. Have you seen any change to ready meal consumption, and how do you see that playing? And then, in your scenario analysis – my second question. In your scenario analysis, have you factored in that, when food service outlets open again, the retail sandwich – retail food-to-go sales might fall further? I'm just looking at what you see as your worst-case scenario in your planning. Thanks.

Patrick Coveney: Yeah, Arthur, let me jump in there. So, I mean, overall the kind of – the collective set of food-for-later products, right, which the two biggest product areas are ready meals and cooking sauces – overall, they've responded positively in terms of growth for us in the six or seven weeks since the – since the end of the – since the end of the first half. So, to be honest with you, they've been quite varied week-on-week. The – you know, if I was to be just a little bit more detailed on the ready meal piece of that, I think, in general, grocers collectively have been a bit surprised there hasn't been a broader uplift in the totality of the – of the ready meal range than there has been. And I think you – you know, many of you will have seen some of the industry data in that regard. We've found that Italian has done quite well, which is the core of what – of what we do. But, as I say, the combination of ready meals and cooking sauces for us has been a net positive in the – in the six or seven weeks since we went into the second half.

Term – in terms of the scenario analysis from here, I mean, I think there are so many different factors here. I mean, bear in mind that Greencore customers do play in food service, broadly defined, channels. So, I mean, we have, you know, lots of our products that sells in airports and train stations. Many of the city-centre convenience stores are, in effect, food-to-go specialists that serve, you know, workers who are in – you know, in office locations. Many people, I suspect, on this call would often work in city-centre London and would – and would know the role of M&A Simply Foods and Sainsbury Locals, alongside and completing with people like Pret and Greggs and so forth, and the coffee-shop channel as well. So our sense here is that the impact of people coming back to work on overall volumes in the channel will more than offset any increased competitiveness as aspects of food service begins to open up, but we'll have to see whether I'm right on that.

And one of the particular things that I think we're cognisant of is that actually, if the social distancing requirements of food preparation and food sale are going to make it massively challenging for many of the city-centre food-to-go specialists that do elements of that food assembly in-store, and – I mean, I don't want to speak for each of them individually, but it's – but delivering, you know, the kind of two-metre-type gaps and the – and managing queue flow and distance for shoppers is going to be just a massive, massive challenge for food service. And so I think you – as per my comments earlier, and I don't want to – don't want to be too definitive about it, but I think structurally the food preparation model of the food-to-go formats of grocers and the – and the selling and shopper engagement model that they have, in a world where social distancing in some form endures for the rest of this year and into next year – I think they're much, much better set up to be able to deliver that than some of the food service competitors that they have.

Arthur Reeves: Thank you.

Karel Zoete (Kepler Cheuvreux): Good morning. Thanks for taking the question. I have three questions. The first one is on online – e-commerce. You mentioned already that your customers did well. What have you done in order to adjust to the new reality? Because part of your [inaudible], so what actions have you taken to boost your own e-commerce business?

The second question is on SKU rationalisations and reductions. You flagged that. Since the – since the business has been improving a little bit, how – what percentage of SKUs have been relisted again, or, more broadly, what's been the – yeah, the story here?

And then lastly, on working capital, you have negative working capital, but now you are confronted with a big drop in turnover. How is that impacting your working capital position? Thank you.

Patrick Coveney: Thanks, Karel. It's Patrick. So let me take the first question, and Emma will jump in on the – on the working capital question after that. So, I mean – I mean, what – you know, in – in terms of online, so, I mean, you know, we're – what we're seeing is our customers are pretty much running their online business at capacity. So, you know, whatever they can – whatever they're able to put through the online solutions they have, whether that be deliver-to-home or a click-and-collect model, they're running pretty much at full capacity there. And our sense is it's almost doubled in terms of the aggregate level of sales that are going through that channel at the moment. Now, for the most part, those product ranges right now are food-for-later product changes. So we're seeing it being relevant to thing like our cooking sauce business, our quiche business, our ready meal business, and it's not playing any particular role at the moment around our sandwich, sushi or meal salads business.

Now, I think, as you look forward, that may change somewhat as – and certainly a lot of the initial engagement that we're having from our customers around how to think going forward would bring in – into focus things like distribution solutions for workplace catering, if people want to order things like sandwich platters to work where – again, bear in mind that, you know, this is playing to this trend of hygiene alongside convenience and trying to remove the risk of people queueing in close proximity to each other at very busy lunchtime stores. So I think that's where distribution might begin to, and distribution models might begin to, become more relevant for our food-to-go business going forward. All that being said, Karel, I think it's a – I think it's a fair challenge for businesses like ours and many other own-label suppliers into UK retail, which is, as online and e-commerce becomes more and more important, you know, what level of kind of category insight and specialist support are we providing to that channel, whereas in the past I think, for the most part, we've let customers get on with that and supported them through traditional account teams.

On SKU rationalisation, yeah, I mean, what – I mean, you know, the two big factors behind the SKU rationalisation work that we've done were, one, resizing our food-to-go ranges as demand fell – and that was party to do – you know, in kind of what I might think of traditional – you know, buy a pre-prepared sandwich in a supermarket and eat it elsewhere, where we've got, like, tighter ranges than before. But also bear in mind that we would typically have provided lots of the food-to-go products for in-store coffee shops and restaurants and things like that too, which would just simply all have been closed through this period. And so we've seen some ranges come out entirely and some ranges be narrowed. What – what's happening through May is products are being relisted, and so, you know, we're nowhere near the total SKU count that we would've had in our – in our food-to-go businesses as of two months ago, but we've got, you know, quite a lot more SKUs back in-store now then we had even three weeks ago. And that'll be part of growing back, but we've got to do that thoughtfully, both from a – you know, what's the production process, inclusive of the social distancing and safety requirements in our sites, but also what do – you know, what's going to flow through – efficiently through the distribution network of our customers.

But then the second – the second area is, if I take our cooking sauce business, where volumes have been up very – you know, very markedly through this period. You know, there we tightened range in order to increase production capacity so that we could meet the – so that we could meet the demand. And again, we want to be careful about bringing products back that actually restrict our ability to maintain the very, very high levels of factory efficiency that we've – that we've got there.

So they're the points I'd make on online and SKU rationalisation. Emma, do you want to talk about working capital?

Emma Hynes: Yeah, Karel. Look, I mean, you're right to ask about working capital. It's an important area of focus for us all the time, not just right now. We do have a negative working capital profile, and that has always been seen as a strength and a positive. As volume has gone up, we have generated cash, which has been really positive. But, as the volume came down, we did see an outflow in working capital, which is why now it's really positive for us to see that start to tick back up, actually, with the anticipation of that – of that reversing in trend coming through.

Karel Zoete: All right. Thank you.

Roland French (Davy): Hi. Thanks, and good morning, everybody. So I've got maybe three questions, if I could. I guess firstly – so I'm trying to work through the numbers and the current run rate. You've spoken about volumes being back 40% and EBITDA kind of broadly positive. Can you clarify what the impact of the furlough scheme is within that, and maybe a little bit of colour in terms of how many employees are currently furloughed, if you're available to talk to that?

[Inaudible] maybe it's for you, Patrick, just stepping back and you think about your own long-term growth model, whether it's organic and M&A. What's your views on the kind of potential permanency of consumers' consumption and working habits change? So, you know, I think, for myself, it's more work from home, there might be a propensity to avoid crowded places and queues, use online delivery service etc. So, one, conceptually, but two, maybe how you're modelling it, in so far as your October '21 month for reaching – for reaching that 2019 run rate?

And then, maybe finally, just around your interaction with the retailers, how much visibility do you – do you have, or how much visibility do you typically have – and, if you can, how are the per-unit economics tracking? So clearly there's higher waste levels, you know, production costs, longer production runs, reduction in SKUs, which you've mentioned in terms of the rationalisation piece. So I'll leave it at that. Thanks.

Patrick Coveney: Yeah. I mean, the – I mean, the – your first question, on furloughing. So, I mean, we – you know, we've used furloughing consistent with the – broadly with the changes that we've done to your production network. So I don't want to be – I don't want to be drawn specifically on the number of people furloughing, in part because it's changing all the time, and actually, you know, as we're – in particular now as we're starting to bring people back, getting ready to reopen some of the units or plants that we had – that we had closed in early April. So we – we're using it. It's been a very helpful tool, and – but, you know, critical thing –the critical thing for us as we look forward is – you know, is how – is how the market begins to come back, and our ability to bring units and sites back into production through this year, and we're working that tightly. But it's on – it's undoubtedly been helpful in terms of how we've – of how quickly we've been able to respond, and also how we've been able to maintain the relationship between, you know, colleagues who are furloughed with everybody else through this period.

I mean, on – Roland, on the long-term model, it's just so hard to be certain about what's going to happen here. I mean, I – my – I think our judgement is that, in the – you know, in the medium to long term, that food on the go – out-of-home food consumption, in a world post a – you know, effective vaccines or antiviral treatment for COVID-19 – that type of food model will remain a very important part of the overall food industry. How quickly we'll get to that, I don't know. What role different types of channels or subsets will play in delivering that – I suspect that will tweak somewhat, and – you know, and we'll just have to be alert to trying to do that. I mean, I – we have to be careful here, having, you know, very explicitly and formally withdrawn guidance, in being too – in being too clear here, but what I would say is that the mood in our business is that you will see, you know, pretty pronounced upward movements in volume from where we are right now, but that it's going to take some time to return to pre-COVID-19 levels, by which I mean I don't see that happening, you know, by the end of this year, or perhaps even for FY21. So the – is the best I can say there.

In terms of retailers, I mean, we're – I don't think we're the only people who do this, but, you know, the nature of our – of our relationship with customers is that we are – you know, we're absolutely entwined with them. And, you know, what's been reinforced through this has been the role that kind of key value-added own-brand suppliers play in the – you know, not only the availability of product, but in the overall economics of their – of their product mix. And so we're – you know, as I mentioned in the – in the presentation, you know, we – we're the kind of business, and the kind of business model, that can be really flexible, because we're a made-to-order, not made-to-stock business, and so we're – you know, we're able to, you know, tailor orders, you know, very, very quickly. And one of the things that we had to do through April and early May was – you know, we had to get the economics of these categories working at different demand levels, whether that was way more cooking sauces or way less sandwiches, and we've done that. But, you know, what we've also got to do here is work with our customers to recognise that mix was a really important contributor to their overall economics, and they've got to bring the – kind of attract developments of the kind of role that our products play in their economic model back. And that's a big part of why they're as engaged as they are with us on the build-back plan.

Roland French: Okay. Thanks for [inaudible].

Martin Deboo (Jefferies): Yeah. Thanks, everybody. It's Martin Deboo at Jefferies. Patrick and Emma, I appreciate you can't give guidance. I completely get that. I wouldn't presume to ask you what you think the duration of this is going to be, or the ongoing volume impact. But I think two questions one can reasonably ask to assist forecasting are – and they've sort of been asked before, but I'm going to push you as hard as I can on them – is what is the drop-through margin you're seeing? How – what is the conversion rate of lost sales to lost profit?

And secondly, just on your remark that you're EBITDA-positive, what – are you operating cash flow-positive? By which – you know, the difference between the two being CAPEX, net working capital, cash interest, cash tax etc. And if you're not positive, then what is your – what is your cash burn rate at the moment? Those are the two questions.

Patrick Coveney: Okay. Rather than stonewall you myself, Martin, I might ask Emma to stonewall you here, so I'll put her on.

Emma Hynes: Martin, I wouldn't describe it as stonewalling, but look, I know the challenge that everyone is having on forecasting. It is difficult, but I suppose – I mean, you could think about it in terms of sort of fixed and variable costs in the business, and I think we'd say, you know, about 70% of the costs are variable. You know, quite a large proportion of that is ingredients and packaging cost, but then there's also a labour component of that, which was what we didn't get at the start of March, and it took us time to actually get at that cost and take it out of the business through, you know, the use of furloughing initiatives and, you know, building – well, reducing the number of facilities that – and units that were in production. So we did that. And then, from a fixed cost base perspective, you know, we've also done a lot of work to manage that down, which is what Patrick will have talked about a bit in the course of, you know, describing the initiative. So we will have also furloughed additional people from the fixed cost base, but we are also, you know, really, really closely monitoring all areas of spend and making sure that only critical business expense are incurred. And, you know, that's around people, you know, managing vacancies [inaudible] the business. It's around, you know, some of the variable items – consumables, it's training, it's T&E – I mean, it's everything across the business. And all I can do is say, you know, we're managing that tightly, and we have taken, you know, a proportion of the fixed cost base out of the business as well.

If we talk about cash and where that leaves us, I think you're right. I mean, we need to look cash flow statement overall. So, if we're modestly EBITDA-positive, then what are the other components of spend? Well, CAPEX – we have reviewed that extensively, and we have switched off all projects bar the key essential ones for the year. And the one we are prioritising is obviously the automation, which we've talked about. You know, we do have spend on leases, and we do have spend on pension contributions, but we have deferred those where appropriate. And, you know, working capital is the one that will move, depending on when revenue comes back into the business. And, I mean, that doesn't give you precise numbers, but, you know, what you've described as cash burn, you know, we don't see significant numbers. We might see, you know, several million of an outflow, but, you know, that entirely depends on when volume comes back into the business and the ramp-up of working capital.

Martin Deboo: Okay. That wasn't stonewalling; that was very helpful. Thank you.

Operator: Thank you, and your last question comes from the line of Nicola Mallard. Your line is now open. Please go ahead.

Nicola Mallard (Investec): Thank you. Just a question, really, about the rebuilding process that you've talked about, with volumes now starting to edge back up. How lumpy is the cost base likely to be in terms of bringing some of these mothballed or, you know, temporarily closed facilities back on, and, you know, the workforce associated with those?

And I suppose, following on from that as well, given that [inaudible] you don't expect to see volumes back at their pre-COVID levels for maybe 18, 24 months, I suppose it begs the question what happens to the furlough scheme at the end of October. You know, the government's probably unlikely to run that for 24 months, but, you know, could we see another issue in terms of EBITDA negative when you're suddenly obviously having to pay some of the staff costs yourself?

Patrick Coveney: Yeah. So, Nicola, just a – I mean, a few different pieces to it. So, I mean, the – on the – how lumpy the costs are coming back, I mean, a little, but I don't think it's material in the context of how we'd be doing that. Certainly we would prefer a scenario of volume coming back and us having to kind of accelerate a series of site reopen – unit or site – shift unit, and then site reopenings. And to be honest with you, we don't have what I would describe as sort of material lumpiness in that, because I think it will – it'll be reasonably smooth, provided we do it well coming back, would be the first thing I would say. I mean, on furloughing, I mean, just – it's worth just bearing a couple of things in mind. So, I mean, as a business, we would – we would also have a reasonable level of temporary or agency labour in our business as well, so the – so I think there would be – there'd be some headroom there to – as the furloughing scheme ends, to – you know, to begin to kind of smoothly manage our way through that. Certainly our hope would be that, you know, we will have some version of production in – you know, in the sites that we have temporarily ceased production in, you know, by the end of this year, with – you know, with very large numbers of the people who work – were working for us back in some form or other. But exactly how that lands, we'll have to see. And I think the – as I said on the earlier call, you know, we've been very, very consistent in acknowledging the effectiveness of the furloughing scheme for managing that ramp-down and managing that ramp-up, but I would be – you know, I'd be very clear that the likelihood of it being extended in any meaningful or comparable way beyond the end of October – I suspect that's unlikely, given the sheer cost to the exchequer of it, you know?

Nicola Mallard: Yeah. Thank you very much.

Patrick Coveney: Okay. Listen, I'm conscious we – we've run on for an hour and 25 minutes. Listen, thank you to everyone for joining. We – there was a lot that we wanted to get through, because we were in effect not only reporting on the first six months but trying to give as much clarity as we could on what's – the impact of COVID-18, how we've responded to it in the near term and how we've set our business up for the medium term against that. Hopefully that was helpful. Thank you also for the questions, and we look forward to talking to all of you soon. Bye-bye.

[END OF TRANSCRIPT]