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Greencore FY20 Results

Tuesday, 24th November 2020

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Operator: Hello, and welcome to Greencore Group plc Full Year 2020 Results. My name is Val, and I will be coordinator for today's event. Please note this conference is being recorded and for the duration of the call, your lines will be on listen-only. However, you will have the opportunity to ask questions at the end of the presentation. This can be done by pressing star one on your telephone keypad to register your question at any time. If at any point you require assistance, please press star zero and you'll be connected to an operator.

I'll now hand you over to your host, Jack Gorman, Head of Capital Markets of Greencore Group plc, to begin today's conference. Thank you.

Jack Gorman: Thank you, Val, and good morning to everyone on the line and on the webcast. My name is Jack Gorman, and I'm Head of Capital Markets here at Greencore. I'd like to thank you all for taking the time to join us for our full year results conference call, which covers the 12-month period to 25th September 2020.

I'm joined on the call today by our Chairman, Gary Kennedy; our CEO, Patrick Coveney; and also 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 also like to 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.

Thank you. And with that, I'll pass it over to Gary.

Gary Kennedy: Thanks very much, Jack, and good morning to everybody. Thank you very much for joining us here this morning. You would've seen earlier that we had three releases into the market. Our annual report, our results announcement and indeed a notice in terms of an equity placing. And we'll also see very soon that we've issued a separate sustainability report in terms of 2020 and the future.

Just in terms of 2020, you'll certainly see from the annual report and the results presentation, which Patrick and Emma will take us through, it has been a very challenging year for us financially and operationally. But there are two themes that come through there. One is very definitely around resilience and one is very definitely around flexibility.

And we've treaded our way through that and made necessary changes as appropriate, both through the ramp down and the ramp up in terms of our business. And for that, I would like to sincerely thank a lot of our stakeholders, including our customers, suppliers, government departments and probably, most importantly, my own colleagues in terms of our employee base and particularly recognising here this morning the unfortunate passing of some of those colleagues through this pandemic.

In terms of the equity placing that has been done, it's been completed, it has been very successful. And I think the message there is really one around strengthening our balance sheet and improving the bedrock of our business as we continue to tread through the COVID-19 challenges, but more importantly, to set us up in a very meaningful way to take advantage of

opportunities that we've already seen and we'll continue to see through the course of the next financial year. And also to look forward to have been on the other side of the pandemic and having our business in a strong position to take advantage of all of that.

So again, a big thanks to our shareholders, who have been very supportive in terms of that equity risk. And I think it allows us through the course of the presentations from Patrick and Emma to concentrate a little bit in terms of the future.

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

Patrick Coveney: Thanks, Gary. And thank you to everybody for joining us on this call. And indeed, to so many of you, thank you for your support through the year, as Gary has mentioned.

We've released a lot of information to the stock market over the course of the last 12 or 14 hours, our annual report, our results statement, the details around the placing and the sustainability report. And Emma and I are going to try and draw those together over the next 30 minutes or so to kind of pull out the key messages for the business.

But when you boil it down, there is one big theme around where we are today. It's – we are balancing mitigating the near-term COVID uncertainty and the impact of that on our colleagues and on our business, while ensuring that we set the business and the team and the capability in Greencore up to rebound strongly with both current and new customers as this pandemic eases most likely at some stage during 2021.

In that context, the – let me just reference slide six in the presentation that's up on our website, and just briefly summarise each of these points here before handing over to Emma.

So the first thing to say, while it may feel like a long time ago, I think it's worth stating that following on from the relaunch of our strategy in September of 2019, our business was trading in line with that strategy, in line with that business model and in line with that economic model before COVID hit the UK at scale in the middle of March.

We acted quickly despite the scale of the COVID impact. Fortunately, we have an experienced team. We know our business well. And when COVID hit our business, we moved quickly and decisively and we knew the levers to pull within our business in response. We took a decision from the very outset to run everything against three clear priorities: keeping our people safe, continuing to feed the UK and protecting our business.

I'll say more about each of these in a moment, and Emma will take you through the detail of what this meant for our financials.

But the headline is that in an extraordinarily challenging environment, we delivered a second half that was broadly in line with the internal plan that we put in place for ourselves back in April. Not only that, but we put in place a budget for this year, financial year '21, in September, which set us up for a recovery in 2021 post the easing of the COVID pandemic.

What we've seen since year-end though is a resurgence of COVID in recent months. And we've had to take a whole set of additional measures to protect the business in this period. These include: tightly running the business from a cost, capital and cash point of view, with additional actions taken in recent weeks as the new COVID restrictions have hit.

We've also put in place a comprehensive debt package to ensure sufficient liquidity and to have a clean going concern statement in place, even tested against quite severe potential FY21

downside scenarios. And as of this morning, we're able to confirm that we've raised £90 million of new equity, which will ensure that we can fully deliver new business that's being landed and is also a negotiation and to continue the necessary investments we're making in productivity.

It also enables us to avoid having to make further cost and capital reductions that would actually cut into the muscle and bone of our business and restrict our ability to rebound strongly. And in addition, of course, this equity provides us with additional near-term liquidity and reduce near-term leverage through this uncertain trading environment.

Taken together, this suite of measures, operational, debt and equity, means that we're fine from a liquidity and leverage point of view in the short-term and we're also able to embark on a pathway to deliver real value creation opportunities through this year and beyond.

Looking further forward then, despite this level of near-term uncertainty, and we're not going to try and rationalise away that near-term uncertainty, we have an absolute conviction about the positive medium-term trajectory and prospects for our business. We've seen this first-hand as COVID restrictions unwound and our food to go business rebounded strongly in the summer. And we have clear evidence that as mobility comes back into society and mobility comes back into the economy, the food to go market and Greencore's place within that rebound strongly.

You see, we believe we are in the right part of the food to go market with the customer and channel positions to win strong relative share at the overall food to go market rebound. That level of share will be supplemented by us delivering an exciting set of new business opportunities, much of which has already been landed, but further elements of which are in discussion or negotiation right now through FY21 that will underpin the long-term volume level and long-term volume growth of our business.

We also, as I referenced earlier, have a set of investments in productivity and automation, which will help us to win in the future.

Finally, and I think this is very important, last evening we shared and released our first-ever sustainability report. This lays out comprehensively the substance of the sustainability agenda in Greencore and also sets new and ambitious goals, some for the near-term, some for the longer term in terms of what we're going to do to deliver to a wider set of stakeholders for our business. And I would urge everybody when you get a chance listening into this call to access that sustainability report on www.makeeverydaytastebetter.com.

I'm now going to turn to slide seven. And as I referenced earlier, we've put in place a comprehensive set of responses to COVID as it hit our business in late March. The first of those was about keeping our people safe. We put in – immediately, we put in place extensive physical protection measures on site. These included social distancing measures, Perspex and plastic screening, improvements in air filtration, temperature checking for all colleagues accessing sites, improved and enhanced hand sanitation, additional PPE for all colleagues.

We also put in place immediately isolation protocols for vulnerable colleagues in line with government's advice. And then we went site by site, and continue to do that, putting in place site-specific and regionally specific risk assessments to drive robust but tiered protocols in terms of initiatives for each site, addressing who and when colleagues could visit those sites, what the protocols would be for visitors, what the protocols would be for contractors, rules for travel

between sites and rules in terms of how we cohort and segregate and protect teams of colleagues on each of our individual sites.

A big part of our response in terms of keeping people safe while stepping up our levels of communication and engagement, both for onsite colleagues but also for remote colleagues, targeting enhancing and protecting the physical health but also the mental health of colleagues through this pandemic. And throughout, we've had an extensive level of engagement with relevant government authorities and industry associations to share best practice, act on good things that are happening in other parts of the business, but also share the benefits of our learnings more widely with stakeholders.

Our second priority was around feeding the UK. We had to act quickly to reset ranges in partnership with our customers in April, both to match falloffs and changes in demand, most particularly in relation to food to go categories, but also to maximise output for other categories that had strong initial demand in our ambient cooking sauce business, for example.

We've adopted a graduated approach with customers to the reintroduction of SKUs, taking account of the demand and cost considerations. And we clearly implemented the lessons of how to do that as we've come into the more recent lockdowns having been through this for the first time at scale in the spring.

We've also already tailored our product ranges to new consumer needs, consumer needs that have emerged through this pandemic, whether that be school lunches, dialling up range availability in suburbs or pivoting our ready meal businesses towards more family portion rather than serve one product area.

All of this has been facilitated by the agility of our network. And we've seen that on the supply side too, where we have to respond leveraging all parts of our network when unfortunately we had to take our Northampton site out of production in the middle of August.

We've taken onboard, frankly, a more purposeful contribution to wider community and wider society through this, with thousands of products and salads being made available to NHS workers across 20 different UK hospitals. Indeed, every site in our business, every manufacturing site, every distribution site, has weighed in with local or national community support in terms of making our food capability available to either vulnerable communities or critical frontline workers. And I'm really proud of the job that all of our business colleagues have done in facilitating this.

And then finally, we had to act to protect our business. And Emma is going to go through this in more detail in her updated section.

So I'm going to hand over to Emma to knit all that together in terms of what it means for – what it meant for us financially and what it's going to mean for us financially as we transition into FY21. And I'll come back in and talk about the medium-term prospects for our business and how we're setting up to do that in a few minutes. Emma?

Emma Hynes: Thanks, Patrick. And good morning to everyone on the call. Over the next number of slides, I'd like to provide the key elements of our full year results and performance, and in particular, highlight the resilience of the business through this unprecedented trading period.

More particularly, I would like to build on Patrick's earlier comments around how we've been protecting our business from an operational and balance sheet perspective in recent months and how the decisions to raise equity alongside a suite of funding and financing measures gives us confidence to navigate through the near-term challenges with confidence while ensuring we're well positioned for future growth.

So let me first provide an overview on FY20 results on slide eight. It's worthwhile reminding everyone on the call that in overall terms, the business was progressing broadly to plan for the first 5.5 months of our fiscal year, but was then overtaken by the decisive response we needed to take to the impact of COVID-19 on our business.

I will walk you through our revenue and profit performance in detail in later slides, but at a top level, you can see we had a 12.5% decline in reported revenues, with pro forma revenues declining by 14.3% in the year. For reference, the pro forma growth for the Group in half one was broadly flat, highlighting the depth of impact in the second half of the year.

Profitability was down significantly with a £73 million fall in adjusted operating profit compared to FY19 level, which when combined with slightly higher net interest charge, led to a fall in adjusted profit before tax to £17.3 million from £92.3 million in FY19.

Our post-tax exceptional charge was just over £20 million. The main components of this are: a debt restructuring and modification charge of £7.1 million, that reflects transaction costs to restructure debt facilities together with an accounting charge, which reflects the accelerated interest costs as a result of the covenant waivers; a £4.8 million charge relating to inventories and plant and equipment impairments related to COVID-19; and an £8.2 million charge as we made fair value adjustments on some non-core properties.

EPS was down by a similar magnitude, falling 81.9% to 2.9p on an adjusted basis, and a 2.6p loss per share on a reported basis post exceptional items.

And finally, as we would have communicated in May, we've suspended dividend payments as part of our range of cash flow measures, and unfortunately this reset to take alongside all the other initiatives that we needed to make through the year to protect the business.

Moving on to revenue performance. I'm focusing on the pro forma revenue growth in this slide to help you understand underlying revenue performance. We've also outlined the quarterly progression of pro forma revenue growth through the year to give a clearer view of the impact of the ramp-down and subsequent ramp-up in the business over the course of the second half in particular.

So of the 14.3% decline in Group pro forma revenue, there was a 22.6% decline in food to go categories, partly offset by 3.2% growth in the convenience categories. Within food to go categories, there are several key points to note on performance.

Firstly, Q3 pro forma revenue growth in food to go was 53% behind the prior year with declines of up to 70% in the first weeks of the pandemic. We then saw a step-up in food to go demand as we progressed through Q3 and through Q4 as lockdown restrictions eased and consumer mobility rebounded.

In comparison, Q4 pro forma revenue growth in food to go was 29% behind prior year levels, and on an underlying basis was better, still closer to low 20s by the end of the year. I also want to highlight Freshtime here. This business was acquired in September 2019 and have

performed well through the year and has been well integrated into the Group. It extended our presence in meal salads and chilling snacks – and chilled snacks. And our salads business unit is now an ideal platform for us to take advantage of growth opportunities in these categories as they re-emerge.

In other convenience categories, pro forma revenue grew by 3.2%. There was a different trajectory to food to go with solid growth through the year, as demonstrated in the table on quarterly growth. This was driven, in particular, by a strong performance in our ambient cooking sauce business that benefited from the sustained increase in scratch cooking and food assembly since lockdown.

Our ready meals business was broadly unchanged in revenue terms for the year, but we did see a more volatile revenue trend during Q3 that was beginning to stabilise during the final quarter.

So turning to slide 10, and EBITDA and operating profit performance. Firstly, we noted in our post close in October that we would deliver adjusted EBITDA of £85 million, and this was the eventual outturn. We also noted that this was after charging additional operating costs associated with COVID-19, which was in excess of £10 million, and included frontline employee recognition payments, incremental costs for furloughed colleagues, costs to reconfigure and implement measures to ensure safe working and social distancing and specific costs relating to the temporary closure of sites.

Second point to note was that notwithstanding the sharp demand shock that we experienced in our food to go business as a result of COVID-19, our own cost mitigant response enabled us to generate modestly positive adjusted EBITDA in Q3 and to improve on this in Q4. So looking at profitability from a category perspective, there was a significant profit reduction in food to go categories as demand declined following COVID-19 disruption.

This was offset partly by mitigating cost measures on the one hand and also from the full year addition of the Freshtime acquisition. Food to go reduction was partly offset by improved profits in other convenience categories, in particular, in our ready meals business, which benefited from the significant product and network initiatives put in place over the last few years.

At a Group level, inflation trends were broadly as anticipated. Raw material and packaging inflation was less than 1%, while labour costs, as anticipated, rose by approximately 5%, largely as a result of increases in the national living wage and its effect on associated pay levels.

And finally, we adopted IFRS 16 in the period, which is a new accounting standard for leases. As we transition to the standard using the modified retrospective approach, there is no restatement of comparative information for prior year periods. Though in FY20, EBITDA increases by £12.9 million as a result of IFRS 16. However, the impact on earnings is immaterial.

Net debt also increases to reflect the lease liabilities, but this is not included in our covenant calculations. And for those who wish to understand the movements in fuller detail, they're included in the results statement.

So just moving on to slide 11. We took quick and decisive action from the outset of the pandemic to protect the business. As Patrick outlined, at a commercial level, we have to move to adjust our ranges and our network in collaboration with our customers during the various

phases of the pandemic. Initially, we moved simplified product ranges in food to go, to reflect sharply reduced demand and selectively focus production in our other convenience categories where demand was surging, most notably, cooking sauces, as highlighted earlier.

We temporarily ceased production at our Bow, Atherstone and Heathrow facilities in April and rationalised production at our Northampton site. Then we had to carefully ramp up both ranges and the network again as demand recovers. This was complicated in August by a further temporary closure in our Northampton site, this time as a result of an outbreak in the area and at the site.

The team managed this very well with our customer and also in parallel with the relevant health and government authorities to bring the site safely back into full production by mid-September. And ultimately, this had a low single-digit millions impact on EBITDA. We also managed labour costs effectively and proactively, including utilising government furlough scheme extensively, flexibly managing the labour force through vacancy management and flexibility in agency utilisation.

And as we noted in May, executive directors and the wider senior management teams voluntarily agreed to temporary reductions in compensation. We also implemented a pay freeze across the wider organisation, and that has been extended into FY21.

Finally, we managed cash and capital as prudently as possible over the period. The actions are balanced to ensure that we retain the fundamental strength of the business to allow us to accelerate quickly as social restrictions ease and the economy comes to life once again. Previously planned CapEx was deferred wherever possible.

And as I mentioned earlier, we suspended dividend payments for the duration of the covenant waiver period, which I'll talk to in a moment. We should also note that it is our strong intention that we will reinstate dividend payments as soon as it is practicable. And during FY20, we also extended our main RCF, secured eligibility for the CCFF in the early part of the year, and we deferred cash contribution on defined benefit pension schemes.

So if we just move to have a look at cash flow on slide 12. I would like to focus on a few items here. So there was a free cash outflow of £29.7 million during the year, and there were two main drivers here: the reduction in EBITDA, as already discussed; and the working capital outflow.

The working capital is being managed closely, especially given the nature of our food to go business, where declining volumes result in cash outflows from what is a negative working capital cycle. This was evident through the second half, a period where we would normally be seeing cash inflows as the business peaks through summer months.

And while CapEx in overall terms was reduced year-on-year and planned projects were deferred, we continued to invest in essential projects, including the work that we've been doing on modular automation projects. As we've already discussed, our Q3 period to the end of June was the most challenging period from a demand perspective, and indeed, from a cash flow perspective as well. It was very encouraging to see the model working in the final quarter. And by this, I mean, as food to go revenue rebounded with the easing and mobility restrictions, this supported an improvement in cash generation in Q4.

So the business performed resiliently in FY20, and our decisive actions from cost and cash flow perspective underpinned our ability to rebound as underlying trading conditions improved.

So moving to FY21, the recent resurgence in the pandemic has had a less dramatic impact than the impact we saw in March and April but has added to the near-term uncertainty in the trading environment.

The recent resurgence of COVID-19 cases across the UK led to the introduction of tiered regional restrictions in October. This is in receipt[?] of the pace of recovery in demand in food to go categories that we had been seeing at the end of FY20. And demand in the Group's food to go categories was about 22% below prior year levels in the first five weeks trading of FY21, while performance in the Group's other convenience categories was flat with prior year levels.

Further mobility restrictions were reintroduced in early November for a planned four-week period of nationwide lockdown. And the impact of these restrictions is not as severe as that experienced in the first lockdown, but it has further impacted food to go demand. Demand in the Group's food to go categories was approximately 26% below prior year levels in the first two trading weeks affected by the national lockdown.

Now if we just move on to slide 14. As I noted in our half year results in May, our strong belief is that we should be as prepared as possible when it comes to our balance sheet resources, and this remains fully the case today. We've continued to engage with and enjoy the support of a very collaborative banking group and set of private [inaudible]. They supported us in May by granting us waivers in September and March leverage covenants. And they're supporting us again now, and we have built a comprehensive suite of financing agreements and amendments designed to protect and support the business as it moves into future growth.

And this includes: extension of the 12-month £75 million RCF put in place in March '20 by two years to March 2023; refinancing of the £50 million bilateral loan by two years to January 2024. We've amended our March interest covenant test from 3 times to 2 times. And when we renegotiated covenants earlier this year. The banks and PPs introduced a June 2021 covenant test of 4.25 times and a minimum liquidity headroom of between £100 million and £125 million for FY21.

As part of our recent negotiations, we agreed an amendment to both of these. So we've amended the June leverage covenant test from 4.25 times to 5 times. And we've agreed a reduction of our minimum liquidity headroom from between £100 million and £125 million to £70 million. And we also increased the maximum net debt threshold. Our overall facilities totalled £578 million, and we now have an average maturity of 3.6 years remaining.

Finally for me, as Patrick noted earlier, we completed a £90 million equity placing this morning. We placed 80.4 million shares raised via cash box structure at a price of £1.12 per share, raising gross proceeds of about £90 million. The placing was very well supported internally with directors and other senior management, including Patrick and I participating alongside other investors.

And we were really pleased with the strong support received from existing and new shareholders. Combination of the equity raised together with all the measures adopted regarding the Group's financing structure leaves us with very considerable resources and financial headroom to manage through what is an uncertain trading period ahead.

So that's the financial review section. I'm very happy to discuss this in more detail during Q&A. But for now, I'll hand back to Patrick to address how we are building back the business for growth.

Patrick Coveney: Great, Emma. Listen, thank you for that update. For those of you following the presentation, I'm now on slide 18. And let me just very briefly stand back in terms of kind of describe where our business is strategically. So following on from our exit from the US at the end of 2018, we looked hard in 2019 at how to shape our UK strategy to best drive value creation for our business over the next five years.

We shared these conclusions extensively at our Capital Markets Day in September of last year, and we built very strong internal and external momentum and alignment against that agenda. That's the strategy that we've been running with since then. And it's grounded in three pillars of growth, relevance and differentiation.

We are explicitly a growth-oriented company, consistently seeking to move our business into and to play into categories, channels and customers who outperform in growth terms the overall food market. Our ability to do this is based on building ever-increasing relevance, both with our customers and with the end consumer, grounded in the quality and relevance of our products, that's the relevance for products in terms of the taste profile, the nutritional profile, the convenience profile for end consumers and also in terms of the way in which our range of products work economically and strategically, given the format choices of our customers.

We differentiate through a distinctive, repeatable Greencore way that in turn draws on four elements: our recognition that our people are at the core of our success; an unrelenting commitment to safe and great tasting food; an aspiration for excellence in all that we do; and a desire to continuously improve in substance terms the sustainability of our business.

We've been consistent through this year, notwithstanding, the arrival of COVID, in executing against that strategy. So on growth, for example, we've worked hard with our existing predominantly retail food to go customer set to manage our portfolio and our customers' range and portfolio through this pandemic, but to be primed to exit the COVID disruption quickly with a breadth of opportunity to go after that I'll describe in more detail in a moment.

In parallel, we've doubled down on channel and category expansion, capitalising on specific new opportunities that we see as the supply landscape has changed in response to COVID disruption. On relevance, the pandemic has served to underscore the importance of and depth of the customer relations that we've built. We've taken pragmatic decisions around our network, around our range, around our product development pipeline and around capital investment in lockstep with our customers. And we've worked hard to meet their emerging needs alongside our own as end consumer demand has moved around a lot, in particular, over the last nine months.

The breadth of our portfolio has also set us up well, ensuring relevance for our customers and consumers, not only through our food to go elements of our portfolio but also the breadth and quality of our offering in other categories where, in many cases, demand has spiked up through the disruption.

And on differentiation, we've stepped on our Greencore way of working, building an integrated purpose model under the banner of making everyday taste better. That ties together each of

the four elements that we discussed at our Capital Markets Day: our people, our food, our excellence and our sustainability agenda. And to be candid, we and I have learned through COVID that now more than ever a differentiated and purposeful approach to our business is critical to guiding our actions and setting our plans for the future.

So if I move now to slide 19. And I guess the first and most obvious point from this is to conclude that we believe that the food to go market is going to come back. And without overstating the obvious, the problem is COVID. And when that COVID problem unwinds, this slide demonstrates that the market can and will and did return.

Of course, it's difficult to be precise on when this rebound will lock in and sustain because that will depend, first of all, on the instance of the virus. Secondly, on the policy prescriptions that are put in place locally and nationally. Thirdly, on the consumer reaction to all of this and how it informs channel and product choices that consumers may make. And, of course, as we look further forward, it will depend on the health care interventions and whether, or I suspect more likely now, when vaccines and antiviral treatments reach critical mass and begin to actually create the conditions for this pandemic to fade and for us to move on from this pandemic just as societies have done in the past.

And when that happens, we believe there will be strong demand for high quality, fresh and nutritious food to go products. This chart also, though, tracks food to go volumes against transit data. And to be specific, it tracks food to go volumes against the Apple data tracking that shows the movement of people via public transport relative to January 2020.

It is clear that there is a strong correlation between food to go and travel index pre-COVID. And in April, when social distancing was imposed when there was widespread fear about transit and movement and when the first national lockdown was imposed in the UK, both food to go volumes and transit numbers fell below 30% of prior year level.

There has been a steady build back through the summer as restrictions have unwound, peaking above 75% of prior year levels in September. This level – or at 75% of prior year – was reached even when multiple restrictions on citizen movements were still in place with further restrictions in mobility, travel and office working, keeping each of those elements way below normal levels.

Over the last two months or so, we've seen a resurgence of the virus. We've seen more regional followed by a national restriction. And of course, that's led to a drop-off in demand. However, it's worth noting that this falloff in demand is much less significant than what we would have seen in March, April, May, and of course, given the specific length of this lockdown, the expected duration of it is shorter still.

If I move on now to slide 20. If we look out over the next couple of years, there is reason to believe that not only that the market will return, but that the channels in which Greencore plays within the food to go market will win out. Here, we're using IGD data, which we, as a business, and many other players in the food and grocery market have used to frame discussions on growth.

The IGD are predicting that while the next couple of years will have some COVID hangover effect, they're also predicting that within two years, the overall food to go market will be back to something like 90% of pre-COVID levels.

However, within that, you'll see that there's an important distinction between foodservice food to go, namely the green bars in the chart, and retail food to go, the blue bars, where Greencore plays more strongly and where frankly more than 95% of our overall food to go volumes actually sit. What you see here is that retail food to go channels have been hit much less severely than foodservice ones back to a forecasted level of something like 94% of pre-COVID levels next year versus only 70% for foodservice.

The reasons for this are obvious when you think about it. Firstly, retailers in general have performed strongly throughout the pandemic. Volumes and footfall overall have been up across their estate as people haven't been able to access food in other channels. This has led to increasing levels of shopper and consumer trust and also stronger resources within the grocery or retail customer set to set their businesses up for success.

Contrast with coffee players or food to go specialists who, in many cases, quite literally have been mandated to be shot from much of the earlier part of this year, and in many cases, have subsequently announced partial store closures and significant job losses. The result of this is clear. Significant capacity is coming out of the foodservice food to go market, but much of that demand will bounce back. And the question is where will it go? The hypothesis of the IGD and the hypothesis of Greencore is that it will go to retail food to go.

Now of course, that demand may be in different places, in different regions, in different splits and store formats between urban and suburban stores, perhaps playing at different price points as budgets tighten, but it will be there and the national footprint of retail players across multiple formats will serve them well to meet it.

I'm moving now to slide 21. Bearing in mind that overall market trajectory, we believe that Greencore and our customers are well positioned to capture relative share of this food to go market as COVID disruption unwinds. As you know, Greencore extensively tracks the behaviour, preferences and activity of food to go shoppers with a bespoke and ongoing research program.

And from that, we know that there remains still a very significant demand for sandwiches. Even when people are making their lunches at home, 60% of all homemade lunches are still sandwiches. The UK consumer, the UK citizen is still eating a lot of sandwiches.

Food to go penetration remains high. And this is an important and perhaps surprising stat for you. But even among people who are currently working from home, and this, of course, gets widespread coverage and many, many people are appropriately working from home. For those who are working from home, over a third of them are still going out and buying preprepared food to go products.

This actually is not a huge gap versus the prevalence of food to go for office workers, where 50% penetration for food to go from office workers is in place. And it's worth noting that 50% of the food to go products that are purchased externally are now being eaten back in the home. From a customer point of view, it's clear that food to go will play a critical role in driving food traffic into store. It's also one of the most profitable areas for all of our customers.

We know that from many store formats, in particular, the convenience or suburban outlets of our customers, and in many regions, food to go volume is actually holding up pretty well at the

moment as people working from home nip out to their local shop in the morning or at lunchtime for a snack.

Indeed, when I was left in the UK for the first couple of weeks of October and got to spend time with our customers and with our teams across the UK, it was remarkable actually when you're in suburban areas like Didsbury or Wilmslow or Chew Magna or Beverley or Beaconsfield or Barnes or Putney, you're actually seeing large numbers of people out and about buying food to go products, consuming food to go products who may well be working in their homes but actually are getting out and shopping in suburban areas.

I think it's – I don't think it's too controversial to say we are going to see a reset of shopping habits here with more food purchase generally and food to go purchase specifically happening in these kinds of suburban areas as we go forward and perhaps less in city centres. It's been striking as well that even through COVID, we're seeing our grocery customers in food to go investing in new formats and new forms of food to go proposition. Now it would be inappropriate for me to cite specific customer-by-customer investments, but we would see that across most of our large customers, the development of new food to go specialist stores, and also interestingly, a stronger push towards franchising their brands and the trusted quality and value that's associated with their food to go propositions into traditionally foodservice customers.

Finally, I would say with our customers, they are all recognising the critical role of technology and direct-to-consumer routes to market, with a number of our customers now partnering with the likes of Deliveroo and Just Eat for the first time, which – that alongside their more traditional and at capacity direct-to-consumer offers, has led to something like a 250% surge in delivered food in recent months.

From a Greencore perspective as we look forward, we start from a good place. We have truly national coverage, playing across all channels and all store formats. As I said earlier, while food to go demand will bounce back, it will bounce back differently, in different places, in different regions, in different formats with different channels and different customers to where it was pre-COVID. And we believe that when it does that, Greencore would be there.

We're working proactively with all of our existing customers to ensure that we have the right range, the right merchandising, the right availability through this more volatile demand period, but that we're ready to ramp up volume when this disruption begins to end permanently.

We're continuing the category extensions that we talked about 15 months ago at our Capital Markets Day in areas like salads, in areas like snacking and in hot food to go. And we're also stepping ourselves into new channels, playing now with Ocado, or more particularly, the ultrafast Zoom delivery platform within that since their partnership with M&S, also playing with the online offers of all of our other customers, building capability in vending and investing in our own in-house e-commerce expertise.

However, we're not just relying – and I'm moving now to slide 22. We're not just relying on the underlying food market to rebound as sort of rising tide lifting our ships, so to speak. We're actually also developing an exciting pipeline of specific new business opportunities that will impact our business through FY21 and beyond.

The first of these is a set of new business wins, which we have actually already landed. As many people who look hard at the food to go supply base will recognise, there's been a

substantial change in the structure of the supply landscape in recent months, and that's created opportunities for Greencore.

The biggest of these was the exit of Adelle Foods from the market earlier this year. We have already secured several former Adelle customers, customers with a pre-COVID revenue of more than £75 million. We are also continuing to grow our footprint in salads after the acquisition of Freshtime last year, and the site of Boston is coming along nicely. And we have extended into food to go salads with a number of existing Group customers where we didn't previously have a food to go salads range.

And in addition to that, we have secured specific new customers into our ready meal portfolio. Beyond that though, there is a healthy pipeline of further commercial opportunity. There is, frankly, lots more to go after amongst the former ex Adelle customer set across foodservice on the coffee channel, with a number of these opportunities in live discussions or live negotiations.

There's lots of scope for us to grow in digitally enabled channels. And we're continuing our expansion in salads and snacking as we upgrade the Boston facility with an aim to onboard further additional customers.

And also, I think we are now seeing the long anticipated restructuring of the ready meals market, with some selective capacity coming out and several longstanding players in the ready meal market questioning whether they want to stay there for the medium term.

Of course, with all of this, it's appropriate to be cautious about margin. It does take time for the margin profile of new businesses that Greencore onboards to build. However, importantly, we anticipate that this level of new business will fit into our existing production and distribution footprint. Of course, there will be some modest investment in some additional lines, some additional equipment, some additional picking. But we will be able to onboard this portfolio of new business, both what we've got already and what we're targeting, without having to invest in major new factories.

In parallel to all of this, we continue to invest in productivity enhancement. A number of you may remember from our Capital Markets Day last September that we discussed at length the potential to invest profitably in automation, particularly the automation of sandwich assembly. We are now developing first to sandwich market solutions that have the potential to not only enhance productivity but also to build out our capacity for future growth from our existing footprint over time.

This year has brought its own challenges, not just in terms of having to prioritise cash and capital spend given the hit to our business that we saw because of COVID, but also how to execute against the capital – set of capital projects, given the need to ensure safety and to restrict access to our facilities in order to protect the essential working colleagues who are based there.

However, we have been able to press ahead with the majority of these investments in this area, which will be critical in terms of creating momentum and headroom around productivity for the years ahead.

I'm now turning to slide 23. Because beyond these growth and productivity initiatives, we are also stepping up our commitment, and in particular, our public commitments in relation to sustainability.

Last evening, we launched our first-ever sustainability report. Any of you can access it on screen. You can get it under [makingeverydaytastebetter.com](https://www.makingeverydaytastebetter.com). This report lays out comprehensively how we are gearing up in this area. It describes much of what we've been already doing, but pulled it together against three pillars which sit right across our supply chain.

As a business, we want to source with integrity. We want to make with care. And we want to feed with pride. Listen, I know that these things are easy to say, but what do we mean? For each of these, and anyone who looks up our 70-page sustainability report, you'll see that we've set ambitious long-term goals that we think will change the game for food production in the UK.

And underneath each of these, we've made a series of specific commitments. So for example, in relation to sourcing with integrity, this is about ensuring that every ingredient we source comes from a sustainable and fair supply chain. It encapsulates a whole set of measures about the transparency of what we are sourcing from a food integrity, human rights and environmental impact point of view.

As it relates to making with care, this is about the choices that we make every day in what and how we produce. It's about resource efficiency. It's about food waste and it's about packaging. There are a number of measures in here, most notably a commitment to achieve net zero carbon emissions by 2040, but also underpinned by other commitments such as our target to have our food waste level in line with UN sustainable development goals.

Most notably and most, I think, visibly in the near-term, we are committing to develop a 100% recyclable sandwich skillet with an aim to have that packaging in market in 2021. In relation to feeding with pride, Greencore is at the heart of the communities in which we operate. We are committed to increasing that positive impact through the products we make and the commitment that we make in our communities. We've learned so much from COVID in this regard.

And some of the commitments that we're making in this area include that by 2022, we will ensure that 100% of the surplus products that we make is donated to our communities. And by 2030, we will have achieved parity in terms of our product development agenda between animal protein and plant-rich protein alternatives.

This whole approach to sustainability is grounded in the broader decision to adopt a more purposeful and a more explicitly purposeful approach to who we are as a business and what we stand for. We've encapsulated this in an explicit statement of purpose for our business, which is making everyday taste better.

So to conclude then, first of all, it would be inappropriate after the year that we've had for me not to express my personal gratitude and the gratitude of our Board and leadership team for the support that we've received over the – to help us manage through the challenges of the last nine months. That's been a level of support from our investors, from our debtholders, from our customers and suppliers and from the UK government, in particular, for supporting us through the furlough payments that were necessary to maintain the health and safety of our colleagues.

I'd also like to express my personal gratitude to our Board, and most particularly, to all of the Greencore colleagues who have truly gone the extra mile to work through this pandemic.

Secondly, of course, there is uncertainty around the near-term trajectory, the trajectory of our business over the course of the next few months. COVID will continue to impact us through FY21. We are still living through a dangerous global, national and local pandemic, and there is still plenty of uncertainty about the exact timing and impacts of that pandemic and how it will play out over the weeks and months ahead.

However, as I said right at the beginning, we are clear that we have a set of measures that we've put in place, which fully mitigate all of this near-term uncertainty associated with COVID. We have given ourselves the space and the headroom and the momentum to trade through COVID no matter what it brings.

But having done that, we feel good about the future. We are in markets that are resilient and that have already shown a propensity and ability to rebound. And alongside that, we're doing a whole series of things with new business, with productivity, with our existing and potential new customers that will enable us to rebound as we come out the other side of COVID.

So thank you for listening to Emma and I, and we're happy to take questions now.

Questions and Answers

Operator: And as a reminder, if you'd like to ask the question or make a contribution on today's call, please press star one on your telephone keypad. To withdraw your question, please press star two. Please ensure your line remains unmuted locally. You'll be advised when to ask your question. So again, press star one on your keypad. And we do have a few questions in the queue. The first one comes from the line of Jason Molins from Goodbody. Please go ahead.

Jason Molins (Goodbody): Good morning, Patrick, Emma and Joost. A few questions, if you don't mind, just to kick off. Firstly really around cash. Can you maybe just talk through cash performance during the second half of the year, maybe putting in context Q3 and Q4? And again, you mentioned an improvement in Q4, but just wondering what that means when we're actually cash flow positive during Q4. And maybe looking into 2021, are there any specific cash costs that we should consider whether that's around furlough or any government incentive schemes that you might have benefited from this year? Second question, again, just looking at your balance sheet, what the capital raise will do for that initially, but maybe just looking out and beyond in terms of your leverage target or optimal leverage structure for the business, given the challenges that you've faced this year, how are you thinking about the appropriate level of leverage that you would like to have in the business? And then sort of final question is around the revenue opportunity that, Patrick, you mentioned in quite a bit of detail. Just wondering how we should think about the flow-through from that from a profitability perspective? Thanks.

Emma Hynes: Great. Thanks. Thanks, Jason. Look, I'll take the first number of questions around cash and balance sheet, and Patrick will come in on revenue and how we're thinking about that.

But look, from a cash perspective, I mean, clearly, the impact in Q3 was pronounced with the revenue falloff. And given our working capital profile being negative working capital, that led to quite a substantial working capital outflow in the period. We would also have – outside of

working capital, we would have burned some cash in the period beyond that given the impact of trading in April.

As we went into Q4, that improved. We actually generated cash. Working capital started to come back in as we went through Q4. It didn't come all the way back, as you can see in the working capital outflow for the year. But it's come back quite a lot. And we also generated cash outside of that in the period as well.

I think you have to look at the half year numbers to understand the working capital fully. We had an outflow of \$20 million in working capital in the first half. So in the normal course of events, that would reverse in the second half of the year as volume ramped up. That didn't happen because we saw a further decline in revenue as we went through that we partially pulled back.

So we ended up with another £20 million, £25 million-odd of working capital outflow on top of that first half. But over time, we would expect that to come back as revenue comes back up.

In terms of other government incentives and things like that, that were available and whether there's a consequence of those as we roll into FY21. I would say there's not where we claimed furloughing support. The higher volume of numbers of colleagues that we had on furlough was in Q3. That has largely unwound. By the time we got to the end of the year, we have brought most of those people back into the business, and those claims were filed on a monthly basis.

So we wouldn't have a carryover either way on that on other government support. There wasn't anything that we were availing of in the period that carried through to FY21 that would have an impact in that respect. And we did defer contributions into – some contributions into our defined benefit pension scheme. And those are due to be caught up actually in FY22 rather than in FY21.

And then as it pertains to leverage, I think our medium-term leverage target remains 1.5 to 2 times. I think the equity placing that we've done will help us get back to that sooner. But the way I would think about it is we need to get back to more sort of normal trading conditions, and then we think about getting to that range in and around 12 months after that.

Patrick Coveney: Jason, if I just pick up on revenue opportunity before I make one point on cash, which is a consequence of what Emma has described, which was much stronger cash generation in quarter four than quarter three because of the working capital dynamics beginning to flow back to us is that we actually haven't had the sort of level of working capital outflow post year-end that you might otherwise have had.

And again, that's just kind of reflective of the somewhat different demand profile for our food to go business. And it gives you confidence actually that we can – with growth and the negative working capital profile associated with food to go that we can start to generate cash with recovery, which would be helpful.

Now as it relates to revenue opportunities, I am going to choose to be somewhat cautious on margin and profit consequences of new business here. As you know, I and we, our team here, have been doing these jobs for a long time. And we know that onboarding new business, if you do it well, is very, very positive to overall returns on capital, particularly if you're not having to add material new capital for that business over time.

But it does take you typically a year or so, particularly if those products or channels are somewhat different from where the business has been before, to onboard that successfully to really delight the customer in terms of how you do it from a service and account management perspective.

So I think there is – there's a lot to be positive about here in the confirmed and prospective new business. In very simple terms from a volume perspective, if you take those IGD forecasts and assume those to be somewhat accurate and you add the volume of confirmed business that I've referenced, you're back to pre-COVID levels in volume terms.

But I think it might take a bit longer for that to flow through to pre-COVID profitability because we've got to onboard that business well, do a good job with it and then gradually work to enhance margin as we get better on conversion. So hopefully, that gives you a sense for how those pieces fit together.

Jason Molins: Right. Thanks. Cheers.

Operator: Thank you. The next question comes from the line of Paula Fletcher from Shore Capital. Please go ahead.

Clive Black (Shore Capital): Well, I think you might have Clive Black here. Just changed gender in the last minute. Thank you for the presentation. A couple of questions, if I may. Firstly, Patrick, what will be the priorities for capital expenditure in the future? And how do you see CapEx panning out? And secondly, just given what you said around the future revenue and profit trajectory, how do you see the shape of FY21 to September next year, please?

Patrick Coveney: Yes. Clive, your voice has deepened remarkably since your intro there. But let me deal with your second question first, right, and this may disappoint some people on the call. But we just don't feel in a position to reinstitute guidance for FY21. There are just too many uncertainties here around what's going to happen with COVID.

And even, frankly, the view that we had unlikely outturn for FY21 had obviously been impacted since we started the year by our experience of the regional lockdowns and the national lockdown since, and frankly, just an inability to call what's going to happen, particularly in quarter two. I think we start feeling more confident given the positive set of aggregate medical news about where Britain may get in relation to the virus in three and four.

So that's why we're being cautious. We'll continue to run our business against the priorities that we've given, and we'll continue to be transparent with investors around what's happening with volume. I think many people would think, including ourselves, by the way, that while lockdowns are clearly a negative, that the impact on food to go volumes of this lockdown is perhaps quite a bit more muted or a lot less negative than one might have anticipated before it was called, which I think again is evidence of the resilience of our business and some of this changing shopping habits, particularly this contrast between what's happening in suburbs versus what's happening in city centres that's starting to unfold and it's really underpinning the volume of our business, and I think gives us a good platform to rebound when we come out the other side of COVID.

In relation to priorities for the future on capital, I think the two areas where we're going to be prioritising are, one, making sure that as we start to get line of sight to more stability around food to go volumes, that we're ready to implement the work that we've been doing around

automation, particularly sandwich automation, that enables us to achieve a step change in productivity when we have confidence around what the volume and manufacturing schedule looks like as we go out the other side. So that's one big area.

And then the second, I think, is just making sure that we're not static in terms of how we think about the food to go opportunity and that we're able to, if I use the expression, tweak our production network to get after fast food to go salads or to get after fast top breakfast sandwiches, and we can do that out of our existing production network. But of course, it may require modest additions in line or assembly technologies and things like that within a well-invested food network.

And the last thing I would say, listen, you don't need me to tell you this because you've seen many of our plants. We came into this pandemic with a relatively new and very well invested asset base. We don't have big deferred capital catch-ups or an aging estate that requires some step change in maintenance CapEx or replacement CapEx. We're in a nice nick in that regard.

And so, again, that will impact to what our overall capital expenditure level will be over the next number of years.

Operator: Thank you. The next question comes from the line of Roland French from Davy. Please go ahead.

Roland French (Davy): Hi. Morning everybody. I've got three questions, I think. So maybe just coming back in the first instance to the new business wins in food to go, are you able to tell us the absolute scale and revenue terms of that contract? And notwithstanding, you've called out margin friction over the next 12 months with that contract. How has it been priced? Should we think about it being priced in line with existing – gross margin existing contracts, or has it been more competitively priced essentially? That's the first question. The second question is just in relation to your network and capacity more generally. And I know through COVID, it appeared that you'd manage your network and staffing levels in context to where like-for-likes are tracking, at least in food to go. And you've now mentioned obviously the network is now fully open and most of the colleagues are back in the buildings, but like-for-likes are still down at least 20% in food to go. So I'm just trying to understand the rationale for that. Is it reflective of imminent volume infill from new contracts? Or is it the fact that the full network needs to be up on running in totality to service your customers? So that's the second question. And then maybe dialling into November performance at food to go, so pro forma, it's down 26%. Perhaps you could split it out by product or at least some colour by product, i.e., salads, sushi and sandwiches? And maybe with that context, some comparison to Q3. So Q3 was down, I think, 53% in a lockdown scenario, and we're down 26% in the second lockdown scenario. So what's the delta there? Is it back to school volumes coming on stream or is it less adherence to the mobility restrictions? So colour on that would be useful. Thanks very much.

Patrick Coveney: Yeah, Roland, listen, a lot in that. Let me try to pick up the point. So first of all, on new business. The £75 million of pre-COVID revenue that I've referenced, that's actually across three different contracts, not one. And the – and each of those customers now has been moved on to the Greencore model of commercial contracting, which is quite long-term in focus.

So the – some of those three are on new three-year deals and others are on new five-year deals in terms of how they're put in place with the kind of payment terms and working capital dynamics being reflective of how Greencore thinks about this and the way in which we engage with suppliers.

I would say that the pricing is a bit tighter than we would – we might have in some of our traditional customers. But as against that, it's somewhat better than we might have observed when – with the previous incumbent. And also, it's reflective of the fact that there was some level of competition in terms of procuring that business. But we like the economics of the deals that we've done here, particularly in the context of being able of having the installed capacity to – and the kind of wider overhead structure or leadership team structure to be able to observe it.

Of course, I have to give the caveat here that, that £75 million was pre-COVID, and we have to see how those accounts settle down as we begin to come out the other side of COVID through their trading below the pre-COVID levels at the moment.

In relation to our network, you characterised it very accurately that all of our sites are open. Clearly, with the modest level of falloff relative to where volumes were in September, we don't have quite as much production going through each of those sites. And so we have modified our shift structure somewhat. We do have some people out furloughed, nothing like the scale that we would have had in April or May.

But importantly here, we're planning for three different effects. First of all, the actual impact in the lockdown is materially less than the impact in the first set of lockdowns. There's a whole plethora of reasons for that, frankly. Partly, it's that schools are still open. High level education is open. Somewhat more people are going – are working back in the workplace, that would have been the case in April, May.

I think it's also true to say that the level of fear of the virus, rightly or wrongly, is not what it was in April now. And I think also our customer set have learned the format and regional lessons of the last lockdown in terms of where demand is. And we've learned how to tweak range based on our experience in the summer too as well. So that supply side, format side of it is, I think, also important.

Last two things I would say is that this lockdown was for four weeks. The Christmas trading is the – is huge for our customers. The lockdown formally ends on 2nd December. And we needed to have a range and a proposition and capacity ready to fire from when that lockdown eases and more people – however, how many more still to be seen, but more people are – choose to come out and shop, particularly in the lead into Christmas. And so that's another reason to – why we've decided to keep the network fully open and the ability to turn capacity on fast as we come out.

And then as we look forward and we think about the utilisation of our network, we – that's when we layer in the new business considerations that I mentioned, both at the beginning of this question and also in the presentation.

Roland French: Great. And then just on the food to go in November?

Patrick Coveney: Yeah, sorry. It's – I mean, we're, I think, 26% down is the numbers that Emma shared earlier in the – year-on-year in the first two weeks of the lockdown. The – I mean the truth is the vast, vast majority of our food to go product is sandwiches.

Our salads business, the – what I would describe as the food to go part of the salads business is down equivalently to sandwiches. But we do have some, what we call, side of plate salads that we also manufacture in those units, things like coleslaw and potato salad. The volumes there have been a bit more buoyant, somewhat similar to our other convenience categories.

But in a – from a materiality perspective, it's not meaningful, any difference between sandwiches and the rest. The bigger lesson I referenced earlier here is this significant level of variation between suburbs and city centres between those convenience stores in locations which people are still shopping hard versus the formerly high-traffic locations in airports and train stations and city centres.

Roland French: Got it. That's great.

Operator: Thank you. The next question comes from the line of Nicola Mallard from Investec. Please go ahead.

Nicola Mallard (Investec): Hi. Morning. Just a couple for me as well, I'm afraid. The £10.7 million you mentioned, which was the sort of COVID costs, if you want to call it that, I was just wondering if you could give us a bit more shape in terms of what's recurring. What should we expect to see still coming through in the current year? I'm assuming you're not paying another staff bonus. And also with the changes to the debt and the equity raise, etc., I mean, can you give us a guide on what's happening to the cost of your debt? Again, you've put a number in the exceptionals as to some one-offs associated with that. But is there an ongoing element in terms of interest rates or etc. within those sort of interest line? And then finally, waste. I mean, clearly, we've had a very volatile order pattern, as you say. Maybe the retailers are getting better at predicting what people are going to want and when. But who's bearing the cost of the waste? Is that something you're sharing with customers, or is that still their concern? And maybe they're just being cautious on ordering as a result of that? Thank you.

Patrick Coveney: Hi Nicola, it's Patrick. Listen, let me just deal with that question on waste and then Emma will pick up the COVID costs and the debt questions that you had.

I mean in a formal sense, the economic responsibility for finished product waste sits with our customers and not with us. But clearly, we're doing a crap job if we end up with a misalignment of supply versus demand – and demand, particularly from make-to-order products. So we've got to be all over that with our customers.

I actually think we've done an incredible job together in managing to keep waste very, very much under control with the level of volatility we've seen in demand. With the benefit of hindsight, Nicola, I would say that we probably overcorrected in terms of range rationalisation in the spring for the lockdown.

And one of the reasons that you're seeing a much smaller level of falloff in this lockdown is that we haven't pared back range to the same degree, but where we've been really pushing hard is what I would describe as format or regional specific ranging where we had the effect I've mentioned numerous times here of consumers shopping differently in terms of location for food

to go products and making sure that we and our customers are aligned in terms of how we manage availability and waste there.

So I'll hand over to Emma for the other two questions.

Emma Hynes: Hi Nicola. Look, in relation to the £10.7 million, I mean, what we did when we pulled out that number is really are referring to clearly identifiable costs. So it obviously doesn't include any cost of sort of inefficiency in the system around how we're manufacturing and impact of social distancing and lower SKUs and all of that. So the £2.5 million frontline recognition payment, you're right, that is a one-off payment from our perspective.

There was the £5.5 million of incremental costs related to [inaudible] furloughed colleagues, I mean, we had quite substantial numbers of colleagues furloughed, particularly in Q3. And we're not anticipating at this point having something similar to that, but we would have seen that as a one-off cost.

Clearly, the government has extended the furloughing programme, and we're using it to an extent now but nothing like the extent to which it was used in FY20 and in Q3. We had wound that down. Actually, there were very few people, the vast majority of those colleagues that were furloughed had come off the furlough scheme actually by the end of September.

And then the other items there are specific costs related to introduction of sort of PPE or social distancing measures, screening and things like that in our facilities. So again, I wouldn't expect to see that type of cost reoccur in the period.

In relation to – in future periods. In relation to interest, the exceptional charge – the vast majority of the exceptional charge relating to financing and debt is actually the debt modification. And what that is, it's an estimate of the higher interest cost through the waiver period as a result of the higher level of debt and leverage. So you largely front flow that through the way the accounting now works in that respect.

So you won't see the type of step on in interest costs that you might have seen in the past when something like that has been reflected.

Nicola Mallard: Fantastic. Thank you very much.

Operator: Thank you. The next question comes from the line of Martin Deboo from Jefferies. Please go ahead.

Martin Deboo (Jefferies): Yeah. Morning everybody. I've just got three brief ones that are completely unconnected. So I'll just fire them off. On the comment Adelie, I mean, £75 million. I mean, I think the last companies housed accounts from Adelie, which are a bit old, had revenues of over £200 million. I'm sure it wasn't anything like that by the end. But I just want to clarify, were you suggesting in the words that there might be more to come from the wreckage of Adelie, or sort of are you done at £75 million? Second question, probably for Emma is, Emma, I think you said labour costs were up 5%. I wasn't sure if that was total labour cost or unit labour cost. But given sales were down 12.5%, just looks odd that labour was up that much. Can you sort of help me understand what's driving the increase in labour cost? And how are you feeling about the labour market going forward? I'm less bothered about Brexit. I'm more interested in whether you think higher unemployment is likely to loosen the labour market a bit at your end of it or not? And thirdly, just a cheeky one. I know it should be gratuitously nosy. But do you want to give me the revenue growth of M&S versus the co-

op as the two biggest customers? I'm interested in the difference between the more sort of city centre and transportation-based M&S proposition and the sort of more neighbourhood suburban co-op proposition. But you probably won't tell me, but I'll try. Thank you.

Patrick Coveney: Hi Martin. It's Patrick. I'll do questions one and three, and Emma will come back in on labour costs. Yeah, the – our hope and expectation is that we'll capture considerably more than that £75 million of pre-COVID revenue. What we're confirming today is that we have already put into long-term Greencore contracts three large Adelle customers, which had cumulative pre-COVID revenue of £75 million. But let's see how we get on with the rest.

In relation to your final question, you are correct in saying that it's not my job to actually give detailed revenue numbers for an important subcategory for our two largest customers. What I would say though is the trends that I have described about the performance of suburban market town, village convenience stores versus either larger stores or city centre stores play out across all of our customers.

And so the relative impact will, frankly, be a function of the relative shape of the store portfolio of our different customers, including the two that you've mentioned. So I'll hand over to Emma on labour.

Emma Hynes: Yeah. Hi Martin. Look, in relation to direct labour, when we – also to labour, we're talking about direct labour, and that's largely – the 5% is largely driven by national living wage increases.

In terms of labour availability in the market and the change in that dynamic, I guess we don't see that having an impact on the rate of inflation, because, again, it's regulatory and it is driven by that ratchet in national living wage, which is outside of our control. But the big focus for us, which we've talked about before in helping mitigate that is actually our automation project and getting that up and running, so we can manage the overall impact of labour inflation in the business.

Martin Deboo: Yeah. And then just quickly, was the 5% your total labour bill in millions or was it unit labour cost? So just want to be crystal clear.

Emma Hynes: Unit labour cost.

Martin Deboo: It was unit. Okay. Thank you.

Operator: Thank you. The next question comes from the line of Sriram Gurijala from Barclays. Please go ahead.

Sriram Gurijala (Barclays): Hi everyone. Thanks for taking my questions. I have a couple. The first one is on your long-term projections from IGD. Given that at the moment, in a second lockdown, you're at 75% of pre-COVID levels or year-over-year levels. Do you think the projections are slightly on the conservative side because they're at 80% next year and 90% the year after? And the second one is how do you think the consolidation will play out longer term because you said that you've gained £75 million in new contracts from three different suppliers? Longer term, how do you think it will change the industry dynamics, the whole consolidation, and if you're able to get through in a better shape than others? And the last one is, Patrick, you spoke about e-commerce and some of your customers partnering with Ocado, etc. Could you talk more about what you are doing in that channel? And you also had some numbers around people continuing to eat sandwiches at home just in a different channel. So

is there an opportunity there by getting into delivery models or things like that? That's all from me. Thanks.

Patrick Coveney: Yes, Sriram, thanks. Listen, I'll try to be brief because I know many of you want to be on a Cranswick call in five or six minutes time. I kind of got one answer to all of those questions, right, which – or one integrating thought, which might help a little bit, right, which is if you look at a combination of the IGD forecast numbers that we shared, the evidence of how our business correlates with Apple or, indeed, you could use Google mobility data if you wanted as well, if you look at the stated and most up-to-date investment plans of our customer set, and then you layer on top of that, the business wins that we already have and the potential for a bit more, but you don't have to be too heroic on the potential for a bit more. What all of that means is we get our – we get back to pre-COVID volumes quite quickly.

And the – and everything above that is gravy, right? If the IGD are too cautious, fine. We'd love that. If we win more of the – convert more of the Adelie business, which obviously would be our plan, but I'm not guiding to that yet. Great. We crack on in relation to that.

And the last point I would say is we cannot just rest on the current customer set that we've got. We have to be relevant to how consumers are sourcing product, including food to go product. And so we've got a whole set of different kinds of technology in D2C experiments, if I could characterise them. Some of them are with formats of our existing customers, and some of them are with the higher profile direct-to-consumer models that are out there.

And so that's how we're knitting it all together. But the end result of all of that is that we want to get our volume back in food to go to where it was pre-COVID quickly. And from – and then set ourselves up to begin to grow from there thereafter.

Sriram Gurijala: Thank you.

Operator: Thank you. The last question for today comes from the line of Charles Hall from Peel Hunt. Please go ahead.

Charles Hall (Peel Hunt): Good morning, everyone. Just to be quick. Just asking about the employee costs. Can you just comment on where you are now with levels of temporary labour? And also, have you made any changes to your central cost base as well? And finally, any comments, Patrick, on Brexit and how you see things panning out for Greencore?

Patrick Coveney: Yeah. I'd be really fast, Charles. We've got just over 500 people currently furloughed on the direct workforce side associated with the volumes coming back a bit. We've had, in effect, a hiring freeze in situ since April now. And we have certainly learned, as I'm sure many businesses have, that we don't need to quite bring back everything that we had before and that we can be a little more structurally efficient as we go forward. And so you expect us to be acting and implementing on those lessons, and we are.

And then lastly, in relation to Brexit, two things I'd say there. One, we as a business, have been in one form or another planning for Brexit for nearly 4.5 years now. And so we've made a series of structural changes in the proportion of the raw material and packaging that we source from within the UK versus outside the UK.

We've changed our balance of Greencore workers versus the use of agency labour providers. Although, we still – to your very first question, we have a modest level of agency labour staff

currently working in our business, but obviously, we pared that back a little bit as we came into the lockdown too.

So if – we would prefer for there to be some form of trade deal agreed perhaps by this weekend. But I think we can manage our way through it, notwithstanding, the fact there'll be a bit of disruption, we'd have to manage the modest level of tariff impact net if that deal didn't happen.

Charles Hall: Perfect. I think we'll better rush up to the next one.

Patrick Coveney: Okay. Charles, great. Thank you for interrupting everyone to do that. But so just on behalf of the team here, listen, I know we've gone on a long time, but we had just a plethora of news flow that we released last night and this morning. So thank you for spending the time with us.

And Emma and I and Jack are happy to follow up with anyone if there's any questions that we didn't get to address on the call. But stay safe, stay well, and we look forward to talking to everyone soon. Bye-bye.

Emma Hynes: Thanks.

Operator: Thank you for joining today's call. You may now disconnect. Hosts, please stay on the line and await further instruction.

[END OF TRANSCRIPT]