Greencore Q1 FY21 Results

Tuesday, 26th January 2021

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Operator: Hello, and welcome to the Greencore Group plc Q1 Trading Update. My name is Jess, and I'll be coordinator for today's event. For the duration of the call, your lines will be on listen-only. However, there will be the opportunity to ask questions. This can be done by pressing star one to register your question at any time. If at any point you require assistance, please press star zero on your telephone keypad and you will be connected to an operator.

I will now hand you over to your host, Jack Gorman, Head of Investor Relations, to begin today's call. Thank you.

Jack Gorman: Okay. Thank you, Jess. And welcome to everyone on the call this morning. My name is Jack Gorman. I'm Head of Investor Relations at Greencore. I'd like to thank you all for taking the time to join us this morning for our Q1 trading update conference call, which covers the period to 25th December 2020.

I'm joined on the call today by our CEO, Patrick Coveney, and our CFO, Emma Hynes. In a moment, I'll hand you over to Patrick to give an overview of trading in the period. And after that, we will open up the call to questions and answers.

Finally, I would like to draw your attention to the forward-looking statements at the end of today's release.

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

Patrick Coveney: Thanks, Jack. And welcome and thank you to everyone for joining us this morning. Good morning first of all. I hope that you're all safe and well. As Jack has said, I'm joined on this call by Emma. And Emma and I will – I'm going to make some introductory remarks and Emma and I will then deal with questions after that.

As you'll know, this morning we released our quarter one trading update for the 13 weeks to 25th December. And the purpose of this call is to briefly provide some more colour on that update to share our thoughts on what we're seeing in January trading to-date, and then to field any questions that you may have for Emma and I. As such, we would anticipate finishing by about 9.15.

Quarter one has been just a challenging and I guess very busy quarter for Greencore. In a demanding period, we continued to work effectively and collaboratively across our organisation, across our supply chain, across our production network and to deliver for and with our customers. Commercially, we've responded rapidly to the changing, quite volatile demand patterns actually, associated with the changing mobility restrictions and lockdowns regionally and nationally that were introduced across the UK in recent months.

Financially, we delivered in line with plan in the quarter, managing our costs and managing our cash carefully. And to this end, we were pleased to generate positive adjusted operating profit as well as positive adjusted EBITDA for the quarter.

We continued to be energised frankly by the various challenges and opportunities that this trading environment has provided us. We are particularly excited about the new business opportunities that we have already secured. And by the broader health of the commercial pipeline that we have, which I'll take a little more time later on in this call to describe.

Furthermore, last November, as many of you will know, we took several important steps from a debt and equity perspective to protect [inaudible] critically to enable us to capture the multiple growth opportunities that are emerging across our categories.

And finally, we released our 2020 Annual Report and Sustainability Report on 24th November, which will be the focus of our AGM later this morning and in the case of our Sustainability Report, an investor seminar that we're going to hold on 24th February.

So this morning I want to provide more colour on four topics. Firstly, to provide a brief update on our progress against the three priorities that we've used to manage our business throughout this pandemic – keeping our people safe, feeding the UK and Ireland and protecting our business. Secondly, I want to provide specific commentary on the performance in quarter one and on the current run rate since we've entered the third lockdown this month. Thirdly, an update on our liquidity and balance sheet position. And fourthly, our thoughts on outlook.

Let me take each of these topics in turn, beginning with our three priorities to manage the busines through the pandemic. As I start here, I would like to again acknowledge and thank all of our teams and colleagues right across Greencore for their skill, their enthusiasm, and perhaps most importantly, their resilience through this quarter. In particular, I wanted to acknowledge and thank my colleagues who are working at our manufacturing and distribution facilities, who continue to do a fantastic job in these uniquely challenging circumstances.

Our first priority is keeping our people safe. What is clear from the increasing number of cases, the severity of these new strains and the fact that it will take several months yet before everyone is able to get vaccinated, is that we need to take incremental or further safety actions to ensure that we're doing even more within our business to control the virus and to keep our people safe.

Therefore, over the last few weeks, we've taken a number of additional steps to enable this, which include revising our COVID-19 risk assessments and site-specific action plans across every manufacturing location and distribution facility in Greencore; making the wearing of face coverings mandatory everywhere, including in our manufacturing areas, in other words, visors alone are not sufficient; stepping up further on our ventilation and cleaning protocols across our network; rechecking all office and meeting spaces to ensure that desks are physically two metres apart, again in this case, screens alone between desks are not sufficient.

Perhaps most significantly, we're joining in a very large scale way with the UK Department of Health and Social Care to implement weekly mask lateral flow testing across a large number of our sites starting with our principal sites, which in aggregate we'll have by the end of this week or early next week, about 80% of our colleagues being tested every week.

And we're also continuing to ask all colleagues and pushing all of our leaders to actually work with colleagues to figure out who can actually successfully work from home.

By doing all of these things, we're helping to keep both those working at site and those working at homes safe. And while nothing and nowhere is immune from this virus, we've been able to keep all of our sites safely in production throughout this period. We remain vigilant on the potential for further disruption of course as a result of localised outbreaks and we are prepared for these possibilities.

The second priority is feeding the UK and Ireland. Throughout the pandemic, we have operated with a sense of mission to keep our communities safely fed and have worked collaboratively with all of our customers to do so. Range management remains critical, taking account of both demand and cost considerations, balancing availability and waste, and tailoring our product ranges to new emerging consumer needs as they develop through the pandemic.

Having been through this for the first time at scale in the first lockdown last spring, we've learnt important lessons on what to do and indeed lessons on what not to do that we've applied to the most recent lockdowns. At the same time, we've continued to take a purposeful and community-led approach in terms of how we support and contribute in multiple different ways to initiatives at local, national and regional levels to support vulnerable and those in need of quality food all over the UK.

And our third priority, protecting our business. We've been vigilant on how we manage costs and cash in these exceptionally challenging financial circumstances. While we've started FY21 with sustained and improving sales momentum, demand since then has been volatile, especially in food to go categories, driven by the imposition of necessary restrictions and regional, national lockdowns at different stages through the quarter and the impact of these – that each of these had on mobility and associated food to go demand.

From a demand perspective, this of course had been challenging and frustrating. The recent November lockdown and the current one to-date have not resulted in as dramatic a fall as that experienced in the first lockdown last April. Importantly, the comprehensive set of operational, debt and equity measures that we introduced in late November have helped us to mitigate this near-term uncertainty but also provide us with the resources to deliver specific value creation opportunities. In quarter one, we delivered positive adjusted EBITDA and also positive adjusted operating profit in what is typically our quietest quarter of the year.

This brings me neatly to our second topic, which is our specific performance during quarter one and during the early part of quarter two. Total revenue on quarter one was £312.7 million, a decrease of 15% on a reported basis. On a pro forma basis, the reduction was 15.1%, minor difference, adjusting for currency and the timing of the disposal of the Group's molasses business that was completed in December.

Breaking down this performance a little further. Revenue in food to go categories totalled £188.5 million in quarter one. And a pro forma decline for this set of categories was 21.7% year-on-year in the period. Revenue in other convenience categories totalled £124.1 million, which was a pro forma decline of 2.1% year-on-year.

As we have done since the pandemic began, we felt it would be useful to provide a little more granular detail on the trajectory of our performance during the quarter, particularly in food to go categories, given the scale of the revenue impact from COVID-19 during the period.

Starting with October, the resurgence of COVID-19 cases across the UK led to the introduction of tiered regional restrictions in October. This impeded the pace of recovery in demand in food to go categories that we have seen since the end of FY20. Pro forma revenues for that – for October were some 22% below prior year levels.

Further mobility restrictions were introduced in early November for a four-week period of nationwide lockdown. The impact of these restrictions was not as severe as that experienced in the first lockdown, but food to go demand was affected and was down a little more in November than in October, down 24% on a year-on-year basis. There was actually a modest improvement in year-on-year food to go volumes in December, down 20% versus the prior year before lockdown three took effect on 4th January.

To-date, the impact of lockdown three has not been as severe as that in March – or April 2020, with more workplaces remaining open this time around. But with schools closed, it is a more severe set of restrictions than those that were implemented in November. Customers have been keen to sustain range and protect food to go volumes insofar as they can. However, there have, of course, been a significant number of store closures implemented across our customer base, including where some of our customers operate franchise arrangements. And this has had a negative impact on demand.

To put this in context, current demand in food to go categories, in other words, the demand since lockdown three that was implemented on 4th January is running approximately 35% below prior year levels. This compares with the decline of approximately 70% at the height of the first lockdown period in April of last year.

The scale of this impact is also reflected in our latest proprietary marketing research and insight, some of which we've shared on previous calls. To remind everybody, pre-COVID, some 45% of consumers surveyed had purchased food to go products in the previous week. This fell to a low of approximately 15% in early April and have recovered to almost 40% by the end of FY20. The latest data would point to approximately 30% penetration rates in January, still double what we experienced in the first lockdown.

It also continues to play to themes that we discussed at our full year results. For example, retail food to go channel have been hit much less severely than food service ones. We also know that for many store formats, and in particular, the convenience or suburban outlets of our customers and indeed in many regions food to go volumes are actually holding up pretty well.

In other convenience categories, pro forma revenue declined very modestly by 2.1% in quarter one. There was actually good growth in cooking sauces through the period as it benefitted from the sustained increase in scratch or component cooking and food assembly that we've all started to see since the pandemic began.

Ready meal revenues were impacted modestly and negatively by the lockdown restrictions through the quarter. In overall terms actually, we remain satisfied with performance across other convenience with profitability improving, notwithstanding, the flattish revenue profile. The early weeks of quarter two in January have seen overall revenue across these other convenience categories broadly flat year-on-year.

And building on all of this from a commercial overview perspective, we described in November the momentum and specific progress that we were having on new business opportunities. And that continued through the rest of quarter one. As I say, we've spoken previously and at length on the opportunities provided by the exit of Adelie Foods from the market in FY20.

Since our last update in November, we have secured specific further business from former Adelie customers and now have a base of customers, new customers, that have what I would describe as a pre-COVID revenue level of approximately £90 million. That's up from the £75 million that we described in November.

In addition, our footprint in salads is expanding and we continue to win food to go and meal salads business with a number of existing Group customers, where we didn't previously have this breadth of presence. And beyond that, there's actually a healthy pipeline of further commercial opportunities in several other parts of our business that we would be pursuing.

If I turn now to our third topic, which is our liquidity and balance sheet position. Simply put, the set of operational, debt and equity measures that we've put in place at the end of November mean that we can proactively manage our debt and leverage levels through the rest of this pandemic to ensure that we weather the COVID-19 storm.

It also means that we can invest to enable the full delivery of the new business pipeline that I've described earlier and indeed further opportunities that are in negotiation, as well as deliver the productivity enhancement initiatives, some of which are require CapEx, including automation, that's going to make our business stronger and better performing when we come out the other side of the pandemic.

The previously announced revisions to our debt financing agreements are one part of this flexibility that we've secured. And we also raised a gross £90 million in our placing at the end of November. Raising equity is never decision to take lightly, but fundamentally it was the right thing to do as it ensured that we were able to avoid, what we would describe as burning the proverbial furniture and also it ensures that our business had the ability to build back stronger as we emerge out from this pandemic.

And finally, the completion of the disposal of our molasses businesses in December provided additional supports to our financial position.

Taken together, we believe that this combination of initiatives provide us with sufficient liquidity and balance sheet strength, supports the business in the near term and also to enable us to build the business back strongly as the impact of the pandemic recedes.

Bringing all of these things together now with some comments on outlook. Of course, there is uncertainty around the near-term trajectory and in particular the trajectory of our business over the course of the next few months. We simply don't know how long these lockdown measures are going to remain in place and what the impact of these measures will be going forward on mobility and associated volumes in some of our categories.

We have seen, as I mentioned earlier, a marked decline in food to go revenues as a result of the latest lockdown. In addition, we are consciously choosing to invest and to invest strongly in this quarter behind both the COVID-19 – the rebound from COVID-19, in other words, specific launches that we have planned for April and May with customers, and also the onboarding of multiple new businesses.

In both of these cases, this requires us to keep our full network operational and to invest appropriately in new product developments, technical and factory trial teams and support. COVID-19 will continue to impact us through FY21. And in this context, the Group's financial guidance remains suspended.

However, we are clear that we have a set of measures that we've put in place, which mitigates this near-term uncertainty associated with COVID. We have given ourselves the space, the financial headroom and the organisational momentum to trade through COVID and we believe to emerge as a strong player on the other side.

One of the major concerns of the last five years has of course been Brexit. With a free trade agreement now on place, we believe that the worst case scenario has been averted and indeed our own experience since the start of the year has involved only limited operational disruption focused almost entirely on configuring and managing supply chain between Britain and Northern Ireland and between Britain and the Republic of Ireland.

To reiterate then, we are optimistic, confident actually on our future prospects. Vaccination approvals and vaccination rollout will continue to advance in the coming months. Our markets are resilient, and importantly, they have already shown a clear ability to rebound as mobility restrictions are eased. And our new business activity with existing and potential new customers will underpin this rebound specifically.

Let me conclude now with three final remarks. Firstly, I wanted to remind everyone that we are hosting our AGM and an EGM later this morning. In light of the measures to minimise COVID-19 transmission, we are hosting this under very constrained circumstances. And shareholders are requested not to attend the meetings in person. As such, we expect to proceed with a minimum number of shareholders required to establish a nominal quorum under the company's articles of association.

This is being done to protect the health, safety and well-being of all of our stakeholders, but in particular our shareholders, colleagues and service providers. We do look forward to engaging as effectively as we can with shareholders later today. And indeed and hopefully more importantly, to seeing many of you in person when we could hold such meetings in the future.

Secondly, we announced in December the appointment of three new Non-Executive Directors as part of a Board refreshment succession planning process. John Amaechi is an organisational psychologist and is the founder and CEO of APS, a talent and leadership development firm. John has extensive Non-Executive Director experience across a wide range of industries, including food, having previously served on the Inclusive Advisory Panel at Tesco.

Linda Hickey brings a wealth of financial markets and Non-Executive Director experience. And having spent over 35 years in capital markets, more latterly at Goodbody Stockbrokers where she served as Head of Corporate Broking for 15 years.

And Anne O'Leary is currently CEO of Vodafone Ireland and brings significant experience spanning digital and data analytics, cultural change programmes, and strategic acquisitions and partnerships.

Each of these appointments becomes effective on 1st February and all their skills, expertise and experience will be highly beneficial to the Board, to the Group and to the executive team. And today, two current Non-Executive Directors, Heather Ann McSharry and Mr John Warren, will retire from the Board with effect from the conclusion of this AGM. I'd like to thank both of them for their wisdom, guidance and support to the business and to me personally throughout their tenure on the Board.

And thirdly, I just wanted to let everyone know that we are hosting a Capital Markets seminar on 24th February that will focus on our sustainability strategy and bring to life our sustainability report from November, providing more detail on some of the key projects and specific work areas and case studies that are currently in progress across the business. More details on this will follow in the coming weeks.

And finally, just to remind everyone that our next results update will be our interim results that will be released on 25th May.

So with that, I'm going to turn the call back to the operator to begin the Q&A session with Emma and I.

Questions and Answers

Operator: Thank you. So if you would like to ask a question, please press star one on your telephone keypads. And please ensure your line is unmuted locally as you will be advised when to ask your question. So once again, that's star one if you would like to ask a question. And the first question comes from the line of Damian McNeela from Numis. Please go ahead.

Damian McNeela (Numis): Morning everybody. Thanks for taking the questions. So first question would be, I think, directed to Emma. Just I was wondering if you could quantify the costs associated with the increased sort of COVID measures that you've taken across the organisation and whether give us a bit of whether it's a Q1 impact or whether there's a more to come for the rest of the year? So that'd be the first question.

And I guess the second question would be probably more for Patrick, which is more just wondering given the fact that sort of retailers has closed a lot of their counters or taken the decision to close counters permanently, whether they are thinking about how they allocate more space to food to go once we sort of get through this pandemic? Just interested to understand how retailers are thinking about sort of the food to go picture on a sort of – on a longer term view, if you could, please?

Emma Hynes: Hi Damian. Look, in terms of costs associated with COVID, we're not calling out specific one-time costs. I think we would say – when we talk about results for the period, we'd say, look, yeah, we're absorbing costs but we're looking at substantial incremental cost. I mean, clearly the measures that we have implemented in our manufacturing facilities around social distancing will endure for some time to come even as we see restrictions on movement unwind, we think they'll be in place for a while.

You do have some impact on operating efficiency, but we're working hard all the time to mitigate that effect. And in our automation project actually that we are progressing, will also support in that respect. If you look into what Patrick was talking about in terms of rolling out increased testing across our facilities, I mean, that does lead to some minor operational disruption in day to day activities, but not something that I'd be calling out as driving significant incremental cost in the business.

And overall, we think those are the types of measures that protect the business by making sure that we're identifying the cases of COVID early on and doing everything we can to protect our people. So we're thinking net-net as a benefit to the business.

Patrick Coveney: Yeah. And I mean, just building on that, Damian, one of the things that we're tracking very closely principally from the perspective of health, particularly knock-on economic consequences what does all this mean for absence, because clearly you have very a high level of – highish level of absence, then that has significant cost implications both in terms of pays, sick pay and so forth, but also in terms of supply chain effectiveness and operational efficiency.

And so far we're – even right now through what we call lockdown three, our level of absence from COVID is only about 2.5%. And our total level of absence is a notch under 5%. So we're actually doing – that's pretty good validation of the impact of all of these measures that we're putting through. Now, this can bounce around a lot and it's a volatile and dangerous disease. But I think we're managing our way through it and pretty effectively at the moment.

I mean, on your point of future of food to go, I mean, this is obviously so important to the long-term of our business. And there are some few unknowns and uncertainties in relation to all of this. But I think there's a few things that I could say with some real conviction and evidence. So the first is that all of our customers believe that food to go is going to be a very, very important part of their shopper and consumer proposition but also of their economic model as they come out through COVID.

And all of the activity that we're talking about and I referenced it in my introductory remarks in terms of relaunching of range, activation initiatives across different regions, formats, relaying certain parts of stores. It's different customer by customer but it's consistent in terms of the level of focus and strategic and economic priority that retailers have for what they need to do and want to do with food to go as we start to come out the other side of this pandemic.

Second thing I would say is that you touched on specifically on counters, right. So we do think and our customers do think as well that this topic of hygiene will be important both to how stores are configured and how consumers choose product. And that probably does lend itself to more premade and less in store made product going forward.

And so we are seeing evidence. Salads will be a good example across maybe even more the sandwiches actually, where things like salad bars, salad counters being replaced with more prepacked product as we look at what ranges is likely to look like through this summer.

But then you're starting to see other important trends here. And I think and I touched on it in my remarks here. But this difference in food to go volume by region and store type; and I guess the most material effect is that I think everyone in the industry is ramping up for now is this sustained role for suburbs in food to go in using kind of the food to go occasions of consumers and what that means for the breadth of range and the ability of that range to target food to go occasions in suburban areas, which might not traditionally have had at the same instance of food to go before COVID and before some of these changes to how people are living their lives and in particular how people are working.

So they are some of the points that are coming up. But we would be – we recognise that there will be change in product, regions, occasions, channels and all of that. But we have a pretty high level of conviction that food to go and retail food to go will come back strongly as we come out the other side of the pandemic.

Damian McNeela: That's brilliant. Thank you. Thank you both of you.

Operator: The next question comes from the line of Jason Molins from Goodbody. Please go ahead.

Jason Molins (Goodbody): Hi. Good morning, Patrick, Emma and Jack. Look, just down into the contract wins. Patrick, you mentioned you had secured £90 million of additional business from Adelie. Do you see further opportunities there? Obviously, pre-COVID Adelie was north of £200 million. So just maybe some clarification in terms of the opportunity that still remains. But also any commentary you can make in terms of discussions and opportunities with existing customers. What sorts of areas of opportunities do you see at the moment, that would be helpful.

And then just regarding the current lockdown and the numbers that had reduced in the current trading. The impact from staff in terms of furloughing, maybe just talk me through measures you've after maybe put more people on furlough. I'm aware you've not necessarily closed any sites at the moment. But what sort of declines would prompt you to have – having to make that decision?

Patrick Coveney: Thanks, Jason. Let me deal with the second question first, so just to be – so the key difference between this lockdown, the first one was obviously to feed through to the appropriateness and use of government programmes like furloughing is that the relative fall off versus prior year volumes is much less now than it was in April.

And I think without being able to be absolutely certain about this, I think, we're now into our fourth week or fourth trading week of this lockdown. And we're continuing to see this – as we referenced in the statement of the order of 35% year-on-year declines, which is not great obviously in any absolute sense, but consider would be better than we would have seen last April.

And so – and certainly at this type of volume level, there isn't an economic case for rationalising our network. That's before you get into some of the other benefits to keeping the network going like contingent supply solutions for customers and the ability to plan purposefully for the ramp up in later in the spring and early summer, plus keeping people working where we can.

So that's the thing I'd say about keeping. So in other words, we're not in marginal territory around whether or not it makes sense to keep sites open. It's quite clear it does make sense to keep those sites open at this sort of level.

On furloughing, where we have needed to take some shifts out and some functions out partly because of activity levels and restrictions on peoples' ability to work in plants and some of the direct relationships to volume. So we're currently at about a third of the level of furloughing that we would've been at in April-May of last year. So it's material but not as material as before.

And then the other option that's available to us that we are sensibly using is what's called flex furloughing, where it's possible for people who we need to work some of the time but don't have sufficient activity available for them to work all the time to take periods of time out between now and April. And so we are using that judiciously as well from a furloughing perspective.

So we think we're doing everything we can to mitigate the impact through the use of what are very supportive governmental programmes of different types in furloughing.

On new business, what I would say in relation to Adelie is the incremental specific wins that we've had since November have largely brought us to the end of the big things that we could've secured from Adelie. And so, I mean, we have to see how we can really get behind that post rebound. But as I said, we're at £90 million up Adelie's pre-COVID revenue now. And just to be specific, with one material former Adelie customer added to the customers that we would've had onboard when we gave £75 million guidance at the end of November.

What I would say after that, Jason, is that there are a big part of Adelie's business was in the kind of traditional food service area, quite fragmented in terms of end customer. A lot served through the aggregator brand that they have, which is Urban Eat, which Samworth have acquired. And so we are – I think we've provided more commentary on at the end of the year – at the end of November, that is, we are working on a business effort to try to access types of that food service channel that we think would be a good fit with our manufacturing and distribution capabilities. But it'll be more fragmented in terms of the target customers there.

So crudely at this £90 million level, we're largely done with the big one-off wins from Adelie. I think it's actually a pretty good answer for Greencore for our network and for our economic model actually. And then the rest will be kind of progressive business development efforts that maybe more marginal from an Adelie perspective.

And then you touched on other area of new business and I highlighted in the comments earlier the momentum that we feel we have in salads. And that's really consistent with the strategy that we'd be pursuing for a year and a half now since we acquired Freshtime. And the – and we're pretty pleased actually with the momentum that we've got there.

After that, I describe it as normal business development activity and insofar as any of it comes through that's material we'll talk about it in our interim results.

Jason Molins: Thanks.

Operator: The next question comes from the line of Charles Hall from Peel Hunt. Please go ahead.

Charles Hall (Peel Hunt): Good morning everyone. Couple of questions, please. Firstly, Patrick, I think you mentioned previously that gross margin on additional – on the new business from Adelie started off at lower levels. Can you just give us an update on how you're seeing the margin progression from that new business? And secondly, could you just update on potential timing of future dividends? I know it's a bit early probably to be talking about it. But just to give a feel in light of the fundraising but also the additional lockdown?

Patrick Coveney: Yeah. I mean, I'm going to keep the – obviously, I'm sensitive to our commercial position with new customers as well as existing customers and being too clear on margin differentials across customers. I mean, what I would say is that we're happy with the business that we've taken on that used to be supplied by Adelie. It's a privilege actually to take it on in the case of some of their larger customers who've been new customers to Greencore.

We also recognise that in particular where we bring on completely new to Greencore customers, we have to invest to figure out how to develop those products to make the supply chain work, including distribution in several instances. They may well be in somewhat different channels apart from the markets to what we're used to.

And so there's a natural learning associated with all of that. And we would expect as we work our way through that, that we would get more efficient and more effective and we'll begin to bring margins to a place that's kind of broadly equivalent to what we would have across our wider group. And that would be plan that we would have in relation to that.

I should also say, Charles, that right now that was a business that was – Adelie is a business that was actually more exposed to channels that have been hit hard by COVID than we would've been and then our customers would typically be. And so as a result, actually the revenue levels and the associated impact on operating leverage, if I can describe it that way, but that business is going to be more pronounced now but will improve as we come out the other side of COVID.

In relation to dividends, we're not going to be paying any dividends in this financial year without being able to – without choosing to get into any specific guidance, I think we would hope to be able to pay dividends in the next financial year, in FY22. And – but we'll have to see how our – how the business evolves and how our economic – how quickly our economic model comes back as we emerge from COVID.

Charles Hall: That's great. Thanks, Patrick.

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

Martin Deboo (Jefferies): Yeah. Morning everybody. Question really is that I suppose goes to the marginal economics of the business under COVID. Just the first question is that the drop-through margin on lost sales. Where do you think that is relatively relative to the drop in the summer? I can sort of argue it other way. I mean, I don't know where furlough payments are relative to then keeping more of the network open. But just what's your sense on the drop-through margin at this current time as opposed to the summer?

And the associated question is you've said your EBITDA, EBITA breakeven in Q1. Just where you think you are in terms of actual cash flow and the difference between the two being CapEx, networking capital, tax and interest? I would imagine that you are on a full cash flow basis modestly negative every month but sort of – and I'm not expecting the number but just so to give me a feel. Okay. Those are the two questions.

Patrick Coveney: Yeah. Martin, let me just provide – kind of deal with your first point around how we're thinking about the flowthrough. And I might have Emma weigh in on some of the – what all that means for cash.

I mean, the – I mean, just to be specific, we were operating profit positive. And of course that's going to mean we would be quite a bit more positive on adjusted EBITDA in quarter one, right. And so – and Emma can describe what that means for cash flow in a second. And I also – the way – the words that I used here is like we delivered in line with the plan that we had for the quarter and we're pretty, frankly, pleased to be able to do that given all the demand uncertainty that we saw in the quarter.

It is going to be worse than Q2, right. And you can see that obviously from the volume impact, that extra 10% or so fall-off in year-on-year in food to go and what that means across the wider Group sort of 5% – an extra 5% or more down.

I mean, the – and the truth is the best way I can kind of guide you on this is that our business tends to operate with a contribution margin of 30-35%. And so if revenue falls off by whatever quantum, that's the flowthrough impact on the business. And frankly, the furloughing schemes which are hugely helpful, don't get me wrong, largely deal with the variable cost elements associated with that fall-off but don't materially impact on its cost elements that are associated with that fall off.

So in terms of what does all that mean. If we have a 15% fall in sales, we've got a 45% fall in profits. That's sort of it, right? And we can mitigate that around the edges and really push hard on cash to kind of protect the downstream of the business and the cash flows of the business but that's the nature of the operating leverage that we run with.

So Emma, do you want to pick up more broadly on the flowthrough?

Emma Hynes: Yeah. Look, if we just sort of think about the cash flow and the model, and as we run through the second half of last year, I think we would have talked a modest cash burn outside of working capital. And as we come into the first quarter of this year and indeed the first half, I think, our normal model would be that you see working capital outflow in the first half of the year as volumes come off.

But aside of that, if we think about how we traded in Q1, as Patrick said, EBITDA positive but actually operation profit positive. So pleased with that performance. And the impact of that on cash leaves us in a reasonable place for some sort of seasonal working capital outflow that we normally see in the first half of the year.

So cash is where we would've expected it to be at the end of Q1. And I think about it as broadly neutral outside of working capital. And then clearly we then have the benefit of, say, proceeds of the equity raise; and as we have noted in the statement, we have completed the disposal of molasses business as well and seeing cash come in for that as well.

Martin Deboo: Thank you for that.

Patrick Coveney: Martin, do that cover – insofar within the constraints of what we can actually say. Does that give you the directional guidance you were looking for?

Martin Deboo: I think it was really helpful, Patrick, yes. Very clear. Thank you.

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

Nicola Mallard (Investec): Hi. Morning. Martin asked one of mine, so thanks, Martin. Got the answer. One other though. We've seen reports coming out about the new life what it's all going to be like and people do see recently put a report out suggesting that working from home might be 20% of the workforce in future. Now I know you did an IGD report in the November presentation that suggested more like 90%. Have you got any sort of update on that? I mean, do you feel that, is that sort of number moving along while we're sitting at home? Is that more likely that we stay at home? Just sort of the longer term recovery potential.

Patrick Coveney: Yeah. I mean, I think there's – we're doing lots of work on this, Nicola. But partly leveraging industry sources obviously very specifically engaged with each of our customers who are also doing work on that in terms of what it's going to mean for their format and regional and store format strategies. And we're kind of plugged in with all of that.

I mean, two things I would say. I think there will be more – there's no rocket science in this. There will be more working from home. And quite a bit more actually as we come out of the other side of COVID than there was pre-COVID. But there – if we factor that into our food to go business, it's – I'm just going to give you a few things that might help.

So less than 30% of our food to go sales are made to people for office lunches, right. So the other 70% are other occasions completely, right. So either different times of day, people, students, tradesmen, leisure traveller people, impulse purchasers, nothing – in other words, they are not caught up in this sort of stereotypical office worker popping out to grab a sandwich at lunch, right. That's less than 30% of the occasions that our products meet.

And I think that's quite important because we've been kind of caught up in a sort of – kind of a massive perception that that's the core of our business when in fact it simply isn't. The second thing I would say is that even if you saw large numbers of that 30% permanently working from home, and I don't think you will see very large numbers of people permanently working from home. And we can have a debate as to whether it's an average of one day a week or two days a week or whatever for whatever portion of that.

But I think the other behaviour that we're noticing is that for many, many people who are working from home, when the restrictions are not severe, they still choose to actually access food to go close to their home completely separate from whether or not they are travelling to work, alright. And so – and that is a big factor behind this very, very strong growth of food to go that we would've seen in suburbs in kind of early autumn, end of summer last year and indeed to a certain degree even in the month of December.

And so I think you – the kind of things for us to work hard and we are working hard is first of all what do we actually think at a macro level is going to happen to work behaviour and how will – what will that mean for central business districts and travel locations versus suburbs and all that. But secondly, just to remember that more than 70% of our food to go volumes are met by a different set of customers and a different occasion for that.

And even within the 30%, if you get to a situation where it's safe to move about, that people are exercising, they have different work habits for different reasons and safety, it still may mean that having really good breakfast or morning snacking or lunchtime products where people don't have to make their lunch or make their morning sandwich or snack at home themselves, they can pop out to get a strip if they live in suburbs I think is going to be an important occasion for us going forward.

Nicola Mallard: Great. Thanks very much. It's very interesting.

Operator: The next question comes from the line of Clive Black from Shore Capital Markets. Please go ahead.

Clive Black (Shore Capital Markets): Well, thank you and good morning team. Couple of questions from me as well, if I may. Patrick, could you just give us some colour as to the product – nature of the product that will be going into food service arena? And the complementarity in terms of unit economics versus your retail activities?

And then building on the outline of the COVID measures that you articulated, where are you with automation at Greencore at the start of '21? And where do you see it progressing this calendar year, please?

Patrick Coveney: Yeah. So the product into the food service arena. So we've got a series of different kind of channels within that, Clive. And it's slightly different products for each of them. So we had been steadily, but I would say modestly building out our specialist coffee shop channel business pre-COVID, right. And we had a sort of half of – one – half of the food requirement of one of three larger coffee chains that we were supplying pre-COVID.

Since Adelie has come out of the market, we've taken on sole supply with one of the other three large coffee channels. And we've picked up a series of smaller coffee shop businesses around there. So that range is somewhat different from our retail range and that it plays more to breakfast, a little bit more to products that can be heated. And in most cases, it involves distribution services as well as manufacturing.

So in some of those, we naturally have very significant initial scale to start off with and some of them we're kind of building capability as we go forward. But some of the capabilities we would have particularly in our Atherstone site, which we acquired four years or so ago, particularly around doing breakfast items and hot eating sandwiches and things like that would – are relevant to that channel.

As you think then about – what I'm going to describe as a broader food service market, that's where we're effectively building an in-house business to go after that to go – modelled somewhat on the success that you would've seen in terms of volume any way of the Urban Eat brand over the last decade. And so we have our own aggregator brands that we put together on that.

We have a range which we're trying to keep pretty tight, centred around sandwiches but drawing on some other product sites as well. And then what we need to do with that is to get the right balance between all of the products that food service operators tell us they need and what we can actually effectively and efficiently manufacture and try to kind of balance that tension so that we not only build our presence in that channel. And I'm quite hopefully that we will, but we make sure we got an economic model that works while we do it.

And so – and that's what I'd say there. And look, last bit is we're looking hard at different ways to playing for food to go type products in direct to consumer channels too. And again that has implications for how we think about product type as well. So we'll learn as we go, but what we got to balance all the time here is finding products that work for consumers in those channels and for those occasions but making sure that we can have a decent economic model that sits behind it.

Clive Black: Yeah. Thank you. Okay.

Patrick Coveney: Sorry, your second was on automation. Yes, we've actually – we continued to – we're going nicely on automation but obviously the throughput through the some of the technologies that we've put in place is less than it would be than it will be when the volume comes back in food to go.

So we have in our two – well, now our three largest manufacturing sites. So Manton, Northampton and Park Royal, we now have working robotic technology consistent with delivering against the different parts of the sandwich assembly process that we've touched on before, namely setting, lidding and packing. And so there pretty pleased actually with how that's going. But the full economic benefit of that we won't see until we're running at a higher throughput than we are at the moment.

Clive Black: Thank you very much. Much appreciated.

Operator: The next question comes from the line of Doriana Russo from HSBC. Please go ahead.

Doriana Russo (HSBC): Yes. Good morning everyone. A couple of questions that I had has already been answered, so thank you very much for – to everyone. I do have one area that I want to understand a little bit better, and it's with regards to the dynamics of the food to go business in terms of cost base. Obviously, we discussed about the need of investing more on one hand to deliver more products, to secure more business with different channels and also to make sure that people are safe and you don't lose in terms of unit cost and productivity in terms of efficiency of your supply chain. So is there a risk that the cost structure of the food to go business may actually change going forward? And with that, I'm trying to understand whether we could see perhaps a less profitable business in the short term to perhaps see a more profitable business in the longer term? Or is that something that you might have been looking at? And is there a negotiation – some flexibility in negotiation when you secure new business because of the cost structure changing? And I'm not sure – it's very convoluted, but I hope you understand what I'm trying to get clarity on.

Patrick Coveney: Yeah. Doriana, I get it completely. And the – let me try and kind of position it starkly because it's something that we're looking at hard here. So if I go back to beginning of March last year when we would've done our – what I would call our kind of six plus six forecast, which we did just before COVID hit and took our Board through. I think at that particular point in time, if I just use EBITDA as a metric, the consensus for our business was between £160 million and £170 million of EBITDA for debt in FY20, right, across all of you guys and others.

And that was off a revenue base crudely of call it £1.5 billion or £1.55 billion or something like that, right. That was the kind of shape of where we sat in the business pre-COVID. We're still at the second half to deliver in order to land there, but that was kind of where things were. Obviously, we're going to miss that EBITDA number by million miles like we did last year, we're going to miss it this year, right.

So – and the revenue number is going to be off a bit too and Martin Deboo asked earlier kind of how to think about the impact of the revenue and all that. And I've kind of answered that question already.

One of the kind of key things for us all here is I think at some stage in whether hopefully at FY22 and we're going to get the revenue back to where it was in that forecast or in that guidance. And the big question is, do you get the EBITDA back to that level and how quickly? And I do construct all sorts of explanations for things that are hitting us, but also things that would benefit us as we go through that.

And so things that are hitting us are our assembly and manufacturing processes are compromised appropriately by the way by a lot of the safety process that we put in place to – in terms of how we're configuring our factories and looking after our people. And that's absolutely as it should be.

Many of those processes we will absolutely be able to unwind when everyone is being vaccinated and the virus is under control. The – we've got the automation initiatives, which I mentioned to Clive a minute ago, which should help us lot too. So we don't believe that there are changes to our economic model which should permanently impair our ability to convert to the sort of metrics we would have had before. We don't believe that's the case. But I think there will be some transitional challenges as we migrate back to that sort of economic model. And it will be dependent in part on how volume comes back and where it comes back and what it means across customers and channels and product type and service model. And then there will be how we get our conversion processes really humming in terms of efficiency.

And so we are – you will be right to expect us to be all over that internally, and we are. But we're not at a stage to have been able to provide specific guidance for this year or next year in relation to that. But hopefully, Doriana, I kind of framed how we're thinking about it and the work that we're going to have to do to get our economic model back to where it needs to be as quickly as we can.

Doriana Russo: Okay. Thank you. I guess what I was trying to understand was if there was any flexibility in your contract agreement to readjust your unit cost, and therefore your unit price if things were to change permanently?

Patrick Coveney: Yeah. There are in some areas. Yes, there are is the short answer. Some are easier to deliver than others. So, things that relate to direct cost, in particular, cost of goods are pretty straightforward to pass through and modify. I think where you have other areas particularly as they relate to overhead, that's a bit more difficult. But if we have to confront that and manage it through with our customers, we would.

Doriana Russo: I would take that all the extra security measure, all the sort of people-related costs that you have to incur because of the pandemic and not step forward the cost that you can pass on. Am I correct in this one?

Patrick Coveney: Yeah. Well, we have got – I want to be clear on this. We have got some, in fact, lots of support from customers in different areas because of the economic impact of the volume fall. And – but I was more interpreting your question less on near-term trading and near-term economics while we're in the pandemic and more how should we think about this as we come out the other side of it. And so there's so many different moving parts right now.

Doriana Russo: Sorry. Now, that was absolutely my question. So I understand, I think you answered my question. I do have one small follow-up one which is in terms of CapEx. If – shall we expect also some sort of holding back of CapEx for FY21? What would be the impact of that, if any?

Emma Hynes: Doriana, what we did when we released the results in November, we did talk about how we were thinking our CapEx for FY21 at that point. And we had reviewed it and taken an incremental £10 million out of the plan spend for this year. We are holding at that level. So we're not anticipating going again and reviewing that. That did allow us to protect our automation projection somewhat so that we could progress it a bit during the year but certainly we were spending the level we might have planned then. But we want to ensure that we're protecting the business for future ramp up and making sure we do invest in capability.

Doriana Russo: Okay. Thanks.

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

Sriram Gurijala (Barclays): Good morning, everyone. Two questions from me. The first one is on the new business wins. Are there any synergy opportunities there from the new contracts here in terms of revenues by cross-selling new products or be it in terms of cost synergies where you have an overlap in operations?

And the second one is on new channels. You – back in November, you spoke about Ocado. M&S going live on Ocado, and you're looking at new channels besides retail and food service, be it delivery models or e-commerce. Has there been any progress on that? And if people continue to eat at home post-COVID, is there any way you can address that opportunity? Thank you very much.

Patrick Coveney: Sriram, thank you. Yeah. So I mean on the – I mean, the answer is slightly different depending on the different customers. So where some of that the business wins are with existing Greencore customers, then you would expect some levels of synergies in terms of share leadership teams commercially, product development technically, and in some instances, the ability to collocate them where we would have existing ranges. Where it's a completely new customer, the level of synergies are tend to be less.

We – you can expect to see customers who are engaging with us and us engaging with them to have kind of very robust discussions around what the effect or otherwise of that is in terms of pricing and we're flowing that through. So look, I think we're doing a nice enough job for shareholders in terms of how we're managing those discussions in each case.

On new channels, I mean, I think the point I'd make there is we're putting incremental capability down to do that. So some of you on this call will know Kevin Moore, who is our Chief Commercial Officer. So we've put a kind of online and D2C channel team working for him. That would include how we make our ranges most relevant to Ocado and how we take onboard an area that previously wouldn't have been a big focus for us, which is online activation and all of the digital marketing capabilities for the online offers of our core customer set. So whether that's how ready meals and foods get category managed on the online platforms of our existing grocery customers, that kind of thing.

So – and I think the last bit I would say is we are thoughtfully working on what kind of business we think we can have with some of the more specialist D2C businesses. But I think the impact of that will take a little bit longer to flow through. And we'll probably wait until we're a bit more advanced on that before we talk about it more broadly.

Sriram Gurijala: Great. That's helpful. Just one follow-up, if I may. Are you able to quantify what share of that £90 million is from new customers versus existing customers?

Patrick Coveney: Yeah. The – I mean, I'm doing it just in real time in my head, I would say more than about three quarters of that revenue is new customers.

Sriram Gurijala: Got it. Great. Thank you very much.

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

Roland French (Davy): Thank you and morning everybody. So I've got three questions I think. So maybe starting on the commercial side. So thanks for the colour on Adelie. Are you able to quantify – you called out some new business wins or potentially new business wins in the salads catering. Are you able to quantify the associated revenue with those wins?

And then equally just on the commercial side, you've previously called out meal kits. And I think it was in context of some innovation trials you were undertaking. So maybe an update on those trials.

And then just on the your workforce. Are you able to give us a sense as to what percentage of that workforce is vaccinated? And I guess how important the metric that is maybe for you and how you're categorising the risk? I guess, you've outlined kind of an increase in this debt that you've taken, but equally the – clearly the number of cases has risen as well. So maybe just to kind of a little bit of colour around that?

And then finally, it's fairly direct but I just wanted to ask in any case. Do you think – just around sector consolidation, do you think there's a strategic merit for Greencore to play a part of a broader consolidation of it? Clearly, we've listened to yourselves today and other executives over the last few weeks and months. And I'm thinking here about kind of the broader UK food supply chain but also about capacity and utilisation and accessing wider baskets of products and broadening the channel mix might be unfair. But maybe some – your thoughts around that. I'll leave it at that. Thank you.

Patrick Coveney: Yeah. Roland, I'm going to try and crack through some pretty quickly because I'm conscious that we've gone on longer and there's – we're going to take one more question after this, if that's okay, Jack.

So on commercial, I'm not going to be able to give you specific numbers on either of the two questions that you asked. We've got good momentum on salads and it's in line with the strategy that we would've outlined in our Capital Markets Day in September.

And we are making that – one way to think about it is the new business activity is doing a very nice job of mitigating the kind of COVID – the temporary fall off in COVID in that – COVID related in that part of our business. I mean, it's going to leave us nicely set up. But the core business wins there are with traditional grocery customers that would be big Greencore customers, where we wouldn't previously have had material salad businesses with them. And so we're kind of cracking on nicely with that and the team there under the leadership of a guy called Lee Ormrod are doing a really nice job. That is also from a product development perspective, Roland, where we would be housing the capability within Greencore around plant and plant-based recipe development. And so – because it's a very nice fit with some of the Freshtime skills, culinary skills that they would've had when we acquired that business 18 months ago.

Meal kit, nothing material at the moment but a lot of engaged from customers with us on product development activity. Really trying to figure out this at home food for later occasion and where ready meals versus meal kits versus restaurant delivery component types, lots and lots of kind of synching and work being done in very large part of customers actually and trying to figure out how they configure their network against that, including potentially to some of the Damian's earlier question thinking about what that means for use of counter type assembly capability and all of that.

And so it's a very, very fluid space that meal kit, ready meal, fresh food for later, meal components, food for later space. And I think it'll be a big focus of the global and UK food industry for years and years to come actually. And it's an important space. But no, nothing that's material from a revenue perspective there.

Workforce, I mean, we've got virtually nobody vaccinated because we don't have people in the age cohorts that are being vaccinated, notwithstanding, the very good progress in the UK heading to whatever six million or so already vaccinated. We know and are very supportive of the strong push from DEFRA to get key workers or essential workers vaccinated earlier in the hierarchy. Now we know that lots of different sectors are shouting loud at government. But the direct answer to your question is very little vaccination so far but encouraging overall progress in the UK on vaccinations so far. And hence the additional safety metrics. And in particular the move towards mass testing, which is pretty material in terms of what we're doing as a business to keep our people safe until they get vaccinated.

On consolidation, we can take about it for a long time. I mean, hopefully I've been pretty consistent on this over a long period of time, which is we are believer in category scale, not necessarily corporate scale. And what we've done in the food to go market is very consistent with that. We've also been clear that we'd like to do more in salads, because I think it's a very good fit with our wider food to go capability. But I don't believe and never have in scale for scale sake. Others may but that's not our view.

Roland French: That's great. Thanks for colour.

Operator: There are no further questions in the queue. So I'll hand the call back to your hosts for any closing remarks.

Patrick Coveney: Listen, thanks for everyone for that. We had frankly as many questions that I ever remember to having on one of these calls. So we have the time, so we decided to run – to deal with all of that. Again, thank you to everyone for joining. And if there are any follow-up questions, Jack can – be very pleased to field them.

Two things just to remind everybody. Do put 24th February date in your calendars. Jack will be sending more details about that and we'll be letting the market know around this seminar on sustainability that we want to do. And then the – after that, our next formal market communication will be our interim results in May. So thanks for joining us and stay safe and well everybody. Bye-bye.

Operator: Thank you for joining today's call. You may now disconnect your lines.

[END OF TRANSCRIPT]