Greencore H1 2021 Results

Tuesday, 25th May 2021

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Operator: Hello, and welcome to the Greencore Half One Conference Call. My name is Jess, and I'll be your 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: Thank you, Jess, and good morning to everyone on the line and on webcast. My name is Jack Gorman, and I'm Head of Investor Relations at Greencore.

I'd like to thank you all for taking the time to join us for our half one ‘21 results conference call, which covers the six-month period to 26th March 2021. I'm joined on the call today by our CEO, Patrick Coveney, and our CFO, Emma Hynes.

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. So thank you.

And with that, I’ll pass over to Patrick Coveney.

Patrick Coveney: Thanks, Jack, and good morning to everybody joining us on the call this morning. Together with Emma, our Group CFO, we're going to take the next 40 minutes or 45 minutes to run through our presentation and then we'll open up to questions.

The big point here is that we're on a journey, a journey out from the existential threat of COVID, which was a threat to our people, our strategy, our consumer and customer relevance and to our resulting economic model. As we report on this journey today, we want to balance optimism, an evidenced optimism for how we're doing and where we're going with caution.

We're now well into the recovery phase of this journey. We are increasingly confident in our strategy, clear that we will emerge from COVID as a stronger business, a business with higher market share positions, enhanced relevance with customers, specific new business opportunities landed, and an engaged and resilient leadership and wider team across Greencore.

But we are cautious too, cautious on the world's and the UK’s path out of COVID, conscious of the scale of our capability agenda and the challenges in restarting our productivity agenda, and cognisant of the unknowns, uncertainties and the fragilities that COVID leaves behind, leaves with our colleagues, their families and the wider society.

Against that context, there are three main points that we want to discuss today. So first, in what has been a six-month period of enormous demand volatility, we have come together as a wider Greencore team, like never before, and managed the business with a purpose and clarity.

We have stayed true to our priorities of keeping our people safe, feeding the UK and protecting the business. The organisation, supply chain, commercial and production networks performed well in the first half, enabling the Group to maintain its high levels of customer service and responsiveness.

And we delivered a resilient financial result, importantly, reducing debt by nearly £80 million in the period, albeit, with a significant shareholder support gained during the equity placing of last November.

Second, we want to focus today on the shape of current trading and how we are building momentum behind a revenue-based recovery. We are reassured and a little relieved, to be honest, by the evidence of the strong rebound in food-to-go and other convenience volumes since early March. In truth, this rebound is a little better than we anticipated or hoped for in January.

Furthermore, we have secured new business wins worth approximately £175 million in pre-COVID revenue to be onboarded over the next 18 months. And we also have a line of sight on several other exciting commercial opportunities.

As we stated when we raised the equity in last November, we wanted to use this COVID crisis just as we use the crisis coming out of the financial crisis and the horse meat crisis to capture competitive opportunities, to secure material step-ups in market share and to further enhance our customer relevance. We are very much on track in all regards.

Of course, we are investing now to deliver these step-ups: investing in capabilities, selectively in capital, and in commercial terms where we're putting new or renewed long-term sole supply deals in place with customers.

Third, Emma and I want to outline how we are thinking about the economic model for the rest of this year and beyond. While we have not completed our journey out of COVID yet, we know enough now to signal some longer-term features of our economic model and to re-establish short-term guidance for FY ’21.

Simply put, we are well-positioned in rebounding and dynamic segments of the UK convenience food market. These positions would provide a tailwind to underpin a revenue-based recovery. But we are also conscious of how we are managing and sequencing the challenges of unwinding COVID-operating constraints, rebuilding productivity, profitability and cash flows back to pre-COVID levels over the coming years.

More narrowly, our statement this morning set out the acceleration evidenced in the recovery that we've seen since March and particularly in April and May. And we now expect to generate adjusted operating profit in FY ’21 and note that these profits will all be in the second half that is above the full year ‘20 level of £32.5 million.

Turning now to slide six. We've learnt a lot through COVID. Having led Greencore as CEO for 13.5 years but also having led Greencore through the last 15 months of COVID, I know that we are each different and I hope better leaders. In one area, that of purpose, we are certainly in a more engaged, more resilient, and more confident place than we have been before.

COVID has brought home to each of us the power of purpose. It manifests itself in the people model we have at the core of our business in how we lead, in what we do in the communities in which we sit, in how we source, and also in our broader sustainability agenda and strategy.

We have consciously elevated sustainability this year with a standalone sustainability report released last November and a dedicated Capital Markets event held in February of this year. You see, for the last 18 months, sustainability has sat as the standing agenda item at every Board meeting that we hold. This has been especially impactful coming at a time when the Board itself is in a refreshed cycle, which has seen us welcome an additional six new Non-Executive Directors since January 2020.

Maintaining momentum and measuring progress on sustainability is imperative, and I'd like just to briefly highlight three areas of sustainability impact that we have already delivered this year.

Firstly, we've been working with customers to resolve practically and quickly sourcing challenges relating to human rights and everything that you would expect us to do in that regard we have already done.

Secondly, we're committed to bringing to market the first fully recyclable sandwich skillet in FY ’21 and we're very much on track in that regard. And thirdly, the theme of sustainable diets is a key theme for us. And we would note of the 700 new SKUs that we've either – that we brought to market in the first six months of the year, approximately 40% of them are either vegan, vegetarian or meat-free products. And that ratio of 40% of our SKUs playing to those trends will unfold for the full year, where we'd expect to have about 1,200 new SKUs launched in the full year.

We will update against each of these targets and our broader sustainability goals in our November full-year results.

With that context now in place, I'm going to hand over to Emma, who will bring us through the financial review for half one.

Emma Hynes: Thanks, Patrick, and good morning to everyone on the call. I was encouraged by how resilient the business was during the first half, which was a really challenging trading period, especially in our food-to-go category.

The UK was in lockdown for half of the period and restrictions on movement were in place for the entire period. While in March last year, we moved to multiple facilities, in January this year when the lockdown was announced, we chose to keep the network open and invest in the ramp-up and the securing of new business.

But if we take a stand back now, it has effectively been the last two years of performance due to COVID-19 and with the consequential near-term impact that you have seen on leverage and on the balance sheet. So my focus has been on managing the cost base and the cash flow carefully so that we can protect the business but also to support the exciting growth that is now materialising.

And in this context, there were several key highlights to note in half one. So for me, cost management has been particularly important in a reporting period where we've seen such demand volatility but also such renewed activity across the business.

Key factor has been to ensure the business has been resourced enough to respond to customer activity and to the complexities of onboarding new customers, while also managing the extra costs associated with COVID-19 using government support, where appropriate, continuing to limit discretionary spending, and all the while, keeping the network open.

Secondly, our Greencore excellence agenda has been disrupted by COVID-19, and it has limited our ability to safely deliver continuous improvement initiatives across the Group. But we have sustained and invested in these programmes, where feasible during half one. And the focus now is on revitalising these programmes to deliver increased benefits over the next year or two as the volume rebuilds across the network.

Cash generation is also a key priority for me as we grow the business. But in the last 15 months or so, it has been all about cash protection. In half one, we continued to tightly manage cash flows through reducing planned levels of capital expenditure, deferring cash contributions to defined benefit pension schemes and also suspending dividend paying.

And alongside this, we implemented a set of debt and equity initiatives in half one to strengthen the balance sheet, including amendments to our debt agreements and in equity placements. This has all served to strengthen the business, not just to protect the business through this volatility but also to enable us to invest with customers to secure business and open up new opportunities in additional categories and formats.

And it's really encouraging to see the improving recent revenue momentum that first was evidenced during March but has continued into half two.

So moving to slide nine. Firstly, let's look at the detail of the half-one income statement. And as an overarching comment, I want to remind you that we only remain [inaudible] COVID-19 impacts during March, which was the last month of the first half period under review.

So we had a resilient revenue performance in a very tough market, both with an improving trajectory at the end of the period. Revenue fell by 19% as reported and by 18.6% on a pro forma basis with the vast majority of this occurring in our food-to-go categories. The impact of this lower revenues, combined with lower overhead absorption at these reduced volume levels, meant that we could only generate very modest operating profit in the first half. And we will explore the drivers in more detail in later slides.

There was a small decrease in amortisation, which was more than offset by higher finance costs, leading to a £7.9 million adjusted loss before tax compared to a £31.1 million profit before tax in the same period last year. The exceptional gain this year was primarily the result of a profit on disposal of the molasses business in December.

And from an earnings perspective, we posted a zero EPS in half one. And on an adjusted basis, a 1.4p loss per share.

Now turning to slide 10 and our revenue performance in the first half. So as a backdrop, the UK trading environment remained very challenging and volatile during the period. We felt this most in our food-to-go categories, where demand was constrained by the impact of tiered restrictions and subsequent lockdowns across the UK that persisted for most of the first half.

Now this was mitigated somewhat by our strong food-to-go presence in the grocery retail channel, the only channel to remain substantially open, and also to some degree, by new business and our portfolio in other convenience categories.

So you can see in the table at the bottom of the slide, Group revenue declined by 18.6% on a pro forma basis with food-to-go categories falling by 25.6%. And if I drill down further, it's Q2 where we saw the most marked impact on food-to-go revenues, down 30% versus prior year. UK authorities began to ease mobility restrictions on 8th March, and consequently we saw an improving trajectory in the last weeks of the period. Whilst Q2 food-to-go pro forma revenue was down 30%, in March, revenue was down 19%.

New business accounted for a modest low-single-digit percentage offset to the Group revenue decline in the period. This was spread across both our manufacturing and our third-party distribution business. And we would expect new business contribution to build in the coming periods.

There were also several moving parts in the 5.6% decline in half one revenue from other convenience categories. Firstly, the impact of tougher comparative in ready meals and cooking sauces, especially in March. And secondly, lower volumes in Irish ingredients during Q2 that we would expect it to rebalance somewhat during the second half.

Now turning to profitability on slide 11. And while there was a dramatic reduction here in the first half, I would also note that this profit performance is a small sequential improvement when compared with the second half of FY '20 and back in positive territory.

Adjusted operating profit of £0.2 million is after charging approximately £4.8 million of COVID-19-related operating costs. These operating costs comprise approximately £3 million of incremental costs relating to furloughed colleagues and £2 million of other costs including measures to ensure safe working and social distancing.

And specifically on our product categories, there was a significant reduction in food-to-go as demand declined with COVID-19 disruption. This was partly offset by active management of the cost base, including the continued use of furlough supports, pay freezes and the elimination of discretionary spending.

And in other convenience categories, profit was broadly unchanged, which was an encouraging result, given the lower revenue in the period. Our business units in other convenience categories have continued to be an essential part of the Group portfolio, and we have been delighted with how resilient and how effective they have been in delivering strong results in the current environment.

Now, briefly reviewing the rest of the income statement. I will call out several points to note. Net finance costs increased from £8.7 million to £9.7 million. Within this, bank interest payable was broadly unchanged, but I also note that actual cash interest costs increased in the first half from £7.5 million to £9.3 million.

As you will recall, we took a charge in FY '20 relating to the incremental interest costs that would be incurred by us in future periods as a result of the covenant amendment. The accounting for this is complex, but essentially as it had already been charged in the income statement, relevant interest costs are not included in the half one income statement but are reflected in cash outflows.

The effective tax rate was 18%, up from a 13% rate last year that had been reduced by a restatement of deferred tax assets.

And looking forward on tax. The UK Government announced a change to the corporation tax rate, which is set to increase to 25% from 1st April 2023. This was not substantially enacted by the end of our half one period. This had no impact on the half year charge, but we would expect that the effective tax rate will move closer to this revised tax rate over time.

We reported an exceptional gain after-tax of £9.9 million and this comprised an £11.3 million gain on the disposal of the molasses business in December, a £1 million gain reflecting various costs and provisions on legacy businesses, and a £2 million charge relating to a restructuring of our Irish legacy defined benefit pension schemes, which included the agreements to wind up the two smaller schemes and to transfer certain assets and liabilities from those schemes to the principal scheme. This has also served to remove some liabilities from the overall Group total.

And finally, to remind you that our share count increased by 18% as a result of the equity placing that we completed in November 2020.

Now turning now to slide 13, which outlines a waterfall of free cash flow movements in half one. There was a net working capital outflow of £21.1 million, reflecting the phased effect of volume reductions during the period. As a reminder, the nature of our food-to-go business means that declining volumes results in cash outflows from what is a negative working capital cycle.

Maintenance CapEx at £7.9 million was £3.3 million lower than the same period last year, where there was £2.4 million of exceptional cash outflows. Cash interest, we mentioned earlier, was at £9.2 million. And we had no cash tax in the period. While cash contributions to pension schemes were down from £7.8 million to £3 million, reflecting the decision to defer contributions for a further six-month period.

Lease costs of £7.9 million and other inflows of £1.4 million, all resulted in a free cash outflow in half one of £23.6 million.

So in summary, if we exclude working capital, which would normally be an outflow of this magnitude in the first half of the year in any case, we were happy to be broadly free cash flow neutral in what was a very challenging trading period.

Now bringing all this together in slide 14, there was a £79.2 million reduction in net debt excluding lease liabilities in half one. We were disciplined in how we allocated capital in the period, striking the balance between protecting the cash flows of the business while supporting future growth prospects. Strategic CapEx was £8.6 million compared to £9.9 million with the continued focus on advancing our excellence agenda, and, in particular, the rollout of our automation programme.

We are accelerating our investment CapEx in half two and in FY '22 to support our new business initiative, chief of which is our announced multiyear capital investment of approximately £30 million to onboard significant new business. And this spend will all be funded from free cash flow.

Total group CapEx for FY '21 is now expected to be approximately £55 million, rising to over £80 million in FY '22 and then normalising thereafter. In November, we completed an equity placing that raised a net £87.1 million, while in December, we completed the sale of our interests in our molasses trading business for a final cash consideration of £16.3 million.

And as a result of all this, we ended half one with net debt, excluding leases, of £271.3 million compared to £350.5 million at the end of our last fiscal year.

Now if we turn to slide 15 and our strengthening balance sheet and liquidity, again, which I highlighted at the outset. So we worked very hard through the first half to ensure that our cash outflows were managed as effectively as possible, while also strengthening the liquidity and the balance sheet.

Operationally, this included, as I noted earlier, reducing planned levels of capital expenditure, deferring cash contributions to defined benefit pension schemes and suspending dividend payments. We also secured further support from our bank lending syndicate and private placement noteholders in November and successfully completed an equity placing also in November.

For half one, our net debt-to-EBITDA condition was waived and we comfortably met our EBITDA to interest covenant condition of 2 times. As a reminder, we have a net debt-to-EBITDA covenant condition in June of 5 times, and then we revert to our normal cycle of covenant conditions in September, namely net debt-to-EBITDA test of 3.5 times and EBITDA to interest test of 3 times.

As a result of all this, we ended the first half in a strong balance sheet and liquidity position. We have a long-dated debt profile with average maturity over three years and less than 10% due within the next 12 months. We have strong liquidity with cash and undrawn facilities headroom of £302 million. And this leaves us well-positioned to protect and support the business.

So in conclusion, we're well set up after navigating a tough first half. And our focus now is to manage the revenue rebound in the first instance, and then ensure that we recapture the operating leverage and the efficiencies from this volume rebound and drive profit conversion and cash generation efficiently and effectively back to pre-COVID levels.

So we do expect to recover going forward but, of course, the margin profile will have to be factored in. And Patrick will talk more on the economic model later in the presentation. In this context, I'm encouraged by the momentum that we are currently building in the business.

Now, that concludes my section, and I'll be delighted to take your questions later in the conference. But for now, I'll hand back the presentation to Patrick for the operating and strategic update.

Patrick Coveney: Thanks, Emma. And for those following the presentation online, we're now on slide 17. Right from the outset of COVID in winter spring of 2020, we decided to run our business against three clear priorities: keeping our people safe; feeding the UK and protecting the business.

These three themes were central to how we operated through the first half of this year as well, and to take each in turn. First, keeping our people safe. People at the core is central to our purpose. And our first priority through COVID has been to keep our colleagues as safe and as healthy, physically and mentally, as is possible.

Since December, we've worked closely with the UK Department of Health and Social Care and Public Health England to implement weekly lateral flow testing across eight of our largest manufacturing and distribution sites, where, in aggregate, nearly two-thirds of our colleagues are located. More recently, we've secured mobile vaccine centres at selected sites.

This work is all supported by regular communications, engagements and support right through the business, both for onsite and remote working colleagues. And externally, we've continued our extensive engagement with relevant government authorities and industry associations.

Second, feeding the UK. Once again, we've responded in real-time to the volatile demand patterns that characterised half one as regional restrictions and national lockdowns impacted demand and supply. Our interim results statement set out in detail these revenue impacts.

Fortunately, our network and our commercial and supply teams have worked well to stay agile and to match range and service levels to this changing demand environment. Our Great Food agenda has been central to this, allowing customers to reengage consumers and to drive category ramp-up, especially in more recent months as society has begun to reopen.

And throughout the 15 months of COVID, we've continued with our extensive support of charitable and community support initiatives right the way across our manufacturing and distribution network.

Third, protecting the business. Emma has talked this through in a lot of detail already. In essence, we put a whole host of cost, cash and capital management measures in place to protect the business. But the real protection for the business is to grow it. So we have ensured that we have sufficient resources in place to allow us to support future growth as well.

Let me now turn to how our business is growing back strongly in the recovery phase of COVID. Over the next three slides, I want to specifically focus on the outlook for food-to-go and how we are positioned to benefit from the strong volume-led recovery that is already underway.

The chart on slide 18 speaks for itself. Food-to-go consumption is underpinned by mobility. That mobility was downwards as evidenced in spring 2020 and winter 2021. But that mobility was upwards as seen in autumn 2020 and now in spring 2021. This correlation between mobility and food-to-go volumes is much more significant than other and typically widely cited correlations, for example, the correlation between number of workers working from home and food-to-go volumes.

It is clear that the overall food-to-go market is now rebounding nicely as mobility has stepped up already to approximately 80% of pre-COVID levels. So that's the overall food-to-go market.

How does that translate into Greencore's pro forma revenue growth in food-to-go? And how has this progressed through the pandemic? For us, we benefit from three factors over and above the macro food-to-go market recovery.

First, our strong position in the retail channel has been helpful. It was the only channel to stay open all the way through the pandemic and it has maintained better relative share than the food service food-to-go channel during the reopening to-date.

Secondly, within retail the customer and format mix that we have has also helped. There has been a pronounced shift in retail food-to-go consumption from city centre or transit centres to suburban or market town locations.

Third, we are now starting to see the real benefit from the new business wins that we've been securing over the course of the last 12 months.

Let me now be current and specific in describing the recent rebound in revenues that we've experienced in March, April up to 14th May. If we first compare these months to their pre-COVID equivalents in FY ’19, March food-to-go trading was down 29%. In April, the decline narrowed further to 16%. And in May, this decline was 11%.

If we compare these months year-on-year, that is to the equivalent months in FY '20, what you see is that March was still lapping some of the pre-COVID period and trading was down 19% in March. But as we lapped into April, food-to-go pro forma and revenues were actually up 129% year-on-year. And in the first weeks of trading in May, revenues are up approximately 115% compared to the same period in FY '20.

So taking April and May in aggregate, in early half two, our pro forma revenues are back to about 85% of pre-COVID levels and rising. Of this, approximately 80% is driven by the food-to-go market and the retail strength within that, and approximately 5% is the impact of new business already secured. This relative contribution from new business will build through the summer and into next year.

Looking further ahead now, we see a clear pathway for a full rebound, a full rebound in the food-to-go market, especially retail food-to-go to pre-COVID levels. A lot of commentators have been looking at the food-to-go market and estimating the trajectory of recovery. These include independent experts such as the IGD, Kantar and Lumina. We work with each of these groups and indeed have shared some of this data in previous results materials during COVID.

However, in quarter two, we chose to invest in OC&C support to get a deeper and more bespoke view on how we believe this market will evolve. This work which, of course, is not without uncertainty, particularly on the pathways and potential prospects of – for impact of COVID variants, does indicate a healthy recovery for the food-to-go market overall and a somewhat earlier recovery for retail food-to-go within that.

This perspective is supported by output from our own weekly food-to-go shopper insight tracking. This tracking has food-to-go shopper penetration back at 38%. Bear in mind, pre-COVID food-to-go shopper penetration was at 45% and during COVID that penetration has been as low as 15%.

Sandwiches continue to be the most popular format with our insights saying that 60% of food-to-go shoppers choose a sandwich as their food-to-go item. Importantly, and I referenced this earlier, we're also observing a channel shift from city centre or central business district or large travel hub locations to suburban, market town or convenience format.

We've done a lot of work to dive deeply into the possible structural changes in the market, including forward-looking work from home impacts. Simply put, the conclusion of this work is that these issues are very manageable for Greencore. I should note in saying that that as work office consumption represents only 30% of the food-to-go occasions that we supply. The work from home cohort has yet to settle in terms of exactly how that will land post-COVID.

But our view is that an incremental one day to two days a week working from home taking the UK average up to two days to three days of working from home for an entire UK office-based workforce is actually possible. But notably, many of these consumers, even when they work from home, will still access food-to-go products. You see, it's important to distinguish between food-to-go occasions and what happened when people were locked up with COVID versus how they behave when they're choosing to work from home but have much less forward-looking fear for the disease.

And indeed, our latest survey work indicate that 37% of those currently working from home purchased a food-to-go product last week, which is almost in line with the overall food-to-go market.

The last 18 months alone are testament to the fact that the rebound and recovery from COVID may not be linear. Of course, there are risks and uncertainties. But overall, we see strong evidence for a strong and rapid food-to-go volume recovery. And within that for us, we think the relative share of supermarkets and convenience stores would be important. And, again to be specific, if you look at the share of retail food-to-go of the overall food-to-go market, that's multiples, convenience stores, discounters and High Street, that represented about 24% of the food-to-go market in April 2019. And it's about 28% of the food-to-go market in April 2021.

And, of course, as I mentioned earlier, and I'll say more about in a minute, the contribution of new business wins gives us specific additional comfort on our own revenue trajectory.

If I move now on slide 21 to how we're partnering with key customers across the Group overall, and this is how we're partnering with food – with customers not just in food-to-go but in other convenience parts of our business as well. Remember, Greencore is a business-to-business business with a concentrated customer set and a strategy to build growth, relevance and differentiation with and for our customers.

There are two core themes that I want to highlight on how we've worked with customers through the first half. The first one is in line with our feeding the UK priority. We have worked hand in glove with customers to keep Britain fed through this period in a collaborative way, recognising the impact of the demand volatility. Then we've partnered and worked to strongly activate our categories as the economy and society more broadly has reopened.

All this has been done while continuing to develop new ranges. We still anticipate that 40% to 50% of our total SKU count will be new each year, and we've done this also while onboarding new business and new customers.

Second, we're investing for the future with core long-standing Greencore customers. There's lots of positives associated from doing this. It's creating certainty on revenue flows. It's creating a platform for our invest – so that we can invest together and to plan for the longer term. And critically, on top of this platform, we've got a whole series of new growth opportunities that we're targeting to build together.

Of course, there are some costs associated with this. Securing a long-term five to seven-year visibility on revenue and new growth opportunities does carry upfront investments in commercial terms, in capital and in capability, especially where we seek out sole supply category status. In such instances, you see, customers cannot test the market every 18 to 36 months, like they might have done a decade ago. And so we have to, together develop a more transparent and shared economic model.

This model of working around sole supply and long-term commercial arrangements is one that we have built and evolved over the last decade, and you've heard me talk about it many times before. As we now plan our rebound from COVID and set our business up for the next five years or more, we have put in place, or are putting in place, several such comprehensive arrangements that cover current and new business.

An important component of our response to COVID has been the strong focus on capitalising on competitive and new business opportunities that we're seeing during this period of industry flux. We have made excellent progress and have secured new business of approximately £175 million, which will be phased in during FY '21 and FY '22.

To be specific now about this £175 million of new business, two-thirds of it is in food-to-go categories, much of it coming from the former Adelie business but with a building element in food-to-go salads. The profile of this new food-to-go business carries a distribution component, with distributed but not manufactured products representing approximately one-third of these food-to-go business wins. As you know, this component of a somewhat lower margin profile but still good returns on capital as compared to the margin profile that we get when we manufacture the sandwiches, salad or sushi business ourselves.

The other third of this £175 million is in other convenience categories. This is across several customers. And it's mostly either in ready meals or in innovative new fresh food for later categories. We're particularly pleased to be delivering this growth in a balanced way, balanced across core business, in new categories with existing customers and also with new to Greencore customers and, in some instances, in new to Greencore channels.

Importantly, we don't feel that we're finished with delivering new business in this financial year, and we have line of sight on several other new business opportunities that are live and that we're working on right now.

All of this, you see, is consistent with having a team and a set of commercial relationships, and importantly, the resources – augmented by the resources that we raised last November and the equity raise to get after these opportunities at this point, in what we see as a wider UK food industry reset cycle.

So let me finish by bringing this altogether on slide 23. We've come through a very tough period. Our business, our teams and our model has been hit hard by COVID. Smashed by COVID I think is the term that I used publicly last year. But we've worked our way through it. We've learned a lot. We've tried to capture opportunities as we go, and we are optimistic that we are close to the end of this phase of the COVID journey.

However, as I said right at the beginning, we're cautious too, cautious that we are still in an uncertain period and we know the challenges of rebuilding the business. During peak COVID, you see, our focus was squarely on safety, service, cash and capital management, a focus in truth on defending our business. It's going to take us some time to unwind some of the costs, and Emma described what they were earlier associated with this. And we'll be working on taking those costs out and improving productivity through the rest of FY '21 and FY '22.

But we haven't just been defending. We've also been investing for the future, in capability, in capital, and in commercial terms, to ensure a secure, healthy base for the business for the years to come and to use that base as a platform for new business with current and with new customers.

So standing back, this means that we will have strong revenue growth driven by a volume-led recovery and a phased impact of secured and prospective new business wins. We will also have recovering profitability, but with the pace of profit conversion likely to somewhat lag pace of the revenue recovery.

More narrowly then for the second half of FY '21, and this guidance is issued with all of the caveats associated with the continued reopening of the UK economy in line with the current government road map and no subsequent lockdowns. But what we see is – what we have seen is a strong revenue start to the second half. We're anticipating a strong year-on-year profit progression in the second half. And in this slide, we're anticipating that at this point, an adjusted operating profit outturn in this year will be above the FY '20 levels. So that is above £32.5 million reported for FY '20.

This recovery will also be seen in positive second half cash flows with net debt expected to reduce from half one levels, notwithstanding the increased strategic CapEx in the second half.

So thank you again for joining Emma and I today. And with that, we're going to hand back to the operator for the questions and answers.

Questions and Answers

Operator: Thank you. So if you would like to ask a question, please press star one on your telephone keypads. 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 Roland French from Davy. Please go ahead.

Roland French (Davy): Hi. Good morning all. I hope you can hear me. With three questions, if I could. The first is just you might give us some more detail around that £30 million investment in terms of what is being invested in and where that investment is going. And maybe is there a co-investment or shared elements with your retail partners in that programme?

And then secondly, just on the suburban outlet. I'm just wondering, is there any material difference in the cost to serve those centres, in particular from a distribution perspective and generally the economics around that potential shift towards those regions?

And then maybe just finally, more broadly, just your thoughts on I guess the timing and ability to get back to pre-COVID margin levels, I guess, given there's enough waiting in DSD, potentially some of those new contracts might take some time to face to pre-COVID levels. I'll leave it at that. Thanks.

Patrick Coveney: Roland, thanks. It's Patrick. Let me try and crack through each of those. Yeah. So the £13 million strategic CapEx that we referenced will be delivered across three of our manufacturing locations, which will impact several different product areas. What it's then going to deliver is – specifically is a little over £60 million of incremental revenue, which will be delivered through next year. And that will be a quite a material step-up in the business that we have with the anchor customer that's going to access that capability.

So for a variety of other reasons, I can't be any more specific on it than that. But we think it's going to be a just a very, very nice overall business builds on the platform of a kind of longstanding relationship that we have.

On your second question in relation to the suburban impact, the short answer is no impact for us. The – they are outlets that we would have been – that we would have served for some time that you can absolutely discern who they'd be spread across our core customers. And so we don't see a financial impact for us in that regard.

And then your last question around percentage margin. Now I should stress that as a – we don't actually use percentage margin as a key performance metric. And we – and when we did our Capital Markets Day that you might remember back in September '19, we spoke about like-for-like revenue growth, profit growth, free cash conversion and return on capital employed as key metrics for us looking forward.

Of course, if we can earn higher margin, it feeds through just some of those metrics. But the best kind of way or kind of impression I can give you about the future here is that this recovery is going to be led by volume and revenue. We think the profit conversion is going to be pretty decent, but it's likely that in the near-term, the margin levels will be a little bit lower.

So – but we see those building as we're able to unwind the disruptive COVID costs, and in particular, as we're able to get momentum behind our productivity and excellence programmes which are such – have been such a core part of our ability to deliver returns on the revenue that we've got.

So we're not apologising for this. We do want to be cautious here about the pace at which that happens. We've got, as I say, very good line of sight on the revenue and new business line and on plans that we think will build a better conversion over time. But we don't want to be too specific on exactly the timing of that over the next year or two.

Roland French: Thanks, Patrick. And just to just confirm that, that £60 million is included within the £175 million called out earlier.

Patrick Coveney: Correct.

Roland French: Yeah. Thanks.

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

Doriana Russo (HSBC): Yes. Good morning, everyone. I just wanted to go back to the new business for £175 million. It was said that about two-thirds come from the former Adelie and the rest comes from existing customer. I wonder if you can give us a sense of how sort of the pickup of the former Adelie business is progressing? I know, it was certainly a few percentage points have been impacting the current period. But is that going – the onboarding of the new clients, is that going in line with expectation? And also, what sort of possibility have you got with these new clients, which you are onboarding to expand the product range that you have locked in at the moment into new areas?

And second question, just to follow-up on this one. When you say that you're not finishing delivering new business, are you referring to new opportunities that you see in food-to-go? Or is that with new opportunities that you see to do – I don't know, to invest into longer term revenue locked up with the existing client, and therefore, grow across the entire portfolio, just to have an idea of how the competitive environment is evolving in food-to-go versus the other categories. Thank you.

Patrick Coveney: Doriana, thanks. So let's talk about a little bit the – while the biggest component of the two-thirds of £175 million that's in food-to-go is Adelie, it's not the only piece, right? So in particular, the food-to-go salads, which would be a important part of the – our overall food-to-go range, the momentum that we've got there actually has very little to do with Adelie. But instead is us capturing opportunities from typically with our core customers as opposed to new customers, where there are some weaknesses or competitive opportunities in parts of the solid market. So it's a combination of Adelie. Crudely, it's a combination of Adelie and leveraging the Freshtime capability and food-to-go salads space that we've got.

On your point on contribution – or sorry, timing. There are several components of that two thirds, quite a lot actually, which had not – which was secured over the last 12 months but is only coming to market in this second half. So you won't have seen the revenue contribution of the significant portion of that in the first half. But as I said earlier, you'll see that build through the second half of the year.

Where we expect to be actually is that of the £175 million, about two-thirds of it, maybe a nudge more, will have been delivered in – by the end of this fiscal. And the other third will be delivered through FY '22. Now that's across the total £175 million and not just the food-to-go component.

And on your last point around what did we mean by not being finished. We are seeing, and I hopefully was as transparent as it's appropriate for me to be during the introductory remarks. We are seeing a reset happening in the convenience food market right now. This – the impact, in particular, on some of the less well-resourced or smaller scale players, and that this would be more in the kind of broader food-to-go space than the rest of convenience and has been material.

And we've got a much, much greater level of new business engagement activity with current and prospective customers than we would have had in any comparable 12-month period during my time as CEO of Greencore. And so – and I would describe those revenue opportunities actually as being quite broadly based across all of our product categories.

And if I did give you some kind of rule of thumb, it's probably – it probably matches that two-thirds one-third split between food-to-go and another convenience that's evidenced in the £175 million, which by coincidence actually is about the relative size of our existing food-to-go business and other convenience pre-COVID. So that's a reasonable rule of thumb I think to have in mind as you're kind of hearing me in terms of where those opportunities are emerging.

Doriana Russo: Okay. Thank you very much.

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

Jason Molins (Goodbody): Hi. Good morning. Few questions, if you don't mind. Firstly just on the capital investment of £30 million. Just generally how we should be thinking about total spend on capital for, I guess, this year and next year, given that the phasing around that investment. And then secondly, just on input costs and the general environment that you're seeing, raw materials, packaging, etc., and then just layering into labour availability and pressures you might be seeing there. They are my two questions.

Patrick Coveney: Jason, I might take the second question and then, Emma, I'll hand over to you for the capital one, if that's okay. Yeah. So we – as you'd expect, right, with only a little over four months to go until the end of the year, we pretty much got all of – for this fiscal, we pretty much got all of our raw materials and package – packaging already contracted.

And – but we're not expecting, in net terms, material level of inflations. There are some things that are up and some things are down. And the commercial agreements that we have with our customers for the most part, give us very good real-time adjustments or recovery on those things, which is kind of part of that model that I alluded to earlier in terms of how we work.

So we're not seeing raw material packaging and packaging inflation be a material feature of this fiscal. I think there's likely to be a nudge more inflation in FY '22. We'll be in a position to say more about that later in the year. But I think the direction of travel is a bit more inflation around inputs. And fortunately, I think we've got a, as I say, a good set of commercial arrangements to give us good protection from that and to enable us to recover pretty quickly.

On labour, I'd make three points. First of all, the kind of regulatory labour inflation, in other words, the direct and indirect impacts of changes to the living wage, that actually has – that's more modest in terms of impact than we might have had in prior years at 2.2% versus closer to 5% that we would've seen or more in some previous years.

However, in the near-term, the pace of the rebound and step-up in demand across the UK food system coming into the summer is placing pressures on labour availability, in particular, in some regions in the UK. And we – and I suspect, no differently to some other food companies with manufacturing locations in some of those locations are having to be quite creative around near-term incentives in order to attract and retain the people on the kind of key shifts that we need in those regions.

It's – the impact of that is fully captured in the guidance that we've given, and I think some of that will be temporary as you see the – as you see the reset and the kind of strong rebound that we're anticipating through COVID.

Looking further ahead into FY '22, I think you will see ongoing labour inflation and the need to build a labour model and a labour engagement model and a people engagement model that is attractive to people and retentive to people. I think that's going to be important. And we're certainly planning for further investments in labour in '22, '23, '24 as we go forward.

So I might hand over to Emma to pick up the point on CapEx.

Emma Hynes: Yeah. Hi, Jason. Look, in terms of capital and the £30 million is built into the numbers I spoke to around expecting to spend about £55 million this year. Previously, we had thought that might be about £45 million and into next year £80 million includes the balance of that. So I think as third of it gets spent this year and the other two-thirds are built into next year, and then we rebase at a lower level thereafter.

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

Martin Deboo (Jefferies): Yeah. Hi, everybody. It's Martin Deboo. My questions are substantially being answered, so I'll just mop up. I'm sorry to obsessed about the €175 million as everybody else has, but I'm still a bit confused. I think the last time you disclosed you said €90 million of wins. So I'm assuming it's an incremental €85 million. But I thought the €90 million was all from Adelie. So I'm just struggling a bit to map sort of the old disclosure with the new disclosure. And just on raw materials and packaging, do you have any PET or Kraftliner exposure in the business? I asked that because those are the two highest inflating commodities we see at the moment. So those are the questions. Thanks.

Patrick Coveney: Yeah. Martin, let me pick up on the €175 million. The – I mean, you're right that there is an incremental – we've been building the revenue profile, a new business profile through there. The – the very – the core of that €85 million difference or all about €85 million difference is non-Adelie new business wins, right? And some of that has been – if I was to give you the kind of the main components of it, some of that has been in salads, where – and food-to-go salads, in particular, where we've been able to layer that on and secure that through the year in a way where some of that wouldn't have been confirmed and we would've given the €90 million disclosure.

And then some of it is in other convenience. And in particular, connecting to the €30 million CapEx that we've – that we described today. So the point I was making in my response to Doriana's question earlier is that Adelie is very much the largest part of the £120 million or so food-to-go new business. But it's not the only part because of the salad piece that I'm describing. And the other £60 million or so is in – across other convenience categories, which has nothing at all to do with Adelie.

On your point on PET and Kraftliner, I don't have the – of course, we do have purchases of both of those projects[?]. I don't have the exact numbers in front of me. I suspect and we can follow up offline on that. What I would say kind of consistent with what I said earlier is that we're locked in for the rest of this fiscal across all areas actually. And I do think there will be a tick-up in overall levels of inflation. And within that, our current planning assumptions is that packaging will be a bigger component than food raw materials of likely inflation level in FY '22.

I can't quite speak for how everybody else does this. But in terms of how we work with our customers, in the vast majority of cases, those particular packaging areas would fall part of our inflation recovery mechanics that would be in the commercial terms that we've got. And so, we would be – we'd be pretty confident that we can mitigate the impact of that.

Martin Deboo: Okay. Thank you. Thanks very much.

Operator: The next question comes from the line of Karel Zoete from Kepler Cheuvreux. Please go ahead.

Karel Zoete (Kepler Cheuvreux): Yes. Good morning, all. Thanks for taking the questions. I have two follow-up questions on the margin and then on product innovation. Well, with regards to the lengthening of some of your key, yeah, contracts with retailers for five to seven years, you say it's going to be more transparent on cost. Does it also include labour cost in automatic pass-on mechanisms here as well, like you see with foods cost and packaging cost?

Now the second question on the margin trajectory and investments in commercial terms, in order to achieve the margin Q1 or the profit Q1 on those yet renewed contract, to what degree is automation and getting efficiencies there very relevant? Or is it much more the volume leverage you mean?

And then, the third question is on product innovation here. At the last Capital Markets Day, you spoke about getting offerings in the – in hot and in breakfast occasions, etc. Well, I understand that, yeah, lately it seems you've got focus on other things. But can you speak about that product innovation agenda? And where we stand with potentially entering the new occasions? Thank you.

Patrick Coveney: Yeah. I'll try to pick up those reasonably quickly. As a part of the extension or resetting of commercial agreements that we would have underway, we would seek to have elements of labour inflation be part of the commercial recovery agreements, like we would have on raw material and packaging.

What I would say, Karel, is that, in some cases, we have that. In other cases, we don't. There isn't a kind of a cookie-cutter answer across all of our customers. Direction of travel would be to have some portion of labour inflation, particularly the kind of regulatory labour inflation around changes to the living wage, that'd be included in – as a kind of an explicit part alongside raw material and packaging inflation in those commercial agreements. And that would be the direction of travel. It's more evident in some places than in others, but that's the direction that we're going.

Again, on the role or benefits of automation, typically where we deliver productivity savings through capability or capital investments like the – like in the automation area, the benefits of that are to our account and are not required to be shared on an ongoing basis with our customers. Where they deliver benefits to margin through changes to their order management system, or in some instances, changes to product spec, then those benefits are shared in some form or other. But the specific automation benefit we'd expect to flow through to our account.

Finally, in relation to product innovation. I mean, on this slide that I shared earlier in that regard, you will see reference to which was slide – so we've got the right one, slide 22. Yeah. You will see a reference to hot. So we do now have had new hot products in the market. We don't have them with every customer, but we do have them with some. And so those innovation themes that we would've spoken about 20 months or so ago around channels that we were looking to innovate and products that we're looking to innovate in have been very much on plan with the – this kind of SKU count refresh that we've got. So much more solid product, innovation in sushi and innovation in aspects of sandwiches and wraps.

So the – some of that is being delivered through putting those products into completely new customers. And my point on bringing ranges into former Adelie customers would be a good example of that. But a lot of it's with existing customers as well. And we think that's going to continue to be important.

Karel Zoete: Thank you.

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

Clive Black (Shore Capital Markets): Good morning. Thanks for taking the question. Firstly, Patrick, in light of the pandemic, I just wondered if there was any adjustment in your SKU count, and therefore, the economic contribution per SKU following through into unlocking market.

And secondly, in terms of the adjustments in the retail market, in particular, you talked about working from home but the online channel has doubled its participation. I just wondered what that means as an opportunity or constraint for Greencore's business, please?

Patrick Coveney: Yeah. Clive, thank you. A lot going on in terms of SKU count. I think, in general, with existing customers, we're not going to bring back the full number of SKUs that might have been in the market pre-COVID. But if you look at the overall Greencore SKU count, particularly with the number of new customers that we brought on board or the new ranges that we've entered, the impact of that is that our overall SKU count would probably come back broadly to where it was pre-COVID.

And now that will play out quite somewhat differently in different categories and somewhat differently in different customers. But I think, in general, there are – one of the learnings from COVID is that some of these categories were over-ranged and that you can have a kind of better performing food system all the way through with a somewhat tighter range.

And so, I think that that feature is like to be a part of how we go forward. But for us, we're then adding without coming back yet again to the £175 million, but clearly, that's all new SKUs, right? So we're adding that.

In relation to the point on the retail market and the contribution of online, the – we think this is quite important. On a relative basis, it's much more important for us in the other convenience categories than it is in food-to-go, at least with existing customers. So we've seen a decent step-up in ready meals and cooking sauces and quiche that are delivered through the online platforms of our existing customers.

And we've invested a bit in capability in that space to get online category management capability into Greencore, brought a couple of people on board to help us with that. In general, one of the things that you see is that the own brand product areas somewhat under trade online for our customers relative to the manufacturer brands. And I think part of that is that the capability of the kind of traditional large CPG companies to market and drive online is a little better than what retailers would have themselves and the marketing teams in relation to the on-brand programmes.

Now, you're starting to see a bit of a catch up on that, but that is one kind of learning from the last year. But undoubtedly for – we think the level of step-up in online in particular for core grocery is here to stay. And that's going to create an imperative for the – our customers and the on-brand suppliers to really get after that in a lot of kind of a lot of the basics of online activation and online product representation. And we're starting to see a kind of pretty rapid progress in that regard.

Clive Black: Very interesting. Thank you. Just by way of a follow-on question. On a three-year basis, does bolt-on acquisition still form part of your growth strategy?

Patrick Coveney: Yes. Although in some – one of the features of what we've been doing for the last 12 months or so, Clive, is that some of the new volume that we might in the past have access through bolt-ons, we've actually been able to secure through business wins, which we think from a kind of capital returns perspective over time is actually very good.

But I do think there will be – as we strengthen our balance sheet, reduce leverage, get our economic model working again, and we think we're on a pretty rapid path to be able to do that, I think we will then have the resources for kind of thoughtful bolt-ons, where that makes sense. But a lot of the new business activity in the past we might have access through M&A, and it's pretty good to be able to do it out of our own networking facilities without having to pay upfront for that.

Clive Black: Absolutely. Yeah. Thank you. Well done. All the best.

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

Nicola Mallard (Investec): Hi. Morning. Just two connected questions, if I may. The resetting of the contracts that you've done, how does that change the average length of contract with your customers? If we looked at it sort of pre-COVID and as we stand today, one assumes it's been lengthened. But could you give us an idea on that? And also within that, have you seen any change in the number of sole contracts that you've had where you've perhaps [inaudible] someone? You said clearly there's been some issues with some of the smaller companies and, hence, your new business wins. But if you've got any new contracts that you're now sole on that you weren't previously? Thanks.

Patrick Coveney: Yeah. Nicola, so the – I mean it's kind of like you're – it's like sort of get modelling, right? As time passes, your average length of contract when they need to renew falls.

But if I answer the question slightly differently, which is if I park that effect, the work we've been doing particularly over through the – in this calendar year in 2021 will reasonably substantially lengthen the average tenure of our supply agreements. And the kind of periods that are – that we're working on would be five years to seven years rather than three years or three years to five years like they might have been in the past. So the direction of travel actually is – that we're seeing is towards somewhat longer commercial agreements.

In relation to changing sole contracts, I mean, we have, as you know, our food-to-go but, in particular, our sandwich business is very, very centred on sole supplied contracts. Now, there's very few customers that we supply sandwiches to that we're not doing 100% of. And a consequence of Adelie coming out of the market has been to add a number of contracts that would have be dual supply in one way or another to sole supply status for us.

That's a business that we might have been doing before in part where we're doing all of it now. And some of the new contracts that we've in sandwiches are – and I think, all of them actually are sole supply. So we've got more than before. Where we're building out our business in other product areas, like in salads or in ready meals, what we're tending to see is the kind of principle of sole supply, but within portions of ranges. So like in Italian ready meals or food-to-go salads as opposed to a sort of broader definition of every type of ready meal or every type of salad.

And from a kind of contract length perspective, where we're doing this reset on the back of a retention and reset of the core, the new business that we're adding, we're bringing onboard on essentially the same commercial terms in terms of contract length and exclusivity for the portions of the ranges that we're supplying. So hopefully that helps.

Nicola Mallard: Yeah. Thank you very much.

Operator: The next question comes from the line of Damian McNeela from Numis. Please go ahead.

Damian McNeela (Numis): Hi. Good morning, everybody. Yeah, similar to Martin, most of my questions have been answered. But just perhaps a couple of quick ones and then – can you tell us how much of your revenues are through grocery retail at the minute, or are they sort of that new pro forma business versus food service? And then, I'm not sure if you've quantified it, Patrick. But can you give us a sense of the size of the opportunities that you're facing into? Is it as big as the £175 million that you're sort of talking about already or – yeah, just any guidance on that would be good too.

Patrick Coveney: Yeah. I don't have the – on the first question, it's – this is quite fluid, obviously, because the customers that we would have in food service would have under-traded because of the COVID restrictions more than through retail.

But if I were to give you a kind of a rough sense of where we sit right now, probably 90% of our business is in retail than a little less than 10% in food service would be the best way of describing it.

On the new business, I don't really want to be drawn on a number on the other opportunities that we're working on. I think it would be fair to say in aggregate the line of sight that we have to opportunities that we're engaging on would not total the £175 million, but would be kind of sufficiently interesting to merit just surfacing for this Group as kind of live stuff that if we land all of it, it'll have a material impact. And that's why we've referenced it in the way that we have.

Damian McNeela: Yeah. No, that's helpful. Thank you, Patrick.

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

Charles Hall (Peel Hunt): Good morning, everyone. A couple of questions, please. Firstly, Patrick, could you just give a feel for the timing of that £175 million in terms of contribution to top line in 2022 and 2023, particularly sort of getting a feel for is that £175 million pre-COVID? Are you expecting it to be £175 million post-COVID, whatever that might be in terms of timing?

Patrick Coveney: Yeah, Charles, I can actually. Yeah. So we'll have about two-thirds. And let me just call it £120 million just – rather than keep giving two-thirds. So about £120 million of the £175 million pre-COVID will be landed by the end of the fiscal, alright? So in other words, will roll into next year.

There are puts and takes in terms of COVID recovery. But if you look at that slide, which shows the modelling that we put together with OC&C, what you'll see is that you're kind of at the 95-ish percentage recovery for FY '22. So I would say that substantially that £120 million flows through fully for FY '22.

And then the last third will be delivered through FY '23 with the kind of key issue being some of the capital work that we've referenced in relation to the £30 million. And our – the best sense I can give you is that that last third comes in in the second half of the year with most of it coming in, actually in kind of the final quarter. And therefore, fully onboard as you go in to FY '23, if that works for you.

So hopefully, yeah, £120 million onboard in FY '21 and the balance onboarded in FY '22 but coming in quite late in FY '22 from a modelling perspective.

Charles Hall: Got it. That's helpful. Thank you. And then just sticking on that, the OC&C work that you've done with them, it looks as though 2024-2025, I know it's a long way out on this, hopefully, post-COVID. They've got 2% to 3% growth in the market. Is that how you're perceiving the longer-term growth now, given the changes in consumer profile that we're seeing?

Patrick Coveney: Yeah. The short answer is yes, but it's important to stress that that is the – that's the overall market and it's that broad market definition of food-to-go, not – it's not just retail food-to-go.

So I think there will be plenty of growth opportunities for us within that wider market, particularly with some of the kind of focus around channels and new product categories and then food-to-go that we're developing. So I still think it's a very dynamic vibrant part of the UK food market. And with that level of change, I think it's quite a lot of opportunity. But we've just got to – we've got to execute well against it.

Charles Hall: Patrick, and just one last question. In referencing the increase in longer term contracts, you talked about some upfront investment in commercial terms. I presume you're meaning that there's a margin reset as part of that. Could you just give us sort of feel of the quantum that that would be maybe in context of what it might have been in 2019?

Patrick Coveney: Yeah. I mean, I'm going to have to be a little bit careful in being too specific here. First of all, let me say that this phenomenon of extending contracts, like I referenced to Nicola, is not a new phenomenon, right, in that if you look at the evolution of our UK business over the last decade, and in particular, you see the types of commercial agreements that would have – we would have put in place when we did big capital projects in '15, '16, '17 in Northampton and Warrington and Bow and some of our distribution investments.

So the idea here of when you put in place with customers five to seven-year supply deals, one of the things that they'll understandably want here is to make sure that they're priced competitively and there is some value in the certainty, right, because what that means is that you don't have customers that are out testing the market every 18 months, like might've been the case when I started in the industry.

So there is a modest reset of terms typically upfront. And then we then – with the certainty of those contract lengths, we're able to get after productivity improvements through automation and all of the various excellence programmes you've heard us talk about in the past, Charles.

Now, as Emma flagged too, one of the very near-term challenges for us here, over the course of the next 18 months or so, is that as a consequence of COVID, is that we haven't been able to activate those programmes from a health and safety perspective. We simply haven't wanted to have contractors or non-essential personnel in our plants, where you have these COVID risks.

So we've got a big job to do coming out of the summer with the removal of these restrictions and into next year to really get the momentum back into those, which is going to be an important mitigant. And we're just choosing, in the way that we've described the economic model, to be cautious about the timing of the flow-through of some of those things.

We have no doubt that they will flow through, but we just want to give ourselves a little bit of headspace as to how quickly they flow through over the course of the next year or two. So that's what I think all I can really say on your question.

Charles Hall: That's perfect. Thanks very much.

Operator: We have no further questions in the queue, so I'll hand the call back to your hosts for any closing comments.

Patrick Coveney: Great. Well, listen, thank you very much for joining us and for all of the questions. Hopefully, it's – as we've been in a position to more explicitly talk about guidance in the future as we're coming out from this part of COVID, hopefully it's been helpful to all of you. And we look forward to speaking to you soon. Stay well. Bye-bye.

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

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