Greencore Q3 FY'21 Results

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Operator: Hello, and welcome to the Group plc Q3 Full Year '21 Trading Update. My name is Molly, and I'll be your coordinator for today's event. Please note that this call is being recorded. And for the duration of the call, your lines will be on listen-only. However, you will have the opportunity to ask questions. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero and you will be connected to an operator.

I will now hand you over to Jack Gorman to begin today's conference. Thank you.

Jack Gorman: Thanks, Molly, and good morning to everyone on the call. 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 Q3 '21 results conference call, which covers the 13 weeks to 25th June 2021.

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 Patricia to give an overview of trading in the period and after that, we'll open up the call to Q&A. I'd also like to draw your attention to the forward-looking statements included at the end of today's release.

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

Patrick Coveney: Thanks, Jack, and good morning, everybody. As Jack said, I'm joined for this call by Emma, our CFO, and also in the room by Gary Kennedy, our Chairman.

This morning, as you know, we released our Q3 trading update for the 13 weeks to 25th June. And the purpose of this call, and in particular, this section, is for me to take 10 minutes or so to provide some more colour by supplying that update. And Emma and I will then host questions from everyone on the call. As such, I'd anticipate that we'll finish just after 9 o'clock this morning.

I'd like to open with some high-level comments around quarter three. This was an exceptionally busy quarter for us and a critical one for us, too, as we start to drive economic model hard for the rest of FY'21 and into the coming years. We made excellent progress in the quarter in many different respects.

Firstly, operationally, we've revitalised our network effectively and we've done it safely with thousands of colleagues either returning to work from furlough or joining our business for the first time in the quarter. We're recruiting and training this volume of new people, almost 8,000 in total, at such notice is a massive task in its own right, but we achieve this at a time when we have also maintained high vigilance around COVID, rebuilt volume rapidly and also onboarded several new customers. This is being achieved in the context of emerging challenges in supply chain and labour availability across the food industry, and I'll discuss more about those later.

Secondly, commercially across the business, we continue to drive the innovation agenda with our customers. Over 400 SKUs were launched or refreshed during quarter three alone. That's 400 from an overall SKU count or about 2,000. This is a faster pace of innovation than we would have seen in the first half or indeed than we would have seen in comparable quarters in prior years.

Examples of these new launches include the full relaunch or reset of several sandwich ranges and the introduction of premium sushi ranges with several customers. We've also seen new plant-based and healthy meals come to market and we've tailored food to go offerings, specifically for the café channel. We've introduced top tier premium sandwich ranges with some customers and we've also launched several comprehensive sole supply ranges in the food to go salads category.

Thirdly, financially, I've spoken on several occasions before about the best way to protect our business in the long-term being by growing it. In fact, it's not that long ago that many stakeholders were debating the very future of the food to go market. We are confident that we have moved well past this point with quarter three showing strong underlying market recovery, and from a Greencore perspective, also showing an increasing contribution from the new business wins that we've secured over the past year. In short, we are very happy with the quarter three revenue performance.

For us now, financially, the key objective is to drive the economic model and to harness the earnings power of the business such that we can generate improved profits and cash conversion from a healthy revenue base.

Fourth, in terms of sustainability and purpose, we're delighted that we've made really good progress during the quarter and that we continue to increase engagements with all of our stakeholders. I would particularly like to highlight our announcement today that we will be launching a fully recyclable sandwich skillet piloted with Co-op and Sainsbury into the market in September and that we expect this technology to be rolled out to the wider customer set at Greencore thereafter.

This is an exciting development and underscores our commitment to be one of the sustainability leaders in our industry. In addition, our latest employee engagement scores have shown significant and meaningful improvement across all key metrics, reflective, we believe, for how we have engaged and supported each other right the way across our colleagues through COVID.

We also remain on track with our plans to have verified science-based targets in place by COP26 and have specific site-specific community engagement plans rolled out to all of our locations by the end of this fiscal year.

None of our progress in quarter three would have been possible without the energy and dedication of our teams and colleagues who continue to do a fantastic job as they have done throughout this 18-month challenging COVID period. They are heroes, and I would like to thank all of them for their support and leadership and resilience through this period.

So against this backdrop this morning, I wanted to provide colour on four topics. First, to provide some specific commentary around our trading and revenue performance in Q3 and in the first weeks of July that being the start of our final quarter. Secondly, to update on the progress we're making in driving our economic model forward and what that means for profitability, for cash flow and for returns momentum. Thirdly, to discuss the near-term inflation and supply chain trends and the broader impacts of labour tightness across the food industry at the moment. Finally to provide further visibility around the FY'21 outlook. So let me take each of these in turn starting with Q3 performance.

Simply put, we're happy with quarter three trading momentum. Total reported revenue in quarter three was £360.2 million, that's an increase of 49.7% on a reported basis. On a pro forma basis, the increase was 53% adjusting for currency and the disposal of the Group's molasses business that was completed in December 2020.

If we look at this performance versus FY'19, pro forma revenue was 3% below the equivalent Q3 level. And in June, pro forma revenue was 1% above the pre-COVID level. So breaking down this performance, revenue in the food to go categories totalled £236.5 million in quarter three, growing 91% on a reported and pro forma basis year-on-year.

Revenue in the other convenience categories totalled £123.7 million with a pro forma increase of 11% year-on-year. As we have done consistently since the pandemic began, we felt it would be useful to provide 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 mobility restrictions.

We have tracked this performance versus last year and also versus the pre-COVID equivalent period in FY'19. There's a lot to step through here but this data is outlined clearly in the three tables within the statement that we issued this morning.

There are three drivers of this recovery. For context, the UK government eased the restrictions on mobility on a phased basis beginning on 8th March. This reopening had a positive impact on underlying demand progressively in the food to go market during quarter three. Supplementing this increase in overall demand is the fact that our strong market share position in grocery retail.

If you look at the share of retail food to go of the overall food to go market, i.e., in multiples, in convenience stores, on the High Street and in discounters, that represented 28% of the market in the year-to June '21 compared to 24% of the market in the year-to June '19.

And to these two factors, we need to add the increasing contribution from our £175 million new business wins that we've secured and which we spoke about in our half year results that will be phased in through FY'21 and FY'22. In quarter three, onboarded new business contributed over 10 percentage points of our food to go growth in that period. Taken together, these three drivers of growth enabled our food to go revenues to grow by 91% in the quarter.

Now, if we compare the monthly Q3 performance to the FY'19 comparatives, you can also see a progressive improvement. April was down 16% versus April '19. May was down 10%. And in June, we were only 4% below the equivalent to pre-COVID level.

This good momentum has continued into the early weeks of July against demanding comparatives and before, I repeat, before the recent good weather really landed. So all in all, this is a really good recovery in our revenue base during the last few months and it's also reflected in our latest proprietary insight work on food to go penetration that we have shared on previous calls.

Again, just to look at this from a consumer perspective. Pre-COVID, some 45% of the consumers that we would survey and track had purchased a food to go item in the previous week. This fell to a low of approximately 15%, in other words, fell from 45% to 15% in early April 2020. And the latest data that we have would point to a 42% penetration rates in recent weeks, almost fully back to the pre-COVID level.

This also continues to play to the themes that we've discussed in detail over the last few months, namely, that sandwiches continue to be the preferred format for people, especially at lunch time, with 68% of food to go shoppers choosing it for lunch in the last week. We're also seeing a channel shift from city centre or central business district or a large hub travel locations to suburban, market town or convenience formats.

In our other convenience categories, pro forma revenue increased by 11% in quarter three. This is a really, really strong rate of growth by historical standards and it's underpinned by a lot of skills and clever and innovative commercial work across our product category teams building on the progress and momentum of the last 24 months. It also reflects the benefits of having a broad portfolio mix across our business and it has really helped us economically during the COVID period.

There are two drivers for this growth. Firstly, and most substantively, ready-meal revenues grew strongly as the quarter progressed and have also benefitted from somewhat weaker prior year comparatives. This accounted for the majority of the year-on-year growth in other convenience. Our cooking sauce business, while down very modestly year-on-year, held up excellently against very tough FY'19 comparatives. And in addition, Irish ingredient revenues were boosted by underlying commodity price inflation and a recovery in volumes after softer H1.

Now, moving on from revenues and turning to our second topic, which is driving our economic model. Put simply, this is about ensuring effective profit and cash conversion from a very healthy recovery that we've seen in our revenue base. In quarter three, we moved solidly and progressively back into profitability and adjusted operating profit. Importantly, we also generated strong cash flow in the period to reduce net debt level and to comfortably meet our covenant tests at the end of June.

In addition, we refinanced our private placement debt, up $65 million that was due this October, converting it to a three-year term loan with our existing lending group. This both extends our debt maturity profile and also delivers meaningful interest cost savings for FY'22 and beyond. We also concluded during this period the latest triannual valuation for our UK legacy defined pension scheme, securing a small overall reduction in our overall annual cash funding requirement. This reduction is inclusive of the cash contributions that were deferred over the course of the pandemic. That is to say there is no catch-up payment required to the agreed funding plan any more.

My third topic this morning is inflation and supply chain trends. In the fiscal, raw material inflation is benign, in other words, for this year until the end of September. But at this – but post that, we would see some increase in inflation levels into FY'22. We are already mitigating against this through the various price recovery mechanisms that we have with our customers and suppliers.

The more significant call outs in the short-term however are the supply chain and labour challenges that are currently escalating across the UK food industry. Many of you will recall that at our first half results in May, we have anticipated pressure on labour availability, particularly, in some regions of the UK, and most notably, in the regions in which we have located our salads business. This development is not unique to Greencore. Our competitors, our customers, our haulage providers and our suppliers are all experiencing this in one form or other.

What it means in practice is that we've had to adjust our near-term incentives in order to retract and retain colleagues on key shifts that we need in these regions. In many instances, inbound raw material supply has been as much of challenge and we are working closely with suppliers, freight and haulage providers and customers to mitigate these and to ensure strong operational service performance.

We will continue to monitor and manage these issues over the coming months and to respond accordingly. All of this emphasises the imperative to ensure that our excellence programmes are effective in delivering productivity improvements and also the investment case for automation solutions to drive productivity in our food to go network going forward.

If we bring all of this together and just finish with some comments on the outlook for the business. First, while we do recognise that there are some uncertainties still out there; new COVID cases, the Delta variant, how the UK emerges into full opening. We are confident that we can deliver strong year-on-year profit and cash flow progression in the second half of the year.

We have provided more visibility on profitability for FY'21 by stating that we now anticipated – that we now anticipate adjusted operating profit of between £36 million and £40 million for the full year. This updates our previous guidance of adjusted operating profit being above the FY'20 level of £32.5 million. Importantly, in terms of emphasis, you should get from the statements the confidence that our Group now has around cash flow generation and we anticipate that net debt, excluding lease liabilities, will be below £240 million at year-end, with our net debt EBITDA covenant test comfortable – being comfortably below 3 times as measured under our financing agreements.

So just to conclude now with some final remarks. We recognise the challenges in the food industry, especially on the supply side right now, but we are optimistic and increasingly confident in the future prospects of our Group. Our markets are resilient on the demand side, and we've already shown a clear ability to rebound as mobility restrictions have eased.

When you add in the new business activity to the momentum behind existing customers, you're going to see the rebound build progressively. Our key focus now is to drive the economic model and the conversion of that revenue through effective profit and cash delivery across the business. We are happy with how quarter three has gone and it sets us well – it sets us up very well to complete the year in line with our expectations and plan.

And finally, just a reminder, that our next capital markets update will be our full year results that will be released on 30th November. So hopefully that helps and provide additional colour behind the statement. And Emma and I will take questions from the call now.

Questions and Answers

Operator: Thank you. As a reminder, if you would like to ask a question, please press star one on your telephone keypad. Please ensure that your line is unmuted locally. You'll then be advised when to go ahead with your question. The first question today comes from the line of Clive Black calling from Shore Capital Markets. Please go ahead. Your line is unmuted.

Clive Black (Shore Capital Markets): Well, thank you. Morning, Emma and Patrick. Thanks for that. I'm intrigued by the strength of your food to go rebound to the extent that many people in the UK are still working from home. And I just wonder, A, what that says about your confidence in the food to go market in general. And secondly, maybe just elaborate a little bit more around where you stand on market share because to my mind, with so many people working from home, you must have gained market share within that overall context. Thank you.

Patrick Coveney: Yeah. Clive, listen, some of the trends that underpin the build back, we would have spoken about in more detail back in May. But just to give you maybe three themes that help explain both where we are at the moment and the momentum from here.

So I mean, firstly, on market share, I think there's two drivers of that. First of all, what you see is that retail food to go has grown its share of the overall food to go market over the last 18 to 24 months. And in my comments earlier, I spoke about the share of the overall food to go market that's held by retail rising from 24% to 28% over – particularly if you compare versus 2019.

And then within retail for Greencore, clearly, we have built our share on the back of onboarding the much of the Adelie retail volume, which would have been – Adelie would have had somewhere between 5 percentage points and 10 percentage points of the market depending on how you define the market and they came out of business in June of last year.

And we've got most of that retail volume and a portion of the food service volume. So that's built our share a little there. Furthermore, we've built share in salads, which has been a big strategic priority for us going all the way back to pre-COVID pandemic and accelerated by the acquisition of Freshtime.

So that's how we're thinking about share here. You can get into kind of market size definition areas here. If you take the broad retail market, we're close to 70% market share in pre-prepared sandwich. It's a little lower than that in food to go salads.

In terms of the – how citizens and consumers are living their lives and shopping, what we would point to here is a pretty marked move – set of channel moves in terms of where our products are being sold. So from city centres, central business districts, airports, travel hubs to suburban locations, market towns and convenience formats.

We're – in overall revenue and profitability terms, we're somewhat in difference to those shifts because of where our customers have their stores represented. But we are seeing changes there. Our best judgement here is that you will see – you're still seeing some consumers being reticent about getting back to food to go shopping habits like before. So we think there is further growth from here. And in the consumer tracking information that I shared on the call earlier, you will have seen pre-COVID 45% of consumers having brought at least one food to go item in the previous week. That dropped to as low as 15% at the height of the pandemic. It's at about 42% now. So it's nearly back to where we are in total but not fully. And that remaining gap, I think, creates opportunity for further volume growth for us. So hopefully that helps to answer your question.

Clive Black: That's very helpful indeed. And just a final follow-on for me, if I may. Can you just give us some colour as to where you are with the onboarding of coffee and food service business? To the extent, what proportion of that additional sales you announced in the last set of results are you through in terms of FY'21 versus say '22? Thank you.

Patrick Coveney: Yeah. If I take the total just to kind of speak to it a bit, Clive. If I take the total £175 million of new business that we referenced in May, two-thirds of that will be onboarded by the end of this fiscal, in other words, by the end of September. But you'll see that build through the rest of this year with the final third principally actually being in other convenience as opposed to food to go categories which should be in FY'22.

So we will largely have the food to go elements of that, and clearly in the food services elements in our network by the end of September. But we didn't have significant components of that onboard in Q3.

Clive Black: Yeah, that was a point that I was trying to clarity on. This answered my question very well. Thank you, Patrick.

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

Doriana Russo (HSBC): Yes. Good morning, everyone. I've got a couple of questions, if I may. First of all, coming back to the onboarding of the new clients. I was wondering if you can give us an update on the pipeline for new business? I remember in the last update, there were some talks regarding business in the pipeline and where would you see opportunities to expand, so that your new – your current reach in terms of picking up new business. My second question goes back to the update you have given today in terms of the operating profit expectation for this year. I was wondering if – what gives you confident to give the market a specific range? Was it the revenue that came out better-than-expected or was it mostly cost base capacity being able to perhaps go back into your system in terms of [inaudible] your operation and perhaps achieve a better return on the new business? If you can give us a little bit more colour, please? Thank you.

Patrick Coveney: Yeah. Doriana, on the first question about further new business. I mean, we flagged in May that we expect to secure and onboard incremental business over time beyond the £175 million that we referenced. I think that the best way I can describe that is we're going to revert forward to what I would describe as a sort of a business as usual model on new business where there will be discrete and incremental pieces of market opportunity that we would pursue and onboard. And only I think if it is very, very material in terms of discrete chunks, we will choose to pull that out as a kind of incremental uptake to the €175 million that we've given before.

So I think what we're about to hear is getting our base plus the big chunk of COVID-related business wins, which is the £175 million into our network, and thereafter we're going to be back into that planning to deliver sort of mid-single-digit or better overall revenue growth on that business with new business wins playing a role within that. If we have anything that is market announcement because of its scale, we will do that. But I think our plan is to revert to a kind of a more normal model of business wins and reporting thereof.

On what gives us the confidence to be a bit more specific on profit guidance for this year. I mean, to be candid, the main factor behind that is the passage of time, right, in that we've now – we basically got nine weeks of further trading since our half year results with only nine weeks still to go. And so that's the main factor.

There are some uncertainties, particularly on the supply side in the UK food industry right now. And that's why we've chosen to range it the way that we have. And – but we felt with – as I say, with two months trading to go that we could give that more specific guidance this time.

Doriana Russo: And can I ask you one follow on this point, please. Have you been able to go back to more a normalised way of leading your operations with your team of experts trying to review and perhaps digging out the way they optimise your operations? I remember that was a factor that in your operational performance in the previous year because you couldn't have those people working as normal.

Patrick Coveney: Yeah. I mean, the short answer to that one is we're getting better week-on-week but we're not the whole way back yet. And so we're – our operational performance and our productivity and our profitability are pretty much improving every week on the previous week. But there are still COVID restrictions that are either directly or indirectly impacting on our conversion and productivity. And we anticipate that we will be able to remove some of those restrictions and get after some of the productivity opportunities progressively through this year and into next year. So that's probably all I can say on it.

The only thing I would just mention alongside that is very encouragingly for us the conversion of that profitability into cash flows is really flowing through well and that's kind of an important theme if anything actually relative to kind of our expectations and the kind of guidance we have in the market, the news that we've given by way of update on cash today is probably more different from the update we would've given in May than we usually have given on profitability.

Doriana Russo: Thank you. Thank you very much.

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

Jason Molins (Goodbody): Hi. Good morning. Three questions if you don't mind, hopefully relatively short. Just for a second the level of innovation during the quarter, Patrick, you call that out just maybe conscious Q4 is your largest quarter. So is there anything you can share with us on how we should expect that innovation pipeline to look?

Second question is around, I guess, the labour challenges that you mentioned. Just wondering if you're able to share with us the level of absenteeism and how that maybe has progressed with obviously the pandemic that's been top of the news for a few days, certainly last week. It's up something that you've seen and maybe just some colour on that. And then third and finally just around cash flows with your pretty strong performance and strong statement. And maybe one for Emma to give us some colour. What is driving that? And maybe some of the moving parts. And then also the refinancing that you've just done, if you can share with us how that benefits to the cash flow and the interest line, that would be helpful. Thanks.

Patrick Coveney: Yeah. So we do have – so on innovation in the quarter, typically, Jason, the – precisely the past Q4 is our – is such a key quarter. We tend to lock in the ranges during Q3 that then rolls through the summer. So I wouldn't anticipate we will have the same absolute quantum of new product introductions in Q4 that we would have had in Q3. There is some elements in Q4 that will be a function of the – to my response to Clive earlier, to the onboarding of incremental business that will show up in our network. But it will be a little lower in Q4 than Q3 in terms of the metric of number of new refreshed queues.

On labour challenges, in relation to absenteeism, the COVID-related absence in the business is about 2%, which is up from where it was in June but it's actually lower this week than it was last week. So we – I don't want to be too certain about this, but we feel that we've got a good grip on that.

In relation to the pandemic that you're referencing, we've been right in the middle of industry governmental engagement with our customers around how the food industry has a designated set of essential workers, gets regulated through that. We've also done a lot of work ourselves with the implementation of government health policy regionally and the regional public health authorities.

The conclusion of all of that is we feel we have a nice plan that will enable us to manage through some of the kind of COVID-specific challenges that are still there. But it's something that we're on all the time and at all regional and national levels we're working closely with the authorities to come up with safe but effective solutions to keep the food chain moving.

On cash flow, I'm going to hand over to Emma at the moment. But I might just do it by just acknowledging the really, really brilliant work actually on cash that Emma and her team have done not only in near-term cash performance but also in setting up the future cash flows for our business as we go into '22 and '23, which she's going to touch on now.

Emma Hynes: Okay. Thanks, Patrick. Hi, Jason. Look, I mean, as Patrick said, we're really pleased with cash flow performance and actually the trajectory we're on. The big difference here is actually working capital starting to flow back into the business and we're taking on achieving that. So we think about forward-looking debt, we're starting to see that come back.

The impact of the refi actually on interest cost means that we will see a reduction in the interest charge going forward related to that component of debt, where we're looking at terms which are more closely aligned actually to our RCF borrowings. So it's actually give us a lot of benefit in the interest charge as we move forward.

Jason Molins: Thanks very much.

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

Roland French (Davy): Hi. Morning all. And hope you're keeping well. Three questions from my side, if I could. Just first on labour. I know you referenced adjusting near-term incentives. I'm just thinking how do we think about this in context of next year in FY'22 and potentially the approximate quantum. And then maybe just within food to go, if you could give any colour on the salad category. So maybe just picking apart the Q3 performance, what were the drivers there? Was it predominantly on the sandwich side or was there a strong recovery in salads, be it [inaudible] or Freshtime?

And then maybe finally just within your customer set in terms of that retail performance, are you seeing any dichotomy across your customer set? Thank you.

Patrick Coveney: So Roland, we're not going to comment explicitly on sort of FY'22 guidance at all today, we're just focusing on Q3. What I would say in relation to labour is we would – we've kind of – we're thinking about this in two timeframes. There has been pressure on labour availability and labour rate this summer and we think some of those pressures are specific to the environments this summer and they will ease actually as we go into winter, not all of them but some of them will.

And so we have chosen to make investments in labour rates for this summer, which – much of which we will unwind as we transition into out of summer and into the winter period. Our view is, as is being for some time, is that the labour market is going to remain inflationary, particularly at the entry level labour rate. And our business model ease and will need to continue to plan for the mitigation of that and [inaudible] in which we're doing it.

On the food to go market in Q3, the bigger contribution was sandwiches. We had some supply challenges in salads because of some of the availability issues around raw materials, labour haulage, which probably capped out the ability of the overall salads manufacturing cess[?] to fully meet demand, particularly in June. In other words, we were running to the maximum capacity that we were able to get to with some of the constraints that were in place.

Clearly, we still saw very, very strong year-on-year growth in salads but we are probably a little constrained in terms of what we're able to do relative to the demand in the market. I think there is – there will be kind of learnings for us all around how we can figure and manage range to reoptimize volume output in salads for future summer periods but we'll come out of that.

On our customer set, the only thing I'd really point to is the themes – the kind of channel themes that I mentioned earlier, retail doing relatively well. And convenience, suburban and market town stores doing a bit better than city centres, and depending on the mix of outlets that different Greencore customers would have between those locations that would be the biggest kind of explanatory factor in relative performance.

Roland French: Got it. Thanks.

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

Charles Hall (Peel Hunt): Good morning, everyone. Could I just ask on the new business wins. You've got an impressive contribution. I think you've mentioned, Patrick, over 10% in quarter. How would the quantum of that new business win compared to what it might have been in 2019 if you're able to analyse that from taking over the business?

And secondly, you've commented on previous calls that the margins on the new business will be lower because you've had to take it on at attractive rates, plus you've obviously got the onboarding costs. Now it started to land, what's the experience there?

Patrick Coveney: Yeah. I mean, I guess, Charles, listen, it's very – it's a lot of different customers and it's a lot of different – and it's several different product categories that make up the £175 million. I mean, it's a huge incremental jump in overall revenue and more material than anything we would have had in previous years. So it's ready meals, it's salads, it's sandwiches, it's distributed revenue, it's sandwiches and food service, it's sandwiches and retail.

And so, there probably isn't a kind of one size fits all answer to the questions that you've got. What I would say is, if I try to just price it out to be as helpful as I can, notwithstanding those constraints.

On relative to '19, the portion of the business that's ex-Adelie, which is two-thirds of the new business that we flagged, that is – or approximately two-thirds – that's still trading more behind '19 in volume terms than the rest of our business reflecting the fact that it is much more weighted to food service than our overall portfolio would be. So that's in coffee shops and food service type convenience outlets would be portions of that.

So the – we expect the volume of those products to build as we get to a more broad-based recovery coming out of the summer and into winter with the – as people feel more comfortable moving around still further.

The ranges that we've launched have worked quite well. Our new to Greencore customers are delighted with what we're doing. And we'll be quite confident that we'll be able to deliver what they want and also what we need economically in terms of the economic performance of those ranges as we go forward.

And a point on margin, again, it's difficult to kind of go to give sort of kind of universal guidance across so many different customers and product categories. What I would say is that there is nothing that we would be taking on that we don't believe can create value for Greencore shareholders over time. And where we may have had initial margin levels which would be below our typical margin levels, we would have plans with our teams to improve those over time, particularly, as we're able to return our manufacturing network to the sort of productivity norms that we would expect to be able to migrate to as we ease our way out of this intense phase of COVID over the next year or 18 months.

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

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

Damian McNeela (Numis): Hi. Morning, Patrick. Morning, Emma. Well done on the quarter. Couple of questions from me, please. Firstly, just talking about the sort of the improvement in share that you've – that the retail sector has got. Can you sort of indicate how much of that you expect to hold onto as you indicated that you sort of expect Adelie to benefit or the ex-Adelie business to benefit from re-openings of food service and coffee shops, etc.?

And then just on the supply chain issues. Can I push you to some specifics on raw material price inflation and labour inflation that you're sort of seeing this year? I know you probably aren't in a position to give us what you're seeing for next year. But that would be good. And just a more general question on the supply chain and whether you – we think we're nearer the end, the middle or the start of the issues. Lots of people seem to be coming out with differing views on how bad it's going to get. Just be interested on your take on that.

And then one very last one, on the new skillet that you've announced this morning. Sounds very encouraging. Can you just give us an idea of what performance criteria that your partners are looking for in that? And what the sort of the savings are in terms of tactics and whether there's any additional costs to you in providing that to your customers? Thank you.

Patrick Coveney: Okay. Yeah, a lot in all of that. So I'll try to be brief.

Damian McNeela: Yes, sorry, Patrick.

Patrick Coveney: Yeah, I'd want that to probably finish by 9.15. So on share, we did – we've done a lot of forward-looking work with our own consumer insights team, and we also referenced in our half year results that we got some support from OC&C in this regard, too. The view we have is that as we look out a year or two or three from now is that there will be some changes to permanent by consumer habits and that will – that's likely to give retail food to go a somewhat greater market share than it had pre-COVID, but perhaps not as great as its currently exhibited, particularly with the food service market has challenged as it is.

So I expect what that will mean, Damian, is that you will see food service take some market share back but not get the whole way back to the market share position that it had pre-COVID. And I'm conscious even in using the term food service. There is such a myriad of different customer channel format types within that that will see change.

On inflation, well, let me just deal with raw material and packaging first. So we're not changing our view on raw material and packaging inflation for this fiscal, which is pretty modest in aggregate. We are signalling that there are – there is going to be a step-up in raw material and packaging inflation, which we know will happen now from end of September on. And we are already in the market with our customers to mitigate the impact of that where we know we are incurring and we're contracting for it.

And so we will – as we have more clarity on the overall scale of that and how we're mitigating it, we'll talk more about that in our full year results. But that's what we're seeing in raw material and packaging.

And just to kind of connect labour and supply challenges to your third question, which is around supply challenges, our best judgement here is that there are some acute and quite public challenges to the food industry and the supply side that are specific to the pressures of this summer on labour availability, driver availability, constraints on the ability and primary agriculture of getting the people necessary into farms and primary production, primary harvesting and related distribution that have created availability challenges and quality challenges on ingredients and inflationary pressures on haulage and availability and inflationary pressures in food manufacturing.

We think some of that will ease as you come out of the summer, but we will also need to recognise that not all of it will, and there are some forward-looking public policy discussions that will undoubtedly unfold across different parts of UK society that touch on immigration policy and other matters as we look forward in terms of how – what's going to be required to underpin the food industry going forward. But the – but there are some of the acute pressures, I think, are transitory and will ease as we go forward.

And then finally on skillets. The – yeah, we're delighted actually and excited to be confirming the rollout of the technologies that we've developed with two of our customers for September. To be clear on what we're rolling out here, it is entirely paper-based, so it has zero plastic in it. That's the nature of the change in terms of what we're launching. And it's a technology that does not compromise a shelf-life or food safety in anyway. So they're the kind of key features of what we're doing.

It is a nudge more expensive than existing skillets, which is as much frankly a function of production scale in the skillet manufacturing and we expect that we'll be able to mitigate that with bigger production runs of the packaging. And clearly, the economics of how we're setting this up with our customers are – that's not a cost that we can wear as we look at this going forward.

The reason we're doing it in a kind of large-scale trial is we need to understand consumer reactions to the packaging because it's a little different in terms of some of its functionality to the traditional skillets that you will have – has gone up with over the last while.

So it's a very, very important and public demonstration of what we're doing in terms of sustainability as a business. And that's why we're drawn people's attention to it today, and we're delighted actually to be kind of launching it jointly with Co-op and Sainsbury and our packaging partner as publicly as we are today. So I think it's an important initiative in and of itself, but it's also signal as to the kind of future direction around packaging that I did food industry is going to need to go on.

Damian McNeela: That's very clear. Thank you for that, Patrick.

Operator: Thank you. That concludes the Q&A session. So I'd now like to hand the call back over to your host for any closing remarks. Thank you.

Patrick Coveney: Great, Molly. Listen, thanks. I'm conscious we've overrun a little bit. Thank you to everyone for joining us today. Have a good rest of summer. And we look forward to speaking to you formally in November when we release our full year results. Bye-bye.

Operator: Thank you for joining today's call. You may now disconnect your lines. Hosts, please stay connected.

[END OF TRANSCRIPT]