Greencore FY21 Results 2021

Tuesday, 30th November 2021

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Jack Gorman: Okay. Good morning. Let's begin. Good morning to everyone here in the room and on the line. You're all very welcome to Greencore's results presentation for the full year ended 24th September 2021.

I'm Jack Gorman, Head of Investor Relations at Greencore. I'm joined on stage today by Gary Kennedy, Chair of the Board; Patrick Coveney, our Group CEO; and Emma Hynes, our Group CFO.

Before we begin, just a few housekeeping items. The presentation that we're going to go through today has been available on our website since 7.00 this morning, and you can follow it live on the webcast as well. And also, I would 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 with that, thank you. And I'll hand it over to Gary.

Gary Kennedy: Here we go. Good morning, everybody. Thanks Jack, and very much appreciate you all attending our results presentation today.

It has been a very challenging but I would say energising year for all of us at Greencore in terms of financial year '21. I've been extremely impressed with the resilience of the business, the endurance strength of our customer relationships, and most of all, our 13,000 colleagues, without whom this business would not exist. And I would like to thank everyone for their fantastic efforts over the year.

Of course, you are aware that we announced on Thursday last that Patrick will be leaving Greencore and in March '22 will join SSP Group plc. Patrick has been an outstanding leader over 17 years in the business, 14 of those as CEO. He has contributed enormously to the strategic transformation of the Group over the period, and he has built an excellent executive and senior leadership team.

They have helped deliver the growth and leadership positions that we enjoy today. And on behalf of all the Greencore, thank you Patrick. On a personal note, I'd like to recognise the strength and personal relationship Patrick and myself have enjoyed and have had sustained this through many highs and some significant challenges over that period and there'll be plenty of opportunity for me to thank him more formally, but again thank you for that Patrick.

As you would expect, we activated our contingency plan immediately upon the news. I will take a more active role in the business and will assume the role of Executive Chair from 31st March 2022. And I'm delighted that our Chief Commercial Officer, Kevin Moore, has assumed the role of Deputy Chief Executive. Probably most of you know Kevin. Well, Kevin is here. Those online obviously can't see him, but he's the good looking guy on the right from the chart and his name underneath.

So between Kevin, Emma and myself, we will manage the transition seamlessly. In the intervening period we've had the benefit of Patrick continuing to lead the Executive Team as CEO. We've also initiated a search process immediately to appoint a new CEO, and we will update you on progress as soon as we have it.

So with that, Patrick, I will hand over it to you in terms of financial year '21 highlights. Thank you.

Patrick Coveney: Thanks, Gary, and thank you for your kind comments. As you said, hopefully we will have plenty of opportunity between now and the end of March to – for you and I and for the wider business to reflect on my time here. That's not the purpose of today. The purpose of today is to talk about the 2021 results and to set out how the business is currently trading and what that means for outlook for the year ahead.

In that context, I wanted to thank so many of you for coming in person today. The – for those of you joining by conference call, we have about 25 people or so in the room here today. We've got everyone here safely. I think people are learning how to take to antigen tests, travel safely, but people are getting back and being mobile again. That's good for all of us individually. It's also good for the Greencore business. And in that context, we were very keen to have the results session today be held physically rather than just virtually as we go forward.

As Jack said earlier, this presentation builds on the Greencore results, which were released at 7.00 this morning and the Annual Report, which is also being released this morning. And indeed, later on today, we'll be releasing our second Annual Sustainability Report, and I'll say more about that later in the presentation.

But over the next 35 minutes or so, Emma and I are going to run through these results. I'm going to just make a couple of introductory comments around where the business is. Emma will run through the results. I'll come back in on a strategic and operating review, and Emma will finish by going through our thoughts on outlook for the year ahead.

So for those following on the conference call, I'm now on slide six, which is the Executive summary. So the year has been all about momentum or all about progression. If I take just three economic metrics by way of example.

On revenue. In the first half of the year, our business was down 19% year-on-year. In the second half of the year, our business was up 35% year-on-year. And indeed, as we finished the year, and I think this is probably the most important single revenue piece of news, we were back as an overall business to a higher level of volume and higher level of revenue than we would have been pre-COVID. And there's some nuances across different parts of the portfolio. But overall, our level of volume output was back to pre-COVID level as we finished FY21.

We also have seen a path of rebuilding margin and rebuilding profitability. If I take operating profit as a metric, in the second half of FY20, we actually lost money. In the first half of FY21, we broke even. And in the second half of FY21, we made £39 million of profit, in other words the full profit for the financial year was in the second half.

From an operating margin perspective, we went from zero in the first half to 5.2% in the second half. We have further to go on returns and margin, but the trajectory is positive and the build back of our returns and margin is underway.

Pardon me, and I think perhaps most importantly, from a financial perspective, has been where we have got our balance sheet as we finished the year. If I take at this time last year, as many of you will know, we actually went to the market to raise incremental equity. We wanted to do that to give us headroom for the uncertainty that lay ahead, turned out to be prescient actually, given the lockdown that was imposed in January '21 on a national level. But it also gave us the resources to continue to build the business and to run the business with a view to building returns over many years rather than just getting through at FY21.

But once we got to the second half of the year and as volumes came back, if I could say so, the cash generation in the business was absolutely spectacular. And we finished the year with net debt at £183 million and our net debt to EBITDA, our leverage ratio from a bank covenant perspective at two times. That is our supply chain, purchasing, and in particular, our finance team deserve enormous credit for that, because in effect we've taken our business back to the sort of level of leverage that we were at as we came into COVID, and we've done that as probably more quickly than we'd expected. And I think it's very encouraging.

Notwithstanding those three financial metrics, the year has felt tough. I think anybody who's working in the UK food industry in particular through FY20 and FY21 has found it challenging. The well documented COVID challenges impacted on demand really through until late spring of 2021. But since then, most of the focus has actually been on the supply side challenges rather than demand side challenges, challenges which in particular hit an efficient just-in-time supply chain, which is the way in which the UK fresh food industry and fresh prepared food industry is set up. And working through that, I think, has been demanding. I think we've done it nicely, but it's been hard and it's been a real theme. And I'd say more about that little later in the presentation.

And while Emma is going to go into our outlook statement in more detail, I might just make three comments in relation to that, if I may. First of all, we've got good momentum as we’ve come into FY22. Good momentum on revenue and good year-on-year progress, which we need to have, but which we are getting.

And in that context, on the assumption that there are no material multiregional or national lockdowns in the UK – and I don't think there are going to be, but on the assumption that they're not, then we are comfortable with the current market expectations there across the financial metrics there in the market for our business. And I'm going to say more about that in a while.

And then lastly, given the recovery that we've seen in the leverage position of the business, we’re fully anticipating re-establishing capital return to shareholders this year. The exact mechanism by which we will do that will be determined by market conditions and Greencore conditions as we go through the year. But we do fully anticipate returning capital to shareholders as we go through this year, which again is a sign of a healthy business and our capital management system working.

Turning now to slide seven. As everyone will know who has followed Greencore, central to Greencore is the UK food to go market and our position within that. We currently have somewhere between 65% and 70% market share of pre-prepared sandwiches in Britain. And so it’s mattered how we’ve rebuild revenue through the period. And people who've been following us over the course of the last 20 months will know that we've repeatedly shown mobility data and we've repeatedly shown the – what that’s meant for food to go revenues for our business, recognising that at various points through this pandemic there have been legitimate question marks around the impact on the food to go market of how people are living their lives and how people are working across the UK.

What's reassuring about this is that we now have Greencore food to go revenues essentially back to pre-COVID levels. That's a function of the performance of our customers in the channels in which they operate. Clearly, with some substitution between channels for our customers being a really important theme, in other words, suburban outlets picking up the slack that might previously have been in city centres.

But that's been augmented – and Emma will go through the details of this in more detail in a few minutes – by very successful new business activity and market share build by Greencore through the period, such that if you take the second half of FY21, our food to go revenues were 59% higher in the second half of FY20 – '21 relative to FY20. And as I say, by the time we finished the financial year, we're back to – broadly back to pre-COVID levels in terms of activity.

That's not to say that we haven't had decent and very strong performance in other parts of our business. Our other convenience categories were up 2% on the year and were up 10% in the second half of the year.

So in summary, before handing back to Emma, if I wind back to this time last year, there were two existential economic threats to Greencore. The first was about our markets. Was the food to go market going to come back? And was our position in that going to give us the basis to have a strong scale growing business? And I think we a have very clear evidence now that the market has come back and that our position in that is very robust.

The second was about our balance sheet. Did we have the balance sheet that we would need? And did we have the resources to be able to invest to grow the business, to protect the business through here? And I think the progress we've made on cash flow and leverage is very reassuring in that regard.

And so with that, I'm going to hand over to Emma, who's going to run through the results in more detail.

Emma Hynes: Thanks, Patrick. And good morning to everyone. It's my second year as CFO of Greencore, and this is actually the first time that we're doing this in person. So it's really great to meet all of the analysts in person and to have everyone here.

And look, FY21 was really a year of two halves for us. My focus has been on managing the cost base, cash flow and liquidity carefully through the half one lockdowns, so that we could ultimately support the exciting growth that is now materialising and has come through as we've gone through the second half of the year.

So look, in this regard, I've outlined a key financial metrics on slide nine. So some brief recollections on – reflections on these even before diving into the results in more detail. So pro forma growth is back in positive territory, driven by food to go in the second half. Adjusted operating profit of £39 million was at the top end of our guidance. So we're happy with that performance. And that drove adjusted EPS growth, despite the increased number of shares post the equity placing in November 2020.

Greencore followers will already know the cash generation is a particular priority for me as we grow back to business. So after a period of cash protection during peak COVID, it was good to see this emerging in half two '21 and we made real progress on deleveraging two times net debt to EBITDA as a little below average levels before COVID, and it's approaching the FY19 level, which was 1.8 times. So we're really pleased with that trajectory.

And finally, while ROIC is still well below historic levels as profitability recovers further, this should progress well from the FY21 baseline.

So moving on to slide 10, and the detail of the full year income statement. And with the UK in some form of lockdown for most of the first half of our fiscal year, the 4.8% revenue increase, which was 6.2% on a pro forma basis, was a resilient performance in what was a tough market. And this growth was driven mostly by our food to go categories.

And after a first half, where we were effectively breakeven, so zero margin, we started to improve profit conversion off a recovering revenue base in the second half. So half two margin was 5.2% and we'll explore the drivers in more detail in later slides.

Our adjusted operating profit rose by £6.5 million, and we held on to most of this increase at the adjusted PBT line after a small increase in non-interest finance costs. The exceptional gain of £12.1 million this year was primarily the result of a profit on disposal of the molasses business in December 2020.

And from an earnings perspective, we reported 5p basic EPS and 3.7p adjusted EPS, which is some improvement off the very low base in FY20 despite the increased number of shares in issue in the period.

On the next slide, I’ll look at our revenue performance. So as a backdrop, we have to manage through a volatile UK trading environment during the period, and 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, which persisted for most of the first half. As the UK economy reopened gradually from March onwards, our performance improved, given our strong food to go presence in the grocery retail channel and also the onboarding of new business wins.

And you can see this very marked divergence in performance half two versus half one in the table at the bottom of the slide. We executed strongly against new business wins, and this was a much more prominent contributor towards the end of the year, and I'll discuss that on the next slide and in food to go categories in particular.

And more generally in food to go, we saw year-on-year growth in sandwiches and in customers with a balanced mix of urban and suburban locations. There were also several moving parts in the 2% advance in full year revenue from other convenience categories. So we had a good performance in ready meals, and that was offsetting cooking sauces that was against a tough comp in the prior year. And we also had a better second half from Irish ingredients, which is commodity price driven.

And now on slide 12, just diving a little deeper into the new business wins. We onboarded several new customers and several new pieces of business from existing customers over the course of FY21, and in particular in half two. So when we look at Q4 performance versus FY19, our food to go pro forma revenue was 2% behind, in other words, 98% of pre-COVID levels. So approximately 88% of that was underlying market recovery and then the remaining 10% of this was contribution from our new business wins onboarded through the year, and more than a third of that is in our distribution business in indirect store.

So if we look at this another way, based on the Q4 run rates, the annualised revenue from these onboarded new business wins and food to go is over £100 million. There was a small portion of wins in other convenience and that would bring the annualised run rate based on Q4 to about £120 million.

Now, that could overstate the run rate a little bit as we're using the seasonally strongest quarter. But nonetheless, we're really happy with these wins and how they're onboarding to-date. And we've highlighted some of the key areas of our wins on the right-hand side and we can talk through those in a bit more detail in the Q&A.

Now, if we just turn profitability on the next slide. So absolute profit increases in half two are marked in the red circles, which highlights the better profit conversion as volumes began to increase. And while we focus internally on the absolute levels of our adjusted operating profit delivered for KPI purposes, it is important to note the margin outcomes and – namely that's an 8.8% EBITDA margin in half two and its 5.2% adjusted operating profit margin in half two. And as we note in our statement today, adjusted operating profit is after specific COVID-19-related costs of about £5 million, which were incurred for the most part in half one.

And finally, here one point to reiterate is the new business wins have a margin mix effect, in that a sizable proportion of these are in our distribution business, or DTS, which is direct-to-store, and that comes with a lower margin.

Now if we just turn to slide 14, which outlines the waterfall of free cash flow movements in FY21. The two key drivers of our free cash flow were increased profitability and the substantial working capital inflow in the period. The working capital inflow reflected the phased effect of a volume increase during the second half. And just to remind people the nature of our food to go business means increasing volumes, results in cash inflows from what's the negative working capital cycle. There was also a year-end effect, which is a benefit based on the timing of year-end that will unwind in FY22.

Our maintenance CapEx was broadly in line with FY20 levels. So some of this was sort of phasing as it moves into the first half of FY22. And look, the other line items were much as expected, which resulted in a free cash flow of £72.2 million. And our free cash flow conversion rate was 78%, and this was, to some degree, assisted by the phasing. It does outline the cash generation power of the business and underpins our longer term target of converting at least 50% of our EBITDA to free cash flow. So we're pleased with that performance.

And if we bring all of this together into net debt, there was a £167.4 million reduction in net debt, excluding lease liabilities in FY21. So strategic CapEx was £24 million, which is up from £13 million in FY20, as we began to revitalise our excellence agenda, and in particular, the rollout of our automation programme.

So in FY21, we commissioned and installed modular robotic solutions across 15 lines in three of our food to go locations, and that was focused in particular on the high speed sandwich scale at line. So what we were doing was focusing on the more labour-intensive tasks, including lidding, which is placing a top slice of bread to close the sandwich; turning, which is adjusting the sandwich 45 degrees to and even triangular cut to ensure that it cooks evenly; and then matching, which is placing one half of the sandwich on top of the other before it gets packaged.

We also accelerated our investment in CapEx in half two and we'll do so further in FY22, which is supporting our new business initiatives. We had talked about the £30 million capital investment to support ongoing new business, which will be onboarded in later FY22. So we'll be progressing that further in – and some of the spend on that £30 million has been deferred into FY22 actually, but that will come through in the first half.

And in November, we completed a very well-supported equity placing and that raised a net £87 million. So while we also completed the sale of our interest in our molasses business and we disposed of an investment property which also generated further proceeds. So where we landed as a result of all of this? We ended the year with net debt, excluding leases, of £183.1 million, which compared to £350.5 million at the end of our last fiscal year. So really pleased with where that leaves us.

And if we just look at slide 16 and our balance sheet and liquidity position. So strong deleveraging has occurred, which Patrick referred to at the start. So 2 times net debt-to-EBITDA, which does approach FY19 levels. We securely exited the covenant waiver period. We increased our liquidity by over £200 million year-on-year. So we now have £433.6 million at year-end, and post-year-end we extended the maturity of our revolving credit facility, so our average maturity on debt facilities is now 3.4 years.

We've also made really good progress in our pension funding plans with our three-year plan agreed on our primary UK scheme. There was also an overall reduction in pension liabilities as we closed schemes and consolidated our Irish liabilities, so really pleased with the progress we're making on managing those legacy defined benefit pension liabilities. And we're anticipating more deleveraging this year, so that allows us to think a bit more expansively about our capital base and capital allocation more generally. And as Patrick said, our intention is to recommence value return to shareholders this year.

And underpinning all our thinking here is reaching an appropriate leverage level for a business of our size and maturity in our type of industry. So we have a bit of work to do to get there, but it will be the guiding thought for us as we think about capital allocation. We'll balance the investment needs of the business with the capacity to return surplus cash to shareholders. And the Board will continue to assess these internal factors as the year progresses.

So in conclusion, we've achieved a lot in FY21 in very challenging market conditions. I would reiterate what I said in May at the half one results. Our focus now is to manage the revenue rebound in the first instance and then ensure we drive profit conversion and cash generation efficiently and effectively back to pre-COVID levels. Our supply chain and labour availability challenges also need to be navigated. And look, this is a key focus for us in the coming months. We're well set up to achieve this through FY22 and beyond.

Now that concludes this section. I'll come back in for outlook at the end. But for now I'll hand back to Patrick for the operating and strategic review.

Patrick Coveney: Thanks, Emma. For people following me on the conference call, we're on slide 17 now. So I wanted to essentially be forward-looking for this strategic and operation review because Emma's really set out quantitatively how we've done in the period.

And, of course, as we've seen, particularly over the last four or five days, we're all going to have to stay used to living with COVID. It's going to remain an impact on our personal lives, our family lives and how we work. But what I would say in the context of Greencore is that the – our experience over the last 20 months or so is that we have the resilience, the agility, what I'd describe as the kind of muscle memory in terms of knowing how to flex our business down and up and how to manage our balance sheet and cash position through all of that, and also the sense of purpose to drive through this regardless of what will happen.

I would also say that from a – in the very near-term – and I'll touch on this more in a few minutes – we actually have a reasonable level of what I would describe as revenue headroom associated with managing our way through COVID. What I mean by that is the way we are running our business at the moment is actually constraining demand. We're choosing to make decisions around range that is maximising output, but is leaving a certain amount of revenue on the table.

So were the market to fall 5-10% or so in terms of because of COVID mitigating public health measures, we actually could absorb that with little, if any, impact on Greencore revenue. And I'll say more about what that is in the second.

So the three things that I'm going to touch on then are, one, how we're building back revenue and driving growth. Secondly, how we're managing through the challenges, particularly on the supply side. And thirdly, I wanted to actually touch on some of the key highlights from our sustainability reports that we're releasing today before handing back to Emma.

So as there has been theme in everything that Gary, Emma and I have said, we're encouraged by the demand recovery in our business. I might go a little bit further than that and say we're positively surprised by how strong and how quickly demand has come back. I think that – I think our commercial teams and the customer relationships that we have, have really helped us. In that context, I do want to acknowledge the work that Kevin in particular has done and continues to do in shaping our commercial relationships with customers and sustaining that way of working and that trust-based relationship, which is so important, given all of the challenges across the supply chain that the whole industry is working through.

Notwithstanding the fact that it really was a year of two halves in terms of performance. If I take the measures for the full year in aggregate, what you see is that – I'm on slide 18 now – is that in a food market overall that grew by 3%, Greencore grew on a pro forma basis by just over 6%. That's a function of the category, product category mix that we have and the customer mix and growing customer footprint that Greencore has that's helping.

Secondly, within the food to go market, which represents about two thirds of overall Greencore revenues, what you've seen here is a market recovery. I'll touch more on why that in a second. But very importantly, the part of the market that Greencore operates in, which is retail food to go, in other words, the sales of food to go items that go through grocery multiples, convenience stores, discounters and high street outlets and the relative share of that part of the market has stepped up quite a bit in the period since COVID came such that those outlets and types that I've mentioned represent about 27% of the total food to go market now. They were 24% of the food to go market in September '19.

And the other piece that we've really learnt here is that the impact of working from home dynamics are very manageable for Greencore. And a big reason for that is the location of the stores that Greencore products are sold being very well represented in suburbs, close to where people live, which is mitigating, to a very large degree, any falloff in volume in city centres associated with changing work patterns.

And then if I look at Greencore's performance relative to the overall food to go market, you see that we've grown by 9% in the full year relative to 2% in the market overall. That's a function of a favourable customer mix, and in particular, the regional profile of the stores that we supply, but also the effect that Emma described a few minutes ago in terms of the onboarding of new business that £100 million or so of food to go business on a run rate basis.

We've been using throughout this period in which we've managed our business and recovered our business through COVID, this mobility tracker to really draw people's attention to the strong correlation between food to go volumes and overall societal mobility. I stress that it's societal mobility and not whether people are working from home or not, because what we found is even with emerging and different or more hybrid working patterns, people are still moving around and it's the moving around that correlates positively with food to go volumes.

And what you see here is that, by the time we finish the year, as mobility has come back, food to go volumes have substantially come back to where they were on a pre-COVID basis. I might just add some just additional Greencore data a bit, because it might be just helpful and it's more real-time. So every fortnight on a Sunday, we check-in with 500 food to go shoppers to understand qualitatively and quantitatively what their experience has been in the previous fortnight and what their perceptions or views are for the period ahead.

Clearly, in the context of the news flow from the end of last week, that sentiment I think is quite important and I wanted to share some of that with you right now.

The first point to make is in terms of penetration, and what we mean by that is what share of those 500 food to go shoppers were purchased at least one food to go item in the previous week. The answer to that is about 40%. At peak pre-COVID, penetration was about 45%. Trough mid-COVID penetration fell as low as 15%. And so again, substantially back to notwithstanding some of the uncertainties and concerns at the backend of last week.

If I just go a little bit more qualitatively and forward-looking into that, there's four themes I might draw your attention to. So clearly one of the things that we're alert to, as a just-in-time fresh food business that's make to order and not make to stock is has there been a change in volumes ordered even since last Friday? Short answer is there hasn't been, right? The volume orders that we've got right now, and I was talking to Kevin about this morning before and beginning this presentation, have not fallen one iota relative to the orders that we would have had planned in the system this time last week before the news of Omicron came to light.

What has changed slightly is the level of concern or confidence that consumers have about leaving their homes, right. So we track that. We've been tracking that every week. And so we have seen a slight fall this Sunday, 28th relative to Sunday 14th in terms of confidence leaving their home. But it is a slight fall and it's actually fallen back only to August levels, right. So we have people, not unsurprisingly, a little concerned based on all of the news flow, government announcements and so forth over the weekend, but it's not dramatic and it hasn't fed through yet into volumes ordered across our business.

Third thing I would – or second thing I would say in terms of consumer sentiment is an enormous level of pent up demand and excitement about Christmas. And we're really seeing that through with 41% of consumers have already started their Christmas shopping, 30% of consumers have already actually purchased at least one either Christmas sandwich or Christmas specialty drink in the period, which is quicker than would normally be the case at this time of year.

Third feature is perception of availability. We're seeing an improvement in how the shopping experience of UK consumers, alright. So in October, two-thirds of all shoppers sited gaps and availability problems in the outlets in which they went into. That's now fallen to 49%. So you are seeing the industry and the UK retail food industry is really good at adapting, and you're seeing that feed through in terms of how shelves are being stopped and what that means for consumer experience when they go shopping.

And finally, and I think this is – this will definitely connect to what we're doing in terms of sustainability. There has been a marked step-up in the impact the consumers are placing on climate action on the part of the suppliers out there, food and beverage. 51% of the people that we spoke to on Sunday indicated that their shopping behaviour will be influenced by the perception of the climate actions of the brands that they're buying.

That is the highest it's ever been in a survey that we've done. And I think it's important in signalling, notwithstanding all of the COVID noise, a real cut-through actually coming out of COP26 in terms of the consumer impact on – and consumers' desire and interest in engaging in climate matters.

Now if I – so that's the kind of macro demand recovery in some of the consumer sentiment. What I wanted to touch on that how are we managing this demand? And you'll see this set out on slide 20. So clearly a key feature of the demand as we've highlighted throughout the presentation, indeed throughout the year, has been the volatility. Alright? Huge changes in terms of underlying demand at different points through the year.

But in effect, if demand volatility was the big challenge from – for the first half of the year, indeed even the first three quarters of the year, supply volatility has been the big challenge of the last quarter and will be the big challenge as we see it through FY22. We're in solution mode as an industry and as an industry leader in this regard. We have done a ton of work on bespoke ranges with a focus really being on maximising output, even if that means somewhat constraining overall choice at the margins that are feeding through either to our customers or from our customers through to suppliers.

We sit in the middle of a just-in-time efficient make-to-order supply chain. So transparency and engagement backwards with our suppliers and forwards with our customers is really important. And I think we have now got to a point where while availability isn't perfect, it's pretty good in meeting consumer and shopper expectations right now, but it will remain a big focus for us and other players in the industry through the year.

If we were to try to give you the kind of the benefit of the judgment of people like Kevin and I in terms of what does this mean, and I mentioned this earlier, our best judgment – and this is a judgment. It's difficult to back it up entirely with data – is that the effect of all of the demand management metrics and measures and processes that we're putting in place with our customers is that we're probably tapping or missing the underlying on constrained demand by somewhere between 5 percentage points and 10 percentage points right now.

And so if I talk about the kind of risk looking forward here and if you were to see some modest fall-off in consumer demand, it's very unlikely you'll see that actually hit Greencore revenues until it falls by a margin that's greater than that. And that I think gives us a little bit of buffer as we think about some of the uncertainties, particularly on the demand side in relation to COVID.

Second big feature, the demand management side is the positive impact of new business wins, and Emma has set out quantitatively what that looks like. But I just wanted to touch on what it means for us strategically. And here, if you'll allow me, I'm going to just move everybody back to the Capital Markets Day that we did just over two years ago when we spoke about the strategic development of our business from a channel and product perspective. And actually we've done a really nice job of executing against that through the COVID period.

Part of that was what I might describe as sort of filling in the kind of the customer category matrix from a product perspective, in other words where we had very strong customer relationships, where we didn't supply them with sandwiches or we didn't supply them with ready meals or we didn't supply them with salads and have we found a way to fill in that kind of that image of a matrix here. And we've done a very, very nice job.

The most marked in that has been what we've done with Sainsburys. We're currently putting in place a capacity solution that will enable us to become a very material ready meal supplier with them and a much bigger salad supplier with them alongside the very strong sandwich and food to go business that we've had with them for some time. We're also doing the same with Tesco on plant and salads. And we will continue to work to fill in with existing customers, where we have product competencies that we haven't quite been stepping up to equivalent scale, as we normally do in sandwiches in other product areas, and that's an important part of our new business agenda.

The second part, though, is around accessing new channels, and in particular, bringing our food to go business into the convenience store channel and into the coffee shop channel. And we've done that with new customers and Nero in coffee shop and Shell in convenience stores would be examples of that. We did not supply either of them before COVID. But we're also doing it with existing customers. We've done that through our relationship with Morrisons and Nichols[?]. And you'll have seen last week, M&S announced the fact that they're going to put M&S product into Costa coffee shop stores. Most of that product will be Greencore manufactured. So in effect, we will be working with M&S to step up our business in the coffee shop channel through their relationship going forward, which will come onboard in the springtime, and again, very material.

So what the net effect of that is that Greencore will become by far the largest supplier of food to go items into the UK coffee shop channel, by far, from a position where we had almost no position 2.5 years ago. So in other words, our equivalent share in coffee going forward will be about the same actually, as the share that we have in retail. And as an example, actually of us using the COVID period to strategically develop the business and set ourselves up on the other side.

And then the last piece, I'd say on the demand side is what are we doing in relation to product competencies. And here, we've got a big focus across our business and stepping up what we're doing in salads and plant-based offerings. A huge part of that is leveraging the capability set that came with the acquisition of Freshtime just over two years ago. We've seen our business from a salads and plant-based product solutions increase with all customers through the period, but much of that is on the back of the capability that we have from Freshtime.

And I think as we look forward strategically and we look at some of the themes that are happening more broadly in the UK around the lot of the product competencies and nutritional requirements that are coming out of The National Food Strategy, where are we going to need to get to in terms of the types of products from a climate perspective that we're going to need to have in the market and the competencies that we've got and that we're building in this space will become more and more important.

So that's the demand side actions that our business is taking. If I just touch on the supply side now. And the context for this is very important, and there's people in the room who I've been speaking to for a while, but who deeply understand how the UK fresh food supply chain is configured. And I would say, by the way, Britain went into COVID with a fresh food supply chain that was the envy of the world. All right? It was an efficient, just-in-time fresh food system that delivered remarkable food safety outcomes through to UK consumers, as well as very, very good fresh food choice.

But some of the pressures that we're living with now are putting near-term and indeed longer term stresses on that system, and I want to just touch on what some of those pressures are and what we're doing about it. So part of it – and by the way, many of these trends are not UK specific. Some of them are amplified in the case to the UK, but most of them are actually global.

So the pace of COVID recovery in terms of what it means for demand and what the pressure that's putting on supply chains, that's an impact. The pace of the unwind, which has been relatively slow for good social reasons of COVID support and what that means, in particular for labour availability; residual levels of sickness and absence through contact tracing, which is still a feature for across the UK labour market; labour availability generally with vacancies in the UK now running at a 20-year high. And finally, the impact of immigration policy choices and what that's meaning for labour availability, both through the year and the peak seasons.

So – and the effect of all of those factors is putting pressure on the whole UK food industry, but particularly on the fresher make-to-order parts of the system. And in the context of Greencore, that's most acute in our sandwich supply business, which is very much a short shelf life make-to-order supply system.

Some of these factors, by the way, play out to a greater or lesser degree in certain regions versus others. So for example, if I take in the context of Greencore, we've actually been really well set in London, but under greater pressure in Yorkshire, for example. And even within that actually, you see different regions, different towns, different cities in the UK where those impacts are more acute.

Dealing with these issues from a supply perspective has a short-term dimension, which we're on with. Critical to this is the engagement initiatives that we have across our business. And that context actually, I, our Boards, our senior team were delighted to see very, very positive progression on our engagement scores when we tested it across 13,000 people in the summer, but is also going through to retention metrics and to labour rate decisions and labour benefit decisions that we're making, both nationally and regionally in order to actually secure and underpin the workforce and supply chain that we need.

This will also feed through to longer term actions. Emma's touched on it, one element of it earlier, which is the level and pace of automation and what that means for the configuration of our future network. I think the way in which we configure our network in the fresh food parts of our business would naturally evolve over time too, by which I mean, we will probably move from a site focus that's principally driven by customer, to a site focus that's principally driven by production competence such that we have a – we've got a way actually of maximising output and giving ourselves more contingency against pressures on either individual ingredients or labour availability.

All of these points impact on the pace of recovery in terms of our returns, our returns on capital and our returns on sales. And it is true self-evidently based on the results that we're sharing and the outlook that we're sharing, that the pace of revenue recovery has been quicker than the pace of profit recovery. And we think that will continue to be the case, but we are pushing hard to bring that pace of recovery and returns forward, recognising that in the second half of the year, we saw a very significant improvement on the first half. It went from 0% margin to 5.2%, but we need to keep pushing that on and the management of some of these factors will be an important part of that.

Of course, in addition to all of that is inflation. And what we're seeing now is continued build in likely levels of inflation of FY22. So if we've been having this conversation a couple of months ago, we would have said, hey, we think inflation – total inflation levels across raw material, utilities, distribution, labour is likely to be mid-to high-single-digit. Now we're pretty confident it's going to be low double-digit, alright. It has stepped up pretty materially even in the couple of months since that we've been trading in this financial year.

And of course, and we shouldn't lose sight of this, everything that we're doing does need to recognise that we should be trying to protect consumers, particularly the hard-pressed consumers from value is very important in terms of what it means, in terms of pricing through to consumers and the availability of fresh nutritious food through to UK consumers. But – and it's important but – we've got to protect our own business as well.

And we are doing that by pushing the pricing lever with our customers very, very hard. And to-date, we're where we need to be in terms of inflation recovery. It's a big task for our commercial teams, but it's one that our customers understand and we are pushing through price increases hard, consistent with that level of forecast around where inflation is going to be. And that will be a sustained and continuing journey we think at least through the next couple of quarters.

We'll see where inflationary pressures [inaudible] by the time to next summer. But our sense is between now and next summer further inflationary pressure will necessitate further push through of pricing. And that's a big part of what Kevin and I and Kevin's teams are doing with customers.

And I have to say the progress that we're making there is where we need it to be. I'm not trying to pretend it's a walk in the park, but it's where we need it to be and we need to keep it there.

So turning now to slide 22, and I think it's important as I kind of bridge from what I've just been saying around inflation recovery that it matters how we manage our customer relationships through all of this. Our task is not just to optimise performance in FY22. It's to have a vibrant, growing business, where we are relevant and where we have growth plans and appropriate long-term partnership agreements with our customers for many years to come. And that's how we're managing our business, as we always have, through these pressures.

In that context, we have reassessed and lengthened several of our biggest commercial agreements throughout FY21. And that's giving us the context, and indeed, the tools to deal with some of these short-term pressures around range optimisation choices and inflation recovery. And we think it's giving us a platform to continue to develop our business in the sort of growth areas that I've mentioned earlier as we progress through '22 and into '23.

And we're also – and I'm fortunate that we have the resources to be able to do this, where there are opportunities to invest with customers, we're taking it. And so one particular example of that is the £30 million capital investment that we're making across three sites to set up our – in effect we will be a new ready meal facility at one of our sites just outside Sheffield, an incremental salad investment as well that will enable us actually to materially step on our scale and breadth of business with one of our largest customers that I mentioned earlier as we go forward.

So just to finish that on a completely different area, which is what we're doing in terms of sustainability. Today, we are releasing our second stand-alone sustainability report. It's our Better Future Plan. It's an exciting document actually. It is incredibly readable. And our team, led by Andy Wright, who have put it together, I think have done a stellar job, both in setting out the narrative for what we're doing in sustainability, but also putting together with all of our leadership teams on board the right balance of kind of process and quantitative metrics and targets in terms of what we're trying to do.

We made really nice progress in FY21 and we've put in place science-based targets against our carbon emissions, against Scope 1, 2 and 3. We've reduce food waste in terms of output. We've got community action plans in place across almost all of our sites. All of our sites will be onboard under the banner #StartsWithFood. We have brought to market in September the first completely plastic-free fully recyclable set of sandwich skillet with three of our customers, and we'll be rolling that out across more products with those customers and across more customers through FY22.

And from a social perspective, we made a decision as a Board in September that we were going to find a way to make every Greencore colleague a shareholder in Greencore and we'll be implementing that in January of FY22 as part of aligning purpose and stakeholders across our business. We've got new targets for FY22, some of which we're already well on with, where we signed up the Soy Manifesto. We've signed up to the Cage Free-Egg Commitment. We will have net zero roadmaps in place in every site. And as I said earlier, we'll have rolled out our skillets and employee share ownership schemes through the year.

And then I think if I just finish on sustainability by lining back to the point on demand around plant and salads, which is we have made a commitment in the sustainability report that we're releasing today that we will have reduced by 30% the quantity of meat in all of our product ranges by 2030. It is not going to be possible for the UK to meet its climate obligations and nor is it going to be possible for us to deliver the nutritional outcomes that the health professionals require in the UK without a material reduction of meat consumption in the UK.

And we're committing to a hard metric between now and 2030 of taking 30% of the quantity of meat in our total product range out by then.

So that's the journey that we're on in terms of sustainability. It'll be a big theme for Greencore. Fundamentally, we believe we're a sustainable business in terms of fresh food, loads of short supply chains, high nutritional outcomes and we're going to continue to deliver against all of that.

So with that, I'm going to hand back to Emma for the outlook.

Emma Hynes: Thanks, Patrick. And look, I'll just briefly bring this together on slide 25. So look, overall when we think about the outlook for FY22, we've had an encouraging start with the demand backdrop being pretty strong. We're progressing well on inflation recovery. But as Patrick said, I mean, that number is a moving target. So we're working hard on it and progressing well.

The challenges do remain in supply chain and labour, and that's not just us. It's across the whole industry. But we are anticipating in FY22 outturn in line with market expectations. We expect to deleverage further as we go through FY22 and we are committed to what is a dynamic capital management model. We've strong positions in our market – in our markets and we're confident about our medium term prospects.

So look, thanks again to everyone for participating and for being here in person today. And we'll move to Q&A now.

Questions and Answers

Clive Black (Shore Capital): Clive Black from Shore Capital. Thank you for the presentation. Really distinctive series of moving parts. You talked about the – Patrick, as someone who's looked at the industry for a long time. I just wondered in terms of price recovery, where you stand on capacity alongside demand in the market, and also what that means for potential volume and mix with the magnitude of inflation that you're talking about needing to be recovered double-digit inflation in the market that shows the product is really distinctive? Thank you.

Patrick Coveney: Yeah. And just to – so first of all, the – if you think about the pass-through, right. So if we have – had 12% total inflation, we pass it through all in price. That's about 6% for our customers, and that's the nature of the mark-up, right? It's about 100% mark-up for our customers.

And what – the feature of this inflation relative to the only equivalent period, Clive, in my tenure in role of very high inflation, which is going to 2008-'09 is then it was all about raw materials, whereas here it's probably about 40-50% about raw materials, but actually labour, utilities, distribution is a very, very pronounced element here as well, which, of course, is a traditionally – is a different and traditionally trickier to recover in price through the UK food system or indeed the global food system, where typically that type of inflationary pressure that isn't in raw materials would be recovered through either supply chain efficiencies or through operating leverage associated with growth.

And in this particular instance, to be candid, getting the supply chain efficiencies, given some of the supply chain constraints and dealing with those pressures through incremental volume, given the fact that everyone is pretty full is not possible, so you've got to get it through price. The – and that's the environment and context in which our teams are engaging with customers, which is, this has to be done through pricing. And that's how we're implementing at the moment.

The – without getting too much into the tactics of it, two final things I'd observe. First of all, the industry is pretty full, alright? So the available capacity in the industry for others to pick up incremental business or for us to pick up incremental business from others right now is pretty limited. Alright? And of course, that's partly a function of what I might call the kind of notional or machine capacity of our sites, which are fuller than they've been for a while. But it's also a function of the labour market, alright, and the ability to actually even where you have machine capacity to source the incremental people that you would need in order to be able to take on lots of new business.

By the way, we know we're taking on more business, right, because we've got the ramp up of that Sainsburys ready meal and salads business and we've got the incremental M&S Costa business. So we're having to plan for that from a labour perspective in any event.

And then the other effect here, which to-date we're – I'm going to use the term relatively relaxed about, is, of course, there probably will be some elasticity effect from this level of change on the assumption, which I think is reasonable that in the end consumers are going to pay more for food. And the reason I say we're relatively relaxed about that is not that we don't care about providing good value through to consumers. We really do care about that, because it's often easy in environments like this in central London with people like we're talking to here or two, do not actually have kind of empathy for the huge portion of the UK population for whom food inflation is going to be a serious stress on their lives, right?

And so we do feel a responsibility to have a range that's relevant to everybody and not just people who can readily absorb inflationary increases. But actually if we were to see some elasticity effect associated with this extra pricing, given the fact that we're having to somewhat constrain demand anyway, it doesn't feel like it's going to be a material economic effect for us. And so we're – that would be our current sentiment in regard to inflation now.

So this is a big, big task we knew coming into the year. It was going to be a big task and it's got bigger because the kind of view we had when our teams led by Kev put this in place was very serious sharp material intervention in quarter one. We'd lock it away and then get on with things. What's happening is that we're going to be – we're going, again, for a second time in quarter one, move going quarter two as well. And that's just the context of what's happening, given the inflationary pressure across so many different areas.

Patrick Coveney: Mike.

Martin Deboo (Jefferies): Thanks, Patrick. Two for me. Sorry. Thank you. This 5-10% of missing demand, I want to understand what the constraint is, Patrick? And you've positioned it as a sort of downside mitigation. But is it symmetric or asymmetric, if Omicron turns out to be a flash in the pan and mobility starts going up? Does that mean you got very nice operating leverage on that 5-10%? Or does it mean you suddenly need to step change Costa services? I want to sort of understand the marginal economics of the business around that 5-10%. The longer term question just taking advantage of having your swansong, if I may, is just what are your thoughts on the margin and return potential of the business assuming a return to normality? If we just position the H2 numbers, margins of 5.2% probably in H2 ROIC of, I don't know, high single-digit. I think pre-COVID, you were 8% return on sales and mid-teens. What – given that H2 was within range of pre-COVID levels on the revenue line, what's explaining that 200 basis – is it COVID on costs that will go away, or is the structural profitability of the business in some way degraded, perhaps because of DST mix or something like that? So those are the two. Thank you.

Patrick Coveney: Okay. I'll deal with the first. I'll just make just a couple of higher level comments on the second, but I might let, Emma, you come in and give more detail on the kind of forward-looking view on margin and returns.

The – we're not delighted about the 5-10% miss to the unconstrained demand, right. And it's really a function of the management of some of the supply chain pressures that are in the business, some which we think are temporary and some which are going to require a different way over time of configuring our network. And more automation, more specialty within our sandwich sites in terms of where we make individual type families of SKUs.

But what we're doing at the moment is if I give you just to give you hard measures here is we probably have about 20% less range than our customers would want us to have in the food to go area. The upside for them on that is that they are getting a greater level of overall units than they would be if we were managing to a – to that total range, all right.

But even against that reduced range our service metrics, Martin, are probably 3-5% below where they would typically have been pre-COVID, all right. And I want to be commenting that – that is not a – how to put – that is not all Greencore's fault. A lot of that is actually a function of inbound supply and pressures on other parts of the food system, both backward and forward.

And so the combination of somewhat constrained ranges – and by the way, I think the 20% is – some of that is sensible, but some of it is necessary, if I can describe it in turn and the somewhat lower level of service. So that's where you notwithstanding the kind of substitution effects within the range as it is, which is why it's a kind of a judgment call is that's where we would see the 5-10% opportunity.

Now to unlock that opportunity if not – if you didn't have any Omicron concerns, will require us to find solutions either to bring more people into our network than we currently have or to configure our network in a way over time that requires somewhat less people, right. And that's what we're working on. I think it is an important near-term and longer term opportunity for our business.

The reason I cited in the context of Omicron is that it is mathematically true that if demand in the market fell a bit, we could – our service levels against that demand would go up slightly and we could choose to reintroduce some more products as a hedge against that effect. Now that – and so that's where it's connected to Omicron.

The simplest way for me to put it is that we were – we anticipated that – this is our margin and returns by the way. We anticipated that volume and margins would – sorry, volume and revenue would come back more quickly than profitability, and it has done. There is an element of mix in that, which is that some of that volume that's come back is distributed items. So it's not quite a like-for-like volume and that distributed item – set of items has a different economic profile, decent pick fee per unit, because we take title to the products that percentage margin on it is a bit lower.

But I think, there are a couple of other factors that we need to get after as a business internally as well, alright. So one is the – some of the kind of direct and indirect consequences of managing through COVID from a cost-based perspective and we're working to unwind. It's not all unwound yet. And I think the other feature of our business actually is that we have chosen to prioritise output and I think there are – there will be opportunities for our business in terms of the costs that site below gross margin and below contribution to get after going forward.

And I think that’s a focus for our team and our Board. The point being that as we've done stand back both ourselves and with our Board here, we don't see any reason why we can't get the margin and the – what I might call the kind of like-for-like returns metrics – and Emma, you can explain what you mean by that in a second – back to the sort of position that we were at pre-COVID, post-COVID. And obviously the quicker that we can do that, the better it will be for sentiment towards the stock and the better it will be for our ability to get on with driving returns and rewarding shareholders. And so that's obviously a priority for us. But yeah.

Emma Hynes: Yeah. And Martin, look, just to give my perspective on this, I mean, as we all know, we've been through an incredibly tough period through COVID and working through all of the disruption impact now, really pleased with the top line having come back, really focused on delivering operating profit. I think we've been consistent in saying, look, margin will come thereafter.

But the headwind of inflation is we need to recover it. We need to manage through all of the supply chain disruptions right now and deal with all of the consequences of that and focus on, as Patrick said, rebuilding our leverage and looking at all of our cost base and how we manage effectively and take the COVID disruption operation costs out of the business as well.

When it comes to return on capital, I guess, just structurally there are couple of things that are slightly different. One is the IFRS 16 accounting, which has an overall increase in investor capital, so that does have a drag effect as you look forward. And then we’ve got higher UK tax rates to contend with as well, which will step up over time. So I guess those are two structural things that would have an impact, but I think as profit comes back, we rebuild return on capital.

Jack Gorman: Doriana, I think you.

Doriana Russo (HSBC): Yes, hi. Is it working? I've got a few questions, if I may. First of all, is just trying to go back to the new businesses that you’ve onboarded. I remember last presentation you were saying that obviously when you onboard the new clients, you don't really reach the efficiency levels that you would like to reach at first. Can you give us an update on that? And can you give us an idea of whether the new business that you've been onboarded so far has been margin accretive or margin dilutive on the second half?

Secondly, I was quite intrigued by what you were saying in terms of reallocating the way you actually produce your volume by products rather than customers. Is that something that – just try to have a sense whether there would be a higher level of CapEx embedded in the business as you transition away from the old way of production to perhaps a new way of producing, which might be more efficient? And what are the pushbacks that you're getting from the clients, if any?

And finally, I'd like to go back to the recyclable skillet that you have launched at the back end of last year. What has been the feedback? And what are the intentions with regard to that item rolling on to new customers?

Patrick Coveney: Okay. I mean just to deal with it reasonably quickly. The progress on new business is as we expect it to be, right. And the – I want to be a little careful in being too specific in my examples here. But the – that experience we have of where we onboard a fundamentally new customer is that it takes you a while to learn how to do it, notwithstanding the fact that much of this should be in our wheelhouse in terms of capability. Inevitably, the supply chains, the order patterns, sometimes the ingredients can be different one customer from another. And so that kind of rule of thumb that it takes about six months to get the – that business towards the kind of steady state metrics in terms of performance is still about right.

Sometimes we can get it a bit quicker and sometimes we can’t. Where we have a customer where we're doing, for example, they're taking one of our products and extending it into a new channel but the product is substantially the same, then, of course, we wouldn't have a problem in and shouldn't have a problem in that instance.

On the point as to whether the new business is accretive or dilutive. Notwithstanding that transitionary effect, I think in general the new business in new channels that we took on started at a somewhat lower margin than our core retail business. Now the truth is the world has changed so fundamentally, given the inflationary pressures since then that there are we – there’s kind of work underway as we’re reconfiguring that to try to address some of those issues, and that would be a big part of our kind of product and commercial agenda in those areas.

But importantly, the way this will work over time is that some of the fixed costs that are required are already in the business. And so the actual flow-through to the returns profile and profitability of the Group should be a positive over time, right, because you don't have to quite start from scratch on – in all of those areas.

On your point on CapEx and – so we're doing – maybe it is possible that the whole world knew, except us, that there were going to be massive pressures on labour availability from April-May 2021 on, and like we missed this. I don't think that’s what happened by the way. I think it's come as a huge surprise to everybody. And that kind of near-term mitigants that we’re going with are a challenge. But we’re delivering progressively better against them all the time in terms of getting the footprint and labour plans in place that we need in our key locations to get service to where it needs to be and to be able to onboard and make money from some of the incremental business opportunities that I’ve touched on.

But what that has brought into focus here is – and this will be a little bit simplistic and I'll connect it back to Emma's point on the robotic technology across the three core tasks on 15 lines across what in effect is four different sandwich facilities that we're working on. The essence of, I think how this will evolve over the next while is there will be some customers within the Greencore set – you wouldn’t need to be a genius to figure out which one I'm referencing – where the importance of keeping a solution that's ring-fenced just for them is so central to their proposition that it's likely to stay that way.

But I think for customers that are already comfortable with the idea of sourcing product from several different Greencore sites, what you might well end up find – with us doing is taking one of our sandwich sites, for example, and moving as much of the automatable production to that site. And then in sites where we actually have more labour availability doing some of the more bespoke products there. So in other words, we would have some customers who would currently take products from two different locations and we might need them to move to taking product from three different locations sort of thing. And that actually could potentially give us a better return on the automation and also enable us to have to step up overall output and de-risk that output somewhat to the kind of vagaries of labour availability, almost regardless of what happens in terms of some of the government policy areas on labour into the food industry.

Last point on recyclable skillets. We – well, on both Sainsburys and Co-op both issued a press release in September talking about the fact we were working with them on recyclable sandwich skillets. So that's two of the three customers that – third customer I don't think did, so I'm not going to name them. And the progress of those skillets operationally has been very good. And the consumer reaction to them has been – there hasn't been any problem on – in relation to product integrity or visibility of the products and so forth.

So there's been no negative reaction to some of the things that were potentially a compromise. I wouldn't, Doriana, say that there's been a big positive reaction on the other side, but that's in part because the essence of the trial was to see whether it would operationally work for us and through the supply chain. And it then needs to be accompanied by a kind of consumer engagement and education task, which will be largely driven actually by our customers rather than us. And I think they would be up for doing that as the – as we complete the trial and demonstrate that there aren't any operational problems associated with what we do.

Andrew Ford (Peel Hunt): Andrew Ford from Peel Hunt. Just a couple of questions on costs. I know you've mentioned with labour there automation going forward. But in the short-term, what specific actions are you taking to ease pressure on labour, sort of where – what is the vacancy rate and where is the trend going for you?

And in response to Clive's question, you mentioned energy costs. Are you able to quantify that either as a percentage or an absolute?

And lastly, on the structural shift in food to go. Are you able to sort of compare it versus 2019 where you see that going, especially in light of potential pricing recovery next year? I don't know if you see an element of food to go being a bit more discretionary for the consumer, if you're expecting it to normalise above 2019 levels? Thanks.

Patrick Coveney: Yeah. So I mean actions we're taking on labour, the – so some we're doing nationally and some we're doing regionally. So the biggest thing we can do on labour is to improve our retention metrics, right, because I mean we're talking about people here so I need to be careful and – appropriately careful in my choice of language. But the point here is it's the net movement that really matters, right? So it's how many people leave netted against how many people arrive.

So the most important thing that we can do is to improve retention. And we have a series of different measures in place in that, including what I referenced as part of the sustainability report, which is a decision to actually award shares to everyone who works – 13,000 people who work for Greencore. It's individually modest in terms of what we're doing, but we think it's an important and purposeful commitment. And we referenced it in the last year's annual report that we would put a scheme in place for this year.

But over and above that, then we have a whole series of site-by-site or region-by-region initiatives, which include labour rate incentive programmes to – on recruitment, greater flexibility around how we're configuring shifts. And then on the other side that we've got a whole series of supply and range things to actually make the facilities run more smoothly, reduce changeovers and reduce complex products, things like that.

But it is – it's a kind of – it's a game of inches site-by-site. What I would say in our kind of weekly engagements and monthly reviews, we are tracking where do we need to be in net numbers of people per shift per size and where we're building in line with our plans but it's a task that's unfolding every day in terms of how I would describe it. And I have to keep stressing that one of the features of it is that even when we get that perfect, which we don't all the time by the way, but even when we do, if our suppliers don't get it perfect, then we can have people waiting around to make stuff and we don't have any skillet. So we don't have any bread or our protein is – isn't in line with spec.

And so it's – the chain is only as strong as its weakest link in the – in particular in the kind of very short shelf life make-to-order business areas. And that's one of the reasons why having a somewhat more concentrated range with more contingency in terms of inbound materials is quite important in that regard.

Yeah, I mean, listen, energy and utilities are – have – I mean, it's a highly volatile market, right. So you guys will know it better than me. You just track that – you've been tracking the oil price every day, and what's happened even in the course of the last week. But we're seeing a materially higher utility – forecast utility inflation without getting specifically what it is than we would have had two months ago at a level that we are required to recover it in pricing. And that's what we're doing.

Emma Hynes: I mean we had covered half of that already, so to fix the price before all of the additional incremental price increases came through. So half of our winter energy consumption was already covered. But I mean, we're still seeing, yeah, sort of high kind of single-digit year-on-year millions increase in cost and energy.

Patrick Coveney: So Andrew, your last point was –

Andrew Ford: Just how this structural shift in food to go, especially in some price recovery –

Patrick Coveney: Yeah, I mean, the only – I mean, just to give you the benefit of my experience here, like is that, it has not proven to be a product category that is, where volumes are materially impacted by macroeconomic conditions or even inflation, if I take the last 14 years of looking at it. So the – I mean, clearly the massive mobility impacts of COVID impacted volumes.

But once people are free to move around, it has not tended to be shopped in aggregate as a discretionary item that people got when they're under economic pressure. That certainly was not our experience during the financial crisis.

Emma Hynes: And I guess we're doing everything we can with our customers to mitigate the impact of inflation. So it's not being passed onto the ultimate consumer, but the reality is it's at a level where we have to recover it in price. But you look at product and you look at what goes into it and you do all of those things that we would have done in inflationary periods before to make sure that there is a value proposition available as well.

Patrick Coveney: So I think that's it for questions in the room. Mike, is there anything on the call?

Speaker: Yeah, that's a couple of questions.

Operator: 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 star one if you would like to ask a question. And the first question comes from the line of Jason Molins from Goodbody. Please go ahead.

Jason Molins (Goodbody): Hi. Good morning, Patrick and Emma. Patrick, you've talked quite a bit about your constraints on servicing demand at the moment. So just wondering what that means or how we should think about that, given the new business still to come in during the latter part of next year? And in that context, are you able to give us some colour on what the M&S agreement with Costa might mean for Greencore in terms of revenues and margin profile, etc., and perhaps capital investment that may be needed to support that new business? Thanks.

Patrick Coveney: Yeah. Jason, thank you. Two things. I mean in – if I look at the big chunks of incremental business for us through FY22, the first is going to be the commissioning of the meals and incremental salads business, which I've referenced earlier that is – will be supplied out of the £30 million CapEx investment that we've referenced. So – and we're on with the appropriate labour planning and team building in the two core areas where that product is going to come from, which is Sheffield and in Lincolnshire.

So the – your second point on incremental volume with M&S on the back of their announced business with Costa, fortunately, one of the parts of our network where we do have incremental capacity is in Northampton. And so we'll – and that is largely – it's not entirely, but it is largely SKUs that we are experienced in making and that are sold through M&S stores. And so it's – we're not anticipating a material incremental capital associated with doing that. There will be bits and pieces around the margin and we're building a kind of workforce and labour plan to enable us to take that on as that – as it comes on stream in the spring of next year.

Jason Molins: And any sense of size of the opportunity? Obviously, you supply into the café network already now, but obviously Costa is quite a big player in that market. So can you give us any colour on what you think that might mean in terms of volumes and revenues?

Patrick Coveney: It will be – that will really be M&S to say. It's their customer. And clearly, we're going through different scenarios with them, but it's – but given the size of the estate into which those products will be flowing, it's obviously helpful for our volume as we look forward. And just Jason to join this particular question back to previous calls that we've done through this year, you'll remember in the summer, both in our – when we did our interim statement and our Q3 trading statement, there was – we spoke about ongoing business development activity and this would have been an important thought in our – in the comments we would have made then.

And so as a result, it's the guidance that we would have had for the year ahead would have had the onboarding of this business as a feature of our kind of internal planning for FY22. And it's obviously helpful to have it confirmed like it was last week.

Jason Molins: Thanks very much.

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

Charles Hall (Peel Hunt): Good morning, everyone. Just going back to Doriana’s question on new business, obviously you’ve said that it's going to be lower margin to start off with. Obviously, that came in before we had the labour issues, supply side issues and inflationary costs. Should we think that this is going to take longer to reach the margins that you might have hoped when you initially took it on? Is that a fair way to look at this?

And also more generally when you're going for price increases, it’s never even across all the categories. When you're looking at the business now, are there some categories where you may need to reconsider how involved you are in them, given the pressures you're seeing?

Patrick Coveney: Yeah, Charles. Two questions. The answer your first question is no. We’re – we don't see the inflationary environment has been a constraint on getting to where we need the margin to be at. I don’t want to go any further than that, because it’s subject to discussions we’ll be having with customer by customer. But we’re – the principle here is that the inflation that we are taking, we need to recover and we’re committed to recovering fully in price. I don’t want there to be any ambiguity about that.

On your second question, which was – sorry, Charles. The second question, just to remind –

Emma Hynes: Whether we’d make any category choices?

Patrick Coveney: Yeah, we are – there will be – one of the features of what we're doing here is that that if we can't deliver what we know we need to recover in terms of pricing, will we resign the business? and there are very small examples already of us doing that, right? So it's – it is not a position that our business can adopt here that we’ll go to market for these price increases and if we don't get them [inaudible]. So we’ll just leave it with a lower margin.

So there are – in particular, there are some of the more commodity salad areas, where we have – we’ve gone with what we believe to be and can evidence is very legitimate inflation recovery. And one or two customers haven't taken it and we've resigned the business. And that's the policy that we're going to have here, which is that our capacity is scarce. The – we’re not in the business here because we believe in long-term partnerships of what I would describe as sort of egregious margin grabbing. But where the inflation is there, we need to recover it in pricing and if we can't recover it in pricing, then we're not going to be able to serve.

And there are some examples of us, not huge, in terms of quantum, but there are some examples where we have already agreed with customers that we're going to step away from business, where they won't support us on pricing. And that's the policy that Kevin and the team are working through.

Charles Hall: Got it. Thanks for that.

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

Roland French (Davy): Hi. Thanks. And good morning, everybody. I'll keep it to two questions, if I could. Maybe, Patrick, just your kind of brought our thoughts on the outlook for food to go through 2022. I know typically there's a slide that's included in the presentation which includes that. And I guess taking the 88% of pre-COVID volumes at the end of September as the starting point, what's your outlook for '22? And then just secondly, it might be one for clarification, I might have missed it. Just on your pricing and your customer engagement in particular in food to go, what percentage of your customers or your contracts today have pricing aligned to that low double-digit inflation that you've called out? That would be great.

Patrick Coveney: Yeah. Roland, I mean, I don't think we can say very much more on outlook for food to go, given the – some of the current macro uncertainties, except to say that substantially the volumes are back to where they were pre-COVID and we have incremental new business that's confirmed that we will onboard through the year. It is, I think – we're very reassured about where it is, but we're also cognisant that COVID isn't gone and there could be some impact associated with this, and indeed, there could be some quite positive further volume upside depending on how that plays out too, particularly with over time in some of the city centre and travel locations, right, and we'll just have to see how that goes through.

But in general, where – to go all the way back to where we started on the assumption that there is not material lockdown activity within the UK, right? Then I think our volume view for the food to go business is pretty robust and pretty positive.

On your point on pricing customer engagement, I mean, the – pretty much all of our commercial agreements with customers have a either a formal mechanic or an agreed process by which raw material inflations – inflation and aspects of labour get recovered in a some version of a pass-through model. Very few of them would have a mechanism by which things like utility inflation or distribution inflation or more broader labour inflation would be recovered. And so that's what we're negotiating and working through right now, and plus the residual component of raw materials that might not be formally covered within a tracker and there'll always be some things at the edges that may – that might not be tracked.

So – and the view we've taken here is that the aggregate effect of these things mean that we need to recover and pricing regardless of what is anticipated or set out in the commercial agreements. And actually in the vast majority of cases, our customers have got that. And well, they haven't been delighted about it, we are working through pricing solutions with them and we'll continue to do that.

Operator: There are no further questions on the phone lines, so I will now hand the call back to the room to Clive Black.

Clive Black: I think I've been described the veteran analyst by too many people, so I think it's following on me, Patrick, to say one or two words to you. Firstly, the Chairman talked about ups and downs in the last 17 years. We didn’t just hear what you're up to and also just a thank you for your – the time you've given us. You've always been very accessible, always had amazing insight and strategic review and just to wish you all the very best at SSP and to wish the Chairman well in the search for the new Chief Executive.

Patrick Coveney: Thanks, Clive. And I didn't and don't want to make the results presentation – our results engagement around this issue. But just to say there have been hundreds and hundreds of ups to answer your question. The – it's worth maybe for someone other than me to recognise the business that Greencore was when I joined and the change that have – the change that we’ve put through since then.

The big ups for me have been the team that I've got to work with, the customers that we've got to work with. I loved the Capital Markets engagement. It cut both ways. We are accessible. We like being accessible. And so the – my main test in this job has always been to enjoy doing it. And I loved doing it for 14 years as the CEO. And so – and whether I'm – as long as I'm here and long after I'm gone, I will be a cheerleader for Greencore, which is a great business and it's been a huge part of my life for – as I say, for 17 years and a great part. So that’s all I’d say.

But thank you for your comments and for – there are other veterans in the room here, I'd say that looking at Martin as well. And there's people on the call. Nicola Mallard, same Charles. So there's Cathal Kenny. There’ve been people who have covered the stock from the very, very beginning, Darren yourself, not quite the very beginning but pretty much it. And it's – and you know hopefully that engagement has been positive for you, as is been positive for us. So thank you.

[END OF TRANSCRIPT]