Greencore Q1 FY22 Trading Update

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Operator: Hello, and welcome to the Greencore Group plc Q1 '22 Trading Update. Please note this conference is being recorded, and for the duration of the call, your lines will be on listen-only. However, you will have the opportunity to ask questions at the end of the presentation. This can be done by pressing star one on your telephone keypad to register your question.

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

Jack Gorman: Thank you, Stefano, 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 conference call which relates to our Q1 trading update released this morning, covering the 13 weeks to 24th December 2021. I'm joined on the call this morning by our Chair, Gary Kennedy; our CEO, Patrick Coveney; our Deputy CEO, Kevin Moore; and our CFO, Emma Hynes.

I would also like to draw your attention to the forward-looking statements that we've included at the end of today's release.

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

Gary Kennedy: Thank you, Jack, and good morning to everybody and you're very, very welcome. And thank you for taking time out with us this morning.

As Jack has noted already, this morning, we released our Q1 trading update for the 13 weeks to 24th December 2021 ahead of our AGM, that would be held – also held later this morning. It'll be my ninth AGM as chair of the business, and of that period in the last one to two years in my opinion has seen the most change and indeed the most uncertainty in the markets in which we operate.

It has been a challenge, but we have found it extremely well throughout. And none of this would have been possible without the commitment of our teams and colleagues who have done and continue to do a fantastic job every day. And I'd like to thank all our colleagues for this.

And while the challenges to the businesses has been very evident, the impact on family and friends, colleagues, shareholders, suppliers, customers and wider stakeholders, who sadly passed away through COVID-19 has been much more severe. And to honour those people, I continue to offer my deepest sympathies and note of encouragement in terms of those colleagues who are still recovering from COVID.

I'd also like to speak briefly on the CEO succession process. The appointment process is ongoing, and I will provide an update to the market in due course. In the interim, we have a great executive team that are seamlessly managing through the transition, two of which, Kevin and Emma, will lead us through the call. And then the three of us will move to the Q&A at the end of that discussion.

I'm encouraged by our progress in Q1 and we remain comfortable with delivering to market expectations for the full year.

And with that, I will now hand over to Emma.

Emma Hynes: Thanks, Gary, and good morning to everyone from me. So I'd like to provide more colour on our Q1 performance and strategic development. And while Q1 is not seasonally the most significant quarter for Greencore from a financial perspective, it was nonetheless an important quarter in many respects.

So specifically on our Q1 performance, we had good revenue momentum in the quarter. Revenues were back above pre-COVID levels, driven in particular by strong growth in food to go categories. This in turn was driven by recovery in the underlying market as well as by the increasing contribution from new business wins that we've secured over the last 12 to 18 months.

Total reported revenue in Q1 was £389 million, an increase of 24.4%. On a pro forma basis, the increase was 26.4%, adjusting for currency on the prior year disposal of the Group's molasses business. However, this performance versus the equivalent period in Q1 '19, pro forma revenue was 7.5% of both these pre-COVID levels. And to break this down further, revenue in food to go categories totalled £254.3 million in Q1, growing 34.9% on a reported and pro forma basis versus Q1 '21, while revenue in other convenience categories totalled £134.7 million with a pro forma increase of 13.1% year-on-year. Kevin will discuss this in more detail and the commercial updates in a few minutes.

In what was a busy period commercially for Greencore, we've also been continuing to focus on the recovery of input cost and other inflation with our customers. We've made very good progress in recovering to-date and what continues to be a dynamic inflationary environment. And I would also note the impact of supply chain disruptions and challenges around labour availability in particular. It is especially challenging, given that we're back in growth mode. And our focus now is on managing effectively through these issues as we enter our busier summer period. And again, Kevin will speak to both of these areas later on in the call.

Strategically, we also moved forward in a number of important respects during Q1. So firstly, our strategic CapEx programme, support new wins is progressing to plan. This programme spans three of our manufacturing sites and involves our ready meals and our salads businesses, and it will cost approximately £30 million. These wins will begin onboarding in the second half of the fiscal year, in particular the final quarter.

And secondly, the return to pre-COVID volumes also enables us to revitalise our excellent cost efficiency agenda. The excellence programmes are executed across the business, most notably in manufacturing, purchasing, engineering and commercial functions. These are critical elements of our planned recovery and profit conversion this year and next.

In addition, we're conducting an extensive review of the companies across the Group to ensure we deliver lasting improvements that will also drive the recovery in profit conversion. This is an important step change in how we're looking at the business and we expect it to be a multiyear initiative. We're in the initial stages of this review and we're encouraged by the findings. And we will share more detail on this in May at our half one results.

Thirdly, we continued to strengthen our balance sheet and increase the weighted average maturity on our debt to 3.4 years by extending the maturity on our main RCF by one year to January 2026.

And finally, on our sustainability agenda, we made good progress in Q1. We are increasing engagement with our suppliers on carbon intensive ingredients. We are progressing plans to transparently share data on the health and sustainability profile of our products with stakeholders, which is a key FY'22 commitment. And the Group has also introduced a new share ownership scheme for all colleagues that provides us with another way to retain and attract the best colleagues in what is a very competitive labour market.

With that, I'd like to hand over to Kevin for the Q1 commercial update.

Kevin Moore: Thanks, Emma. Good morning to everyone. For those who don't know me, I am Kevin Moore, the Group Chief Commercial Officer and Deputy CEO.

As a way of quick introduction, after a 10-year career in grocery retail, I spent 23 years with Group, quite time running each of our large business units and became to CCO during 2018. And as you all know, took up the role of Deputy CEO last November. It is a pleasure to be with you all this morning.

So I'm going to spend a little bit of time updating you all about our commercial and operational progress during quarter one. And to start by saying we continue to work very well as an executive team both internally and with our customers in what has been a busy but I'd characterize as a productive start to the year.

As you've heard from Emma, we've seen strong revenue growth in quarter one, which brings us back above pre-COVID levels. This is encouraging and providing confidence that our recovery in revenue terms is resilient.

There are a couple of elements to this. One, core underlying revenue recovering in food to go. This growth has been delivered in three areas. Firstly, the rebound in existing customer core volumes, as well as the onboarding of new business wins. Secondly, the emerging impact [inaudible]. And lastly, the continued growth in the distribution component of our business, albeit as we previously flagged, at a lower than Group average margin level.

Second, we've seen strong and resilient performance across our non-food to go categories during the period, which is also encouraging. As I'm sure you're all aware, all of this is part of a broader growth agenda that we've been pursuing across the business for FY'22 and beyond. As Emma has already touched on, this includes the onboarding of significant new business, both new and existing customers over the last 12 months, and these have been executed successfully and are on plan.

We've already announced that we will be supplementing this by a strategic engagement with one particular customer across both the ready meals and salads that we're preparing to onboard later in the year. And we're also excited to be working with Marks & Spencer as they extend this food to go range into the Costa store network.

Then back to quarter one in a little more detail where I'll start with food to go. So in quarter one, our food to go revenues were running approximately 6% ahead of the equivalent pre-COVID levels in 2019. Underlying like-for-like revenues were approximately 94% of this, meaning that new business wins contributed around about 12%, all of which, as I've said, performed well in the quarter.

As a point of reference, in quarter one – sorry, in quarter four 2021, food to go revenues were 38% on a like-for-like basis, with new wins contributing approximately 10% overall. So quarter one really is showing continued progress.

We talked in November about our challenges in meeting the full extent of our demand. And we told you that we estimate that between 5% and 10% of food to go demand was not being met. And whilst we still face a level of challenge in meeting that demand, this is improving. It is very site-specific, and is being managed very well by our teams. To that end, we continue to work jointly with our customers and our supply partners to tighten and manage our own use to maximise output. When taking the business in aggregate, we estimate approximately 5% of total demand still currently not being met across the business.

So turning to Omicron, the new variant, as you'd expect, had a disruptive impact towards the end of the quarter and also into early January. But made demand for us a little more on salads. When this first identified in late November, as you know, the UK government increased restrictions on mobility and on a phased basis.

I'd bring up two points here. Firstly, we observed that the impact did hit our customers not equally. Sales data we have, as you'd expect, illustrates that travel, High Street and City Centre locations took the highest share of that impact. In fact, food to go penetration rates only actually dipped modestly from circa 40% rates that we were seeing in October-November to around about 35% in January.

But the second point I would make here is that whilst we recognised this has caught a level of temporary disruption, our overall demand prospects remain very positive. More widely for Greencore, the impact of Omicron have mixed implications. On the one hand, it's been actually quite beneficial in supporting some of the service challenges we faced, demand slowed, but it – and it actually helped our outbound supply position. But there was also the labour availability component here too. Here, we saw a deterioration as a consequence of the variant. And this did have an impact on the pace of our profit conversion.

So moving to our other convenience categories. Pro forma revenue increased by 10.3% in quarter one versus the same period last year. This is considerably ahead of previous growth rates, but to some degree, reflects slightly easier year-on-year prior year comparison.

However, demand has been strong across all our categories here, and specifically prevalent in our ready meal business, where we saw a little or no effect on the Omicron variant on demand.

So I'll now move to the topic of inflation. I would reiterate Emma's comments that we are progressing well here with customers, as well as our supply partners. But I'll make four broad points in relation to inflation. Firstly, inflation is not new to us. Whilst the magnitude is higher than normal, process and frequency of facing it is not.

What we do recognise is different is the size and scale of open labour challenge and some of the other areas such as utilities. That said, we're used to seeing inflation. We're used to managing it through with our partners for the entire supply chain. Our core recovery on material packaging is strong, and a large proportion delivered through our agreed commodity pass-through models.

We're also making good progress on both labour recovery and other inflation. These engagements continue to progress well underway, and I'm very positive of that strategy. We're also using all the levers at our disposal throughout the supply chain to manage this. And as such, we remain confident of recovery during FY'22.

So to finish, I will cover labour. Labour availability remains an ongoing challenge for us and for many across our industry and throughout the supply chain. We're clearly not immune to its effects, both indirectly and directly. From a direct perspective, impacting around attracting, recruiting and just as importantly retaining sufficient number of colleagues to meet both demand now and in the future.

Situation was exacerbated by Omicron, where we saw absenteeism levels rise approximately 5 percentage points across the Group for a very short period. Indirectly, labour constraints are having an impact on our supply chain in the wider food system. And these challenges are definitely lessening or they are taking longer to dissipate. We continue to work closely with suppliers, haulage providers and customers to mitigate these to ensure that our strong operational service performance is maintained.

So while we recognise the overall UK market remains tight for labour, we are solving for this regionally rather than nationally. We do have multiple levers here both in the short term and the long term. Short term, we have a strong suite of both incentives, support, engaging policies, which are working well and gaining traction, helping us win in our local labour markets.

We also continue to keep in place those important health and safety features for our teams. Sites continue to operate with face coverings, screening across production lines, along with increased hygiene protocols and PPE usage. Longer term for us, this is about the level of pace we provide a push into automation and how we bring that lines of business. Alongside how we plan our network configuration towards a more product-centric rather than customer-centric approach to maximise output. We will, of course, continue to monitor and manage these issues over the coming months and respond accordingly.

So in summary, with all of that context, it reminds us of a number of things throughout business. Firstly, that our focus on the importance of ensuring that suite of excellent programmes are delivered really hard, as Emma touched on already. We'll continue to work on being the employer of choice in our chosen localities. And finally, that we need to deliver efficiency and productivity improvements across our overall network as we re-emerge from the challenges of the last 24 months. This will form a significant part of both my and team's focus over the coming months.

Happy to discuss any of these topics in more detail in the Q&A. But for now, we'll come back to Emma for outlook and Gary for his closing remarks.

Emma Hynes: Okay. Thanks, Kevin. So bringing all of this together with some brief comments and outlook. And the key message here is that we remain comfortable with market expectations for FY'22.

Now, this assumes no material resumption of mobility restrictions or lockdowns arising from increasing COVID-19 infection rates in the UK. The uncertainty regarding the durations and impact of COVID-19 variants on our trading environment, particularly in food to go, continues to make it more difficult to predict FY'22 performance.

We're progressing well on inflation recovery and are working through the supply chain and labour challenges being felt across the industry at present. And on phasing, profitability will be heavily weighted towards the seasonally important second half of the year.

And finally, we also remain focused on further deleveraging this year, and are recommencing value return to shareholders in FY'22.

Gary Kennedy: Thanks, Emma. So let me conclude with some final remarks. Firstly, just to remind you that we will be hosting our AGM later this morning. I'd also just draw your attention to the fact that we had another RNS announcement this morning, which talked about an initiative called Be Part of Something Better, which is a share ownership scheme. So we announced there that we are giving approximately £250 worth of shares – Greencore shares to all 12,000 of our colleagues. And I think there's a read across not only in terms of the labour challenges that we experienced, but this is something that we've been designing for a couple of years now, which is part of our ongoing commitment to that broader colleague engagement.

To reiterate, when you draw a line through what Kevin and Emma have updated this morning, like our key focus is to drive the economic model through effective profit and cash conversion across the business. We remain optimistic and confident on our future prospects.

Finally, a reminder that our next capital markets update will be our half one results, which will be released on 24th May of this year.

And with that, I'll turn back to the operator, who will organise the questions and answers and we'd be delighted to take your input. Thank you.

Questions and Answers

Operator: As a reminder, if you'd like to ask a question or make a contribution, please press star one on your telephone keypad. Please ensure your line remains unmuted locally, we'll then speak to you individually, take your full name and introduce you to the call. The first question comes from the line of Jason Molins from Goodbody. Please go ahead.

Jason Molins (Goodbody): Hi. Good morning. Three questions, if you don't mind. Firstly, in terms of the food to go and the encouraging performance there. Kevin, you gave some detail now on the underlying performance. Just wondering how that's tracking against the overall industry?

The second question is really on the convenience food categories, which has been, again, an excellent performance there. But just wondering if you can pick out. I know you mentioned ready meals, but maybe just give a bit of context there. And also with the changes going on in some of your competitors, has this led to market share gains in the period?

And then the sort of final question, Kevin, if you don't mind. Having stepped into the role of Deputy CEO, just wondering if you can give a better colour on what you're doing on a day to day basis to drive performance in the Group? And perhaps given your position and closeness with the customer set, maybe elaborate on some of the opportunities that you see. Thanks.

Gary Kennedy: Thanks, Jason. Kevin?

Kevin Moore: Thanks, Jason. So I'll take those in order. So if I start with food to go, what I would say is that we're really encouraged by the level of recovery. Now clearly, Jason, as you know that the portfolio of customers we've got cover a variety of different channels, whether that be coffee, travel, grocery retail. And what I'd say is, not all of those particular channels are made equal.

So we are seeing a level of progress in some of those channels that are ahead of others. Or what I would say when you take that in a round the level of food to go process in aggregate for us is slightly ahead of the market overall when you take the broader context of that particular area. So I'd say we're encouraged by that.

If I move on to the part of the question on convenience, what I would say is, again, similarly, we obviously operate with a variety of different customers. One of the two of those customers are trading particularly well, in particular ethnicities, in the ethnicities that were exposed to, particularly Italian. We're also seeing a level of progress and particular elements of those ranges, i.e., we're seeing that a bit of an uptake and a bit of a level of progression in premium ranges in that particular area.

And I think it's well documented that some of our competitors in that space are in a position that both operationally from a service perspective are more challenged. And I think there's been a level of benefit for us in that regard as well. So that's let's say from a convenience perspective.

With regards to the rest of our convenience operating areas, whether that be our ambient business or whether that be soup and sauce or whether that be our bakery business, again, they continue to trade well, not as well as ready meal. But again, they're in positive territory, which is very encouraging.

The final thing that I'd say in terms of where am I spending my time, I'd say that, actually, this is about, as Emma's touched on in her commentary, it's really about kind of how we get back to driving overall process efficiency. We've been through a very turbulent two years where the single biggest priority has been keeping our people safe. And as a consequence of that, that remains in place.

But as a programme of efficiency, we've been obviously focused on getting our volume back, and now it's about driving efficiency. So it's the rigour into the daily and weekly meetings that we hold, the monthly views where we look at performance. And actually, quite pleasingly, doing that alongside Emma and with the broader and wider senior teams. That's where I've been spending my time.

I've also been spending time, as you'd expect, talking to customers, understanding how they're emerging from this particular period, obviously, talking to customers about inflation, and also our suppliers in terms of working that through from an entire supply chain perspective. So a fairly busy period, and – but as I said at the beginning of my particular statement, very, very progressive as well. So that's how I'd answer the question.

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

Martin Deboo (Jefferies): Yeah. Morning, everybody. Martin Deboo at Jeffries. Question I think inevitably is on inflation. You may have given us on the call, but crackles on the line. But can you just confirm what rate of inflation you're seeing in your raw materials basket on the one hand and wages on the other? I think you said in December that raw mats inflation was high-single-digit, low-double-digit. Can you sort of confirm that or give us a new figure?

And I guess, Kevin, for you. Can you just – I know it's a question that gets asked a lot. But given the materiality of the issue, can you just recap in as much detail as you can sort of consistent with commercial confidentiality what you can pass – what is sort of formula priced and can be passed through and what can't? And I guess that's going to vary across the food to go and other. So the sort of composite question is just around the inflation risk, so.

Gary Kennedy: Thanks, Martin. First part of that, maybe Emma will take and then the second part was directed to Kevin, so he can take it.

Emma Hynes: Yeah. Thanks, Martin. Look, I don't think we've seen an enormous change in terms of those percentages of inflation that we talked about in November that clearly volatility had continued to be dynamic. The energy inflation has been particularly volatile, which has been well documented through the sort of pre-Christmas period. And since then, what we are focused on is our labour ramp up actually and making sure that we have got a plan in place for every one of our operating sites to get to the headcount we would need to for summer peak.

So actually, rather than looking at it more broadly as what does labour inflation look like across the Group. We're saying, well, what we need to do in terms of the incentives and timing of onboarding people to make sure that our headcount is ramping up in line with the expected demand and even trying to do that ahead of when volume comes into to make sure that we have what we need to deliver some more volumes.

Kevin Moore: Martin, I'll take the second part of that. I'd say that with what I can share, I'd say a fairly large proportion of our material packaging are on commodity pass-through models. There is less that it is on a pass-through model from labour and less again on what there is as a pass-through model on overheads.

But what I would say is that we're also taking the opportunity to reflect on that and think about that in the future and how that may apply going forward. So that in simple terms is what I'd say, Martin, to that.

Martin Deboo: And Kevin, just a quick supplementary. Is utilities counted as overheads, just so I understand what you meant by that?

Kevin Moore: Yes, it is. Yes.

Martin Deboo: Okay. It's part of overheads. Yeah. Okay. Lovely. Thank you.

Emma Hynes: But Martin, we do have – so we do plan to recover all inflation.

Operator: Your next question comes from the line of Darren Shirley from Shore Capital. Please go ahead.

Clive Black (Shore Capital): Good morning team. The older, shorter, fatter one, Clive Black. Couple of questions, if I may. Firstly, I just wonder if the issues around labour that you touched on, Emma, are leading you to fundamentally or materially reappraise your automation strategy, and maybe give an indication what automation has delivered for you to-date?

And then, Kevin made an interesting comment in his very good talk around a focus on product versus customer in the production process. I just wonder if you could elucidate a little bit more on that for us, please. Thank you.

Gary Kennedy: Thank you, Clive. Emma?

Emma Hynes: Thanks, Clive. Look, in terms of automation, as you know, we've been talking about it for a while since before COVID when – if you go all the way back to how people thought about the impact on the labour market, well, rising costs due to national living wage and probably lower workforce availability following Brexit.

So we've been working on automation for a while developing our own bespoke solutions and actually wrote a number of those out last year in our food to go business in particular. We're continuing to work on that. So we're looking at innovation all the time and continuing to develop further. But it's very much in line specific tasks that we're trying to solve for rather than end to end automation in that space because it's quite complex and challenging to do it end to end in mind.

But the other things we're doing actually is looking at existing solutions in the market and seeing how we can deploy them. And we will have done that with multi-head weighers, where we can, looking at how we're measuring protein onto our production lines and things like that.

So look, we have seen benefits come from that in terms of reducing the number of heads that we need in the production lines and there's definitely more to do, but it takes time to develop solutions, particularly when it's bespoke, and to try them and to roll them out. So in the near-term, our focus is on – is also on making sure that we are retaining all of the people we have and that we have got the right offering in place, the right incentives and all of the hygiene factors in place to attract people and actually the new share scheme that we've referenced is an important part of the whole offering.

Kevin Moore: And Clive, if I take the question on network configuration. What I'd say is traditionally, as you all know, we have a very customer-centric operating model, whereby obviously customers would be in particular locations. It would be how we'd engage with them and it would be kind of how we've set ourselves up accordingly.

But I think in a world of constrained capacity in terms of our ability to get volume out because of all the challenges that we've talked about in the statement, we're just looking at that differently. And what that means is moving volume around to maximise output, reduce levels of changeover and drive efficiency is something that I think is both right for us to do. We're doing in conjunction with the customers and we're doing to make sure we maximise output.

And I would say that whilst we've made progress on that, we've got more to do and we'll continue to do more of it as we look and we react to kind of driving that efficiency part across the Group.

Gary Kennedy: Yeah. And Clive, just as a follow up for me and I think the automation and the network side of things, like they are really important components of the measures that we were conveying and the three of us there in terms of reinvigoration of our excellence programmes, which are very well as focused on all aspects of the operations but also commercial. And the idea there is around capacity optimisation and utilisation process, reengineering and more importantly output optimisations, that we'll all read across those.

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

Doriana Russo (HSBC): Yes. Good morning, everyone. I've got a few, if you don't mind. Firstly, I'd like to ask you a little bit about recent trading. There was some mentioning that perhaps the insurgence of Omicron might have impacted the margin demand of food to go. Can you give us a sense of how this is trending in the last few weeks, please?

Secondly, in terms of the way food to go revenues are the component behind it, I reckon that the part which is distribution only, if it's higher or lower vis-à-vis pre-pandemic? And is that going to mean that the overall profitability of the food to go business may actually change in the medium term?

And my last question, it's on the new business which has been onboarded in the past quarter or so. Are you in line with trying to optimise the supply chain behind serving these new customers, and therefore, when do you think those new clients will be able to deliver sort of an operating profit or profitability level, which is in line with what you would expect in the first place?

Gary Kennedy: Doriana, thanks very much. The Omicron and the new business, Kevin will deal with. And in terms of the split on FTG and factor to manufacture, Emma will take.

Kevin Moore: Hi, Doriana. Yeah, I'll take recent trading. So if I take even looking at today's volume, what I would say is the noise and small level of dilution that we saw from Omicron in essence has dropped. So I would say we moved up into a period of standard trading there, which is extremely encouraging.

And whilst as I said in the statement, the end part of December and the early part of January was a little more volatile and a little bit more difficult to forecast. As I say, we're back into a period now of normal trade I'd say.

Emma Hynes: Yeah, it's been encouraging for us the last week or so to see that week-on-week demand is starting to come back on up as restrictions are released. And Doriana, look, in terms of mix really, we would say, no, there is a slightly higher component of revenue that is third-party distribution. So that's underlying growth in that part of the business. And then as we've onboarded the new business, they have a higher proportion of distribution revenue in that.

But ultimately, we are a food to go business. We think about this as an enabler and it's something that supports our manufacturing business rather than being a standalone business in itself.

Gary Kennedy: And then if I pick up, Doriana, the final point on new business, I think I'd just reiterate what we said in the statement, which is first and foremost, we're really encouraged with how that landed. I think we did a really nice job in that space. Clearly, the role that we have for both the customer and for ourselves now is to settle out into the network and then drive efficiency on top of that, which is our model. And I'd say that we're encouraged by the progress so far.

Emma Hynes: Yeah. And look, when we think about driving efficiency, as Gary and Kevin both have referenced about, that efficiency right through our manufacturing network, so it's not really focused on new business and new customers. Clearly, there's a ramp up as we onboard new business whilst we're focused on our excellence issues right across the business.

Doriana Russo: Thank you very much.

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

Roland French (Davy): Hi. Thanks, and morning, everybody. So I think I've got three questions, if I could. So maybe just firstly, probably for you, Kevin. You've called out labour absenteeism. Clearly, there's an impact there in terms of return rates. But just want to dial in specifically what you're seeing on productivity. So effectively kind of calibrate what the impact of that absenteeism is on the line effectively? So that'd be helpful.

And then secondly, I think, Kevin, you said and Emma, you said it more recently that you're confident on inflation recovery in FY'22. Just in terms of how we should think about that. Is that a run rate basis as you exit FY'23? That kind of contribution gross margins should be back to where they were? So just trying to, I guess, link that inflationary comments with margin.

And then – and maybe just the third question dialling into the process around labour recovery. So I think my understanding before was that it's largely been historically be a negotiation, i.e., it doesn't have an explicit mechanism. But that certain contracts were including certain recoveries around labour. So maybe could you give us a little bit of an update on that, whether that's certain contracts have a statutory wage mechanism or whether that has expanded in terms of the agreement there? And I'll leave at that. Thanks very much.

Gary Kennedy: Thanks and thanks for the question. So one and three of those, Kevin will take, and Emma will take the inflation recovery section.

Kevin Moore: Hi, Roland. So I'll start with absenteeism. The first thing I'd say on labour and absenteeism is it's manifesting itself in Greencore in a very localised way. There are certain locations where the level of impact has been relatively minimal, and then in certain locations where it's been higher. And as a consequence of that, I think one of the things that Greencore benefits on is having a network. It allows us to move volume around to think about how do we maximise output as a consequence of that.

And then, I think what I'd also say is that where that's been the case, we've been able to be flexible in being able to find more labour through whether that be agency labour or actually thinking about ranging or specifically in that site. So in essence, the devil is in the detail and the detail of those localities and how the local teams are managing that. And then we're supplementing that from a central perspective with our teams as well.

So I'd say I'm encouraged by that. Clearly, these things happen all the time. Maybe not to the level that we're seeing it now, but we're managing that very well.

Emma Hynes: And Roland, when we think about how it impacts in the site, the level of absenteeism is the challenge of the uncertainty and expecting to have a certain number of people. And when that falls away in either your manufacturing site or your distribution business, it can have consequences on one for the other, whether you've made product and you're charged on distributing it or whether it is a challenge in the supply chain where you don't get one of the ingredients you were planning to use. So it's that level of disruption that we're managing every day actually.

In terms of the overall inflation recovery and timing and run rate, I mean, it is linked to things like labour inflation recovery and utility recovery. Materials and packaging, it's more typical for us to have a mechanism to recover them. I wouldn't say we have it everywhere. We will have a profit to agreed recovery. But it's more routine to have your material and packaging in a commodity price reference and that's pretty standard, where you're – where we have our newer more recently renewed contracts with a component of labour recovery. But utilities is not something that would typically be in contracts. And given the level of inflation there, we're seeking to recover that as we look at labour in order to have confidence around ramp up. We are agreeing with our customers. We have strong partnerships in place and we are agreeing with them upfront to types of initiatives that we're looking at and when we onboard to give confidence around our ability to supply into the summer.

So what I'd say is that's all tied into the inflation recovery conversations. We need a joint agreement on what we're doing and how we're planning as we move forward. There's some lag on recovery, but we would seek to recover everything in here. So that to us is timing of delivery. And our view is that we need to recover inflation and recover that in price. So it should longer to negotiation.

Gary Kennedy: Roland, just coming back to the final point on labour recovery itself. I'd say, at a standard level, we are focused on within our models getting kind of given wage levels and those kind of recovered. Broadly that's how I think about it. And then where we're having to invest in rates in certain locations to obviously deliver labour levels, that's were generally the negotiations are leading to, and I'd say like as I said in the statement, we remain very encouraged by the progress we're making thus far.

Roland French: Pretty good colour. Thanks so much.

Operator: As a reminder, if you would like to ask a question or make a contribution, please press star one. The next question comes from the line of Nicola Mallard from [inaudible].

Nicola Mallard (Investec): Morning. Thank you. Just a couple from me as well. Just on the price recovery, obviously that means that prices are rising on shelf one assumes. Are you seeing a full pass-through by your customers of what you're passing onto them? Is there an element of product engineering going on where perhaps the price increase isn't just absolute price increases as much? But what impact is it having on demand? Are you seeing anything again, particularly I suppose if there's more to come. Is that a factor in terms of how willing the customers will be to continue to move the price?

And then the second one just on your share ownership programme. I mean, it looks to be about £3 million investment. Did you buy those shares in the market, or are they new issues? Thank you.

Gary Kennedy: Thanks, Nicola. Kevin, you take the first one and then Emma.

Kevin Moore: Hi, Nicola. I'd start by saying that we're seeing a level of movements in retail pricing that's very much in the public domain. So we're seeing a – certainly a number of SKUs across our categories whether that be food to go or general convenience start to move. I also bring to everyone's attention that it's also very evident that we're seeing the levels of promotional activity change.

However, what I'd also say interestingly is that at this point, we're not really seeing an impact on demand. And I think that's really encouraging for us overall. So that's kind of how I'd cover that, Nicola.

And then in terms of is it manifesting itself in terms of changes to specification, I'd say what's happening is we're considering that with the retailer, but in the main, that's not happening. We are thinking about supply and we are thinking about ingredients and where we get that volume from. But in terms of overall specification, I'd say not in the main. I'd say broadly this is genuinely about understanding of these movements in the market and then of course passing them through.

Nicola Mallard: Okay. Thank you.

Emma Hynes: And Nicola, in relation to the share ownership scheme, that will not be new issue of shares. That's shares purchased in the market.

Nicola Mallard: Okay. Thank you very much.

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

Damian McNeela (Numis): Morning, everybody. Just a couple for me, please. Firstly, when we start to think about network optimisation, firstly, what's the customer reaction been to that? Are they largely supportive of that move? And then I know you indicated that we'll get some more details. But just broadly, when we think about the margin profile of Greencore, will network optimisation sort of represent a step change above historic margin levels, or should we expect that to sort of support recovery back to prior levels?

And then the last questions on new business opportunities. I mean, clearly, the industry has been through a pretty challenging couple of years. What does the pipeline for new business look like for Greencore at the minute?

Gary Kennedy: Thanks, Damian. So one and three, Kevin will take. And your second question, Emma will address.

Kevin Moore: Hi, Damian. In terms of network optimisation, the first thing I'd say on that is that in anything that we do within our factories, we'd engage with customers. So one, they're fully inclusive. And two, our big priority really is one of output maximisation. So as I said, they've been extremely supportive with everything that we've been attempting to do in that space. And as far as I'm concerned, I couldn't ask for any more support. So yeah, [inaudible].

Emma Hynes: And look, when we think about sort of overall margin profile, I mean, what we're focused on now having onboarded all of the new business and the incremental business coming in this year is rebuild our profit and margin in the coming years. So I think it's a multi-year programme for us. And yeah, so it's a multi-year programme for us and the focus is to get back to pre-COVID operating margins in time.

Gary Kennedy: And if I just wanted to add a point on new business opportunities, Damian. I'd make three points. So I think the first one is that our relationships with our customers have actually been enhanced, I think, during the last two years. Whilst it's been an extremely difficult period, I think what its brought together is a much better level of collaboration and engagement.

So that's the first thing I'd say. And whilst there's definitely been tension, I'd say it's been really encouraging from that perspective.

Second, I'd say we are being encouraged to do more. That happens on a day-by-day week-by-week basis. But the final point I'd make is our focus is on our immediate recovery for now. And actually our priority is landing what we've got. We've also got a series of new range – new opportunities in the pipeline, whether that be with strategic specific work we're doing on ready meals or salads or whether that be the work that we're doing with Marks & Spencer on Costa. They are the gig in town and they're the ones that we're going to focus on in the near term.

Damian McNeela: Okay. That's great. Thank you very much, guys.

Gary Kennedy: Thank you. Are there any other questions? I think we probably need to cut at this stage.

Operator: We have no more questions on the line.

Gary Kennedy: Excellent. Well, thank you again for everybody taking time out and participating and it's been very enjoyable Q&A and look forward to updating you further on this.

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

[END OF TRANSCRIPT]