Greencore H1 2022 Results

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Questions and Answers

Operator: If you would like to ask a question, please press star one on your telephone keypad. Please ensure your line is unmuted locally, as you will be advised when to ask your question. So once again, that's star one if you would like to ask a question. The first question comes from the line of Jason Molins from Goodbody. Please go ahead.

Jason Molins (Goodbody): Hi, good morning. Couple of questions if you don't mind. Firstly, kicking off. Kevin, you mentioned that you're back to a position where your revenue performance is no longer constrained. Just wondering what you've done to achieve that, or indeed, what dynamics in the marketplace have changed?

And then final question really is around cash flows. How should we think about sort of those moving parts for the second half of the year? Obviously, you have a bit of a working capital outflow in the first half and just any signposts you can give us for the second half, would be helpful. Thanks.

Kevin Moore: Thanks, Jason. I'll take the first part of the question, if that's okay, on demand. I think there were two elements to that. I think the first would be around labour. I think it would be – it's important for us to be clear that it still remains a challenging environment, but I'd say significantly more stable than it was previously.

I think we've applied a level of greater granularity and rigorousness to our recruitment process, and we've broaden the net there. I think that's been really, really positive before. I'd also say we've brought more people into the Group than ever before. And there's a stronger focus on retention. And I certainly don't think that we've taken that for granted. I think that's been a real key to our success. So I think being able to stabilise that space is the first thing I'd say, Jason.

I think, secondly, it's then about how we thought about the supply chain specifically. So that is around how we've selectively managed our ranges with our customers. We've seen a fairly material reduction in our overall SKU range with food to go, for example, on a like for like basis, against 2019, being around a third smaller. So getting the fixtures to work harder, getting our factories to work harder.

And when you combine that with the fact that we've seen a stabilised labour market has really allowed us to optimise the outflow. And as a consequence, I think that's been successful, both for us and customers more broadly. And the way I kind of qualify that is that we've also seen over that period, customer availability also significantly improve. So I think that's been a win-win for everybody. And that's an area that we continue to focus on.

Emma Hynes: And Jason, just in terms of cash flow. Working capital is clearly the big movement. So we tend to see an outflow in the first half that reverses in the full year. And we'd expect that trend to be maintained. So, I'd say broadly neutral and working capital is the biggest thing to think about that.

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

Clive Black (Shore Capital Markets): Thank you, and thanks for the presentation. And well done actually in H1. Two questions, if I may. Firstly, Emma, you spoke to no discernible change in demand as you embarked upon price recovery. I just wondered if there was any discernible change in mix in terms of the volume versus the type of products – the value of products people are buying.

And then secondly, just in relation to your last answer, Kevin. Labour has clearly been a big constraint for Greencore in the last couple of years. Did you get an indication of, A, what you expect Better Greencore programme to yield with respect to labour? And B, where automation fits in with that? Is it part of it alongside it, though, or whatever that'd be? Much appreciate it. Thank you.

Emma Hynes: Look, Clive, I'll start on demand and mix, but I think Kevin will definitely supplement what I have to say on that. And look, we've been really pleased with the performance of our categories and the resilience of demand, where we are. We have seen very narrow sort of pockets of impact on demand actually, where inflation has gone through. The example actually that I'll use here is sort of supply to place salads and coleslaw in particular, has seen quite a lot of inflation go through and impact on price, and we are seeing a volume impact of that.

But more broadly, we're now seeing it across the place. We're working with SKU range actively and consistently with our customers. We're right through the period to help mitigate inflation. So there will be an impact on mix depending on what goes into products and I think maybe Kevin can talk to that a little bit more.

Kevin Moore: Yeah, Clive, I'd supplement it probably with three points. We're not seeing a huge level of movement in mix at this point. There is some movement, which is really interesting. So we're seeing a little bit of movement into certain categories towards both premium and valued, similarly to kind of some of the patterns that we saw in 2008, 2009, but nothing significant.

I'd also say that what's interesting is our grocery businesses remaining very buoyant as well, which would always be a reflection of a period like this, and that continues to be strong. And then I think the other thing I'd point out, Clive, is that the discount segment continues to see levels of growth. And that's also pretty evident to us in some of the data that's coming through in some of our categories.

But are we seeing a material shift in terms of mix of products and the kind of products that being bought? Nothing at this stage that is material, but we are very, very mindful of that. And we're staying very, very close to that, as we – especially as we manage the mix of products in the factories to optimise our output.

Clive Black: On the labour?

Kevin Moore: And on labour, I'd say two things. I think the first thing I'd say, Clive, to your point on automation is this remains an extremely critical part of how Greencore thinks about its future and is a significant element of Better Greencore. That phase and how we think about that is being worked through as we speak, and how that applies across our categories. It won't apply equally. But it is definitely something that's core to what we do.

In terms of labour, actually, the key element of Better Greencore on labour, which is I think something that the both we and the industry is kind of learning more effectively from is how we think about the retention and the control of labour volatility and movement. That is a key theme for us and has been a key theme in the first half of this fiscal, and actually is one of the reasons why we've been able to say confidently that our position on labour has been strong. I think that's been a real important move for us. And again, that engagement piece and that retainment piece will remain a critical element of a Better Greencore as we go forward.

Emma Hynes: And Clive, we'll have talked about it probably in November, all the things we were doing, all the hygiene factors around onboarding, how we train people, how we make sure they're onboarded and integrated. Because the first week – first two weeks are critically important, but actually measuring whether you retain them at the end of the first 12 weeks is really important. And there's a big focus right across the business over the last couple of months on onboarding and retention.

Clive Black: Just one supplementary, if I may. Are you seeing that in your labour turnover data that you could share yet?

Kevin Moore: We're definitely seeing it in – so if I was to take the movement over the first half, Clive, what we're seeing is the level of attrition that we've seen is significantly reduced. What's important here is that we don't kind of declare complete victory. What we are seeing, though, is a significant improvement in all of those metrics, whether that be recruitment, or whether that be retention. And retention is the one that we've actually become more obsessed with as we've gone through the first half. And this continues to be really positive for us.

The point I would make, Clive, is that, obviously, this is very, very regionally based. It remains that. There are areas and pockets of the UK where that continues to be extremely competitive. But I would say in those particular areas, we're doubling down and using a variety of levers to make sure that that works. But to Emma's point, the key focus here is about retention, and how we make sure we onboard people effectively and we make sure that people are inducted appropriately. And we're taking our time to do that in the right way, even if that's a little bit more expensive than we would have previously been used to.

Clive Black: Much appreciated. Thank you, Kevin, and Emma.

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

Doriana Russo (HSBC): Yes, good morning, everyone. I have got a couple of questions. The first one is on top line. You said you went through several ways of recovery inflation. So what sort of pricing increase shall we include in the revenue growth that you have booked for the first half? That's my first question.

And the second question is on the Better Greencore, sounds like the programme is already started. You said that you expect some important changes to be delivered already in this current year. Can you give us a little bit more details in terms of what exactly you're working on? And also, what sort of – at what point do you think you might be able to announce further improvement that could be expected beyond FY24, beyond the £30 million that you just announced today? Thank you.

Emma Hynes: Okay. Thanks, Doriana. So, look, in terms of top line, what we have talked about is an impact of – we're saying teens inflation for the full year, and we have said high single digit inflation impact in the first half. And when we think about, well, where has that played through to volume, or sorry, where has that played through to price, we're seeing an overall impact into price in the first half of something close to that high-single digit number.

There is a bit of a lag, and we've called that out and we've talked about the £10 million impact overall of various factors in the first half, but we're seeing quite a significant component actually come through price in the period, and we expect to see more come through in the second half as we see that ramp up of inflation hit in the second half.

In terms of Better Greencore, look, the £30 million number we've talked about is what we have done all of the detailed work on mapping out and looking at the path forward on that. There are further phases, but I think we'll talk about exactly what those numbers are at a later date. We think there's quite a lot of value for us to go after on that. But for now, we're focused on implementing the £30 million delivering that in FY24 and starting to scope out the other phases as well.

Doriana Russo: Can I just – sorry, can I just ask you if there was a material difference between the pricing that you've taken in food to go versus the pricing that you might have taken in the other category in the first half?

Emma Hynes: No, there isn't. We're not seeing a difference in recovery across the categories in – really for us is around timing of recovery on some of this.

Kevin Moore: Yeah, I think to scale, Doriana, is purely based on the volume we've got. I think in terms of overall percentage of inflation, I'd say they're very similar across categories.

Doriana Russo: Okay. And if I may ask a follow-up question with Better Greencore. So did I misunderstood when you – I think you mentioned that there were some benefits that were already coming through from Better Greencore. And therefore, my initial question was really in terms of what area have you already started to tackle as a result – as part of the overall three-year plan?

Emma Hynes: Yeah. Well, look, we've already started to tackle overhead. And some of that will come through in the form of headcount. And we're seeing an exceptional charge come through related to that. A component of that will be redundancy, but also in terms of operations – operational performance and output optimisation and a lot of work we've been doing in that respect, which is helping us deliver some repeat volumes.

Doriana Russo: Thank you.

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

Martin Deboo (Jefferies): Yeah. Morning, everybody. It's Martin Deboo at Jefferies. The key issue for me in the guidance seems to be what it implies about H1 versus H2. And I completely get that you're capable of having a much better H2 than H1. And I'm reassured by what I hear on pricing recovery, labour optimisation and cost savings.

But sort of the other side of the debate is you need – to make consensus really is what you guys you need £60 million of EBITDA round numbers in H2. And there have only been three occasions, I think, in the past when you've delivered that sort of number in H2, all in much more benign times than now. Or to put it another way, you need probably 7.5-8% margins. And again, you have delivered that in H2s in the past but only in more benign time.

So I think probably the constructive question I should ask is, what are the moving parts of either H2 versus H1 or H2 versus H2 last year that gives you the confidence you can deliver this £60 million or so of EBIT that consensuses is looking for relative to this morning's result?

Emma Hynes: Martin, it's a fair question. Certainly, we've looked at £60 million ourselves extensively, and looked at the factors impacting half one actually and how they're flowing through to half two. And look, I think it's been well documented in supply chain and labour availability challenges that are in the market and have impacted through half one. We've done a huge amount of work around inflation, which we've talked to this morning and recovery of that.

But in terms of labour, and onboarding and stabilising, where we are from a labour perspective and are feeling good about where we are as we're coming into summer peak. We've done an enormous amount of work on operations for our Better Greencore programme to really look at how we're optimising what we're making, where we're making it, and really enabling the delivery of some repeat, because we can see that volume uplift coming through as well. And it's how we do that effectively.

And there is some impact of the new business in the period that we're starting to see enable delivery in the second half. So it is a challenging environment. We'd absolutely recognise that, but we're feeling that we are managing those challenges as best we can, and that we're starting to see the improvement in conversion come through as well.

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

Charles Hall (Peel Hunt): Morning, everyone. Can I just ask a bit more on the volume trends in food to go? Obviously, you've said that you are 95% of pre-COVID levels in H1, and that includes a decent amount of inflation. How are you seeing volume trend going forward in the existing business?

Kevin Moore: Thanks, Charles. I might just take that one quickly. I'd say in the first few weeks of half two, we remain very encouraged by where volume is sitting, certainly on a like-for-like basis, certainly in food to go. But also, as Emma touched on earlier, in the majority of our categories, where to this point, our demand profile continues to build.

Look, we're very, very mindful of what is going on in the broader market. We have seen retail pricing movements in many of the categories. What I describe at this point is at a sensible level. And actually what is not manifesting itself is any material change in our demand profile, as I said, in my section, that we remain encouraged by where that is. And food to go continues to now move towards an improvement versus 2019 on a like-for-like basis. And that has to be encouraging for us, considering the basis of where we've been for the last 18 months.

So I'd say we're very, very confident. And when you bear in mind that we sat here in November, certainly with a position of not quite sure where that demand would sit, I'd say that as the profile of working from home and consumer dynamics have played through, we're encouraged and we remain very positive on where that demand will flow through.

Charles Hall: That's great. And one other question, if I may. When you were taking on the new business, comments was that it would take some time to lift up to similar margin levels to the rest of the business. Where are you on that margin journey for the new business?

Kevin Moore: I might say – I'd say, look, we were very acutely aware that some of that business was definitely at a more dilutive margin level than our core business that we've been operating with for a longer period of time. I'd say two things to that, Charles. I'd say number one, that margin is improving and continues to improve as we get used to operating with them. And in that particular channel, whether that's with range simplification, whether that's with delivery models that become more simplified, whether that be moving from five or six days a week delivery to three days a week delivery.

So we are just getting used to being able to be more granular in that particular category. So it's applying all the things that we know and have learnt over the years from the grocery channel into those areas. So I'd say they're improving, and they'll continue to improve as the Greencore model gets hold of them. That – whether that applies through efficiency of manufacturer, whether that applies through the way in which we procure and think about the supply chain more effectively, or whether that's also helping them with their own demand profiling.

So I think that will continue to take time and evolve, but it is definitely improving, and will continue to do so.

Emma Hynes: And I think just as a reminder, the significant component of that new business is distribution revenue. So you do have a different margin profile attaching to that.

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

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

Damian McNeela (Numis): Hi. Morning, everybody. Damian here from Numis. Couple of questions for me, please. First one, I think you've talked about the cost recovery and the progress that you've made there. But I think, Kevin, you've sort of talked about the inflation that has gone through on shelves. Are you able to quantify that, and perhaps provide some colour about how much further you might expect the shelf prices to go up, please?

And then the second question is around the CapEx around Better Greencore. Can you – I know you sort of said you're going to spend it over two years, Emma. But can you give us a bit more granularity on the phasing of that in the context of wider Group CapEx as well, please?

Kevin Moore: Thanks, Damian. So if I just take the pricing question narrowly, what I'd say we have seen around – if I take food to go first, I'd say we've seen around 300 SKUs move maybe in our top ten retailers by an average of about 15 pence an item at this point. And in addition, in food to go what we've also seen, as many of you will have probably lived through, we've seen some movement in the meal deals across the market as well.

And two things have happened there. One, we've seen an average movement in price of around about 50 pence per deal. And secondly, we've seen a very sensible approach as part of our own approach to inflation mitigation, a level of simplification across the range, so not a broad availability of all SKUs being involved in the meal deal. Retail has been much more selective about that. So there's been some movement from that perspective. And pleasingly for us, as I say, we've not seen demand change.

In fact, we've also not seen in a lot of cases in the meal deals not many of the triggers reduce, i.e., the demand in that particular area continues to be held.

And then if I move to ready meals, again, similarly, probably around maybe across the top five retailers, we've seen 300 SKUs move by an average of, again, 15p to 20p an item. Again, at this particular point, we've not seen movement. We've also seen some movement in kind of weight distribution. So many of the retailers have started to move products from between 425 and 450 grams down to 400 grams as well, as part of the product resizing piece.

So there's a variety of things that are playing through at shelf, which, again, I'd say two things too. One, the retailers, I think, are being very sensible about that in terms of how they're managing it. And secondly, it's really, really important from us from a category perspective to stay very, very close to that in both terms of how consumers are behaving a bit to the question earlier on from Clive, in terms of whether the mix is going to change. And I think that's a really important thing for us to stay close to.

And then also whether or not overall demand change, at this particular point, we've not seen any movement from that perspective.

Emma Hynes: Yeah. And look, in terms of CapEx, I think we might just talk more broadly about the overall CapEx number. We'd have previously said that we expect to spend about £80 million this year, and then £60 million into '23. That'll probably come down a bit this year to the tune of something between £70 million to £75 million. But then in '23, we are going to see a number a bit above the £60 million is how we think about.

Damian McNeela: Okay. Thank you both. That's pretty clear. And then perhaps just one last one in terms of industry consolidation opportunities. I mean, the balance sheet is clearly in a much better place than it was. Are you seeing greater opportunities for consolidation, or is a sort of not really much to do there and the focus is really about sort of driving Greencore forwards organically?

Emma Hynes: Look, our near-term focus has been on driving our economic model and things like recovery of inflation, managing the labour pool, and delivering on our Better Greencore initiative and we're more inwardly focused right now. And once return starts to come through, that's when we would start to think about broader sort of industry consolidation and things like that.

I mean, it's part of our strategy. It has always been part of our strategy. But for now we're focused on delivering within the framework of the business we have today.

Damian McNeela: That's great. Thank you.

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

Nicola Mallard (Investec): Morning. Thank you very much. A couple of questions from me as well. Just finally, on the Costa new business wins. Can you give us an idea of the timing of when that came in? Did it actually help the first half at all? And if not, what are we expecting for sort of full year contribution, given that you said, I think you've commented that it's going well so far?

And secondly, the return or recommence with value to shareholders. You said that's initially going to be in the form of a share buyback. I mean, I'm going to seem to share price might change that. But are there any other triggers that would encourage you to switch from a buyback to dividend? Thank you.

Emma Hynes: Yeah. Thanks, Nicola. Look, I mean, I don't think we can give specifics on exactly what contribution of Costa is. But I mean, if we think about that delivery of the second half, new business, including the incremental cost to businesses, is certainly a component of that as we look at profit build through the second half. I mean, it landed just at the end of half one. So we won't have seen an impact of it in those numbers at all.

In terms of share buyback, look, what we do is retain flexibility around mechanism. So we're announcing up to £50 million of return to shareholders over the next two years. If share price changes materially, yes, we'll have a look at that. But our view today is that share buyback is the right mechanism, and we will keep that under review.

Nicola Mallard: Great. Thank you.

Operator: There are no further questions, so I will hand the call back to your host for some closing remarks.

Kevin Moore: Great. Thank you, everyone, for joining us this morning. Very happy to engage with you thereafter in further calls. For this morning to say thank you and goodbye.

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

[END OF TRANSCRIPT]