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# **Greencore Group plc FY22 Results Presentation**

Tuesday, 29th November 2022

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## Greencore Group plc FY22 Results Presentation

### Welcome

**Gary Kennedy:** Good. Good morning, everybody, and you're all very welcome, both for those physically here and also the people that are online. I'm not the main event, so you only have to put up with me for a couple of minutes. I will just highlight the fact that we have forward-looking statements. I'm just going to do a quick intro and a quick summary of the year, then I'm going to hand over to Dalton, who'll firstly give us some insights in terms of his first couple of months with the business. We'll go into the financial review with Emma, and then Dalton will come back to talk a little bit more about the future in terms of Greencore.

### Executive summary

So maybe if we just move on to the summary chart. So I was trying to find a word, really, that sort of summarised Greencore and particularly summarised maybe 2022 financial year. I have a dear colleague on the board who hates the word 'resilient', so I'm not going to use that one, even though I've already used it, but I would say 'robust' is how I'd describe the year, and when I look back on my tenure in terms of Greencore, I think it's a good term to describe the company, because we typically do what we say we will do. We take opportunities when there are innovation or commercial opportunities, but when things are tough, whether it's the financial crisis back on '06-07 or even, indeed, what we've had to sustain through COVID and recovery, we are a robust organisation, so I think that's my overarching comment in terms of it.

I think also, like, when you look at the environment through financial year '22, we tend to forget some of the challenges that we had, you know? Like, the first two quarters that we were involved, we still had COVID. Omicron was very evident – had a big impact on our business. We faced into huge inflationary pressures. Supply chain challenges, supply chain deficiencies, bit labour shortage. So the – you know, it's been a fairly meteoric year. There seemed to be weekly events happening, whether that was the unfortunate passing of the Queen or rail strikes. There was always something in terms of disruption.

So that's the environment that we've had to live through. I think what's really positive in terms of the year are a couple of things. One is, I think, the demand volume side has been really positive, and I think it validates our position in terms of food to go and food for later. So I don't think there's – you know, there's been a lot of talk about movements in the mobility index, but when you see the restoration in terms of our volume and growth, I think that's a validation of the segment that we're in. I think, from an operational perspective, like, we've had to move through a constrained volume delivery to our customers into unconstrained volume, but, more importantly, we've really clawed our way back up in terms of our customer service level. So we're back in the high 90s in terms of customer level – customer service levels, which is really important to us. We've also, from an operational perspective, like, we've fully recovered the inflationary challenge that faced us and was evolving through the year. That's either been through recovery or through mitigation with our customers, and I think that's really important. Our own people have been really instrumental in really solving the supply chain challenges that we've had, and they were daily, and I think that's been incredible.

We have had a focus on onboarding new business as efficiently as we can. We've completed our strategic CAPEX programme in that regard. And I think, when you look at it, it also allows

us to expand our channel reach, and also product diversification, which again, if you go back to our capital markets day in '19 – 2019, those were two things that we had identified as strategic opportunities.

So the other thing I think's significant through the year was that we launched Better Greencore. So, like, we have transformed our organisational model. It's gone into a fully functional role. That's still evolving and settling down, but it allowed us to announce a 30 million benefit around people and organisation which will manifest itself fully in 2024. And I think there's a lot more to come under Better Greencore. We've talked about the other two phases. '23 will see the launch of the output optimisation phase, and we have a technology enablement phase to come, so those – they're really important component parts as we move forward.

I think the other thing from 2022 financial year – like, our balance sheet is really strong, you know? We've had to go through a liquidity bolster through COVID, but when you look at the liquidity – sorry, the leverage outturn in terms of '22, it's really positive. It's really strong. It's allowed us to look at capital return. We've done the 10 million, and we'll talk a little bit more about where we're heading for. So I'm really pleased about that.

So the one area that's still work in progress is our economic model recovery, you know? And I think we've made significant progress there through financial year '22 when you look at the margin improvement, when you look at the second-half absolute profitability and you look at some progress that we have in return on invested capital. You know, we are in transition in terms of our economic model, but it is work in progress and we've got to remember we are at a point in a cycle.

So this is the last time you're going to have to put up with me here. I just want to sort of issue a couple of thanks before I hand over to Dalton. Big thank-you to all of you. I mean, I've really enjoyed the challenge, the rigour and the support. I think that's really important. Big thank-you to our customers. Without them, we're nothing, and that continues every single day in terms of Greencore. A big thank-you to my colleagues for their relentless focus and dedication in terms of what they do on a daily basis. I've got Kevin and Emma here in the – in the room, in particular. You know, the triumvirate of the three of us in the last 12 months has worked well, so I really thank them for their support and leadership. And my conclusion on Greencore has been: really enjoyable experience, but the future is all in front of us, and I really do think there's an exciting future and the – I've really enjoyed working the first couple of months with Dalton. I'm really pleased with what I see, and I've no doubt that that excitement will get converted into reality under his leadership. So, Dalton, hand over to you.

## Introduction

**Dalton Philips:** Thanks, Gary. That's the first time I've heard Gary talk about, you know, potential departure. Certainly, internally, we don't see it that way at all. It's business as usual, and he's on us like any good chairman is. So I'm not going to say any words of thanks yet, because you're still very much firmly in the role.

### First impressions

But look, I – it's very nice to be here in person. Appreciate you all coming in, and, you know, some of you I know well, some of you I don't know at all, so I'm looking forward to getting to know you and working with you. So thought what I'd do is I'll give you a little bit of – just an

introduction on my first impressions. I'm on – I'm on page 7 of that slide deck, and I'll just stick to one slide, and then I'll hand over to Emma. But, first to say, look, I've been in the business nine weeks, so very early days, and I've been really fortunate, because Kevin and Emma have really allowed me to join the business and to do what I set out to do, which was to listen, to learn and to see. And I was just speaking to Martin, actually, before, over coffee at the beginning, and I've really had this opportunity to get into so many of our plants and spend time with so many of our people, and I've been very fortunate, so I really want to just express my thanks to both you, Kevin, and Emma for allowing me to do that.

### **Very excited to be here and encouraged by what I am seeing across our business**

So in a moment, look, as I said, I'll hand over to Emma, but I want to just give you, you know, my initial perspective, and I'll start with a couple of thoughts with you. Firstly, I'm really excited to be here and encouraged by what I've seen so far. Let me share a bit of my background for those of you that don't know me. Food is absolutely in my blood. My family owned a poultry business in County Wicklow, which is about an hour south of Dublin, and I spent many, many hours on the line in my youth in that poultry business. So, as a child of the food industry, I've obviously been aware of Greencore. It's an iconic Irish business, for those of you that have spent time in Ireland. You know, Greencore is this huge brand, less known here in the UK, but a huge brand there. And I've also obviously worked with Greencore from the other side when I was at Morrison. So my impressions then of a dynamic and efficient business that was fanatical about servicing its customers, and Kevin and Patrick would be all over me as a customer back in the day – you know, that hasn't sort of diminished whatsoever. So, when the opportunity arose to lead Greencore, it was an easy decision to take, and so much of what I've seen so far has cemented this positive view – the role we play in UK food, our strong leadership team and the exciting opportunities we have for future value creation.

In my time over the last nine weeks, I've been right across our business. I've visited nearly all our plants. I've met with hundreds of colleagues in person, be it on the line or through the listening groups I've been running, and in each plant I've run a listening group without the management in the room. I've also spent time meeting with our top 150 leaders, be it through functional deep dives or through the fortnightly leadership calls that I've been chairing. And furthermore, I've met with our largest customers to hear first-hand what they see in our business – how they see it, what we can do better for them to serve them better. And, each and every week, I've been sharing a weekly video with the business on what I've been up to, areas of focus for me, and encouraging all team members to reach out to me directly with their ideas or concerns, and that's been very positive. So I've started to get a bit of a flavour for the business and the challenges and opportunities.

### **Our business is resilient, and I am confident that we will thrive despite macroeconomic challenges**

Secondly, although we've facing some pretty significant headwinds, our business is built on some very strong foundations. And I've just been struck how strong Greencore is. In the last years, you know, we've obviously been through a range of different challenges, from the pandemic, Brexit, Ukraine, you know, driving, obviously, the highest inflation in living memory. Yet, despite all of this, we've been remarkably strong, taking action to improve performance. We're now producing more volume than ever before, with our out – with our recovery outpacing the broader market. We've won new business, with customer relationships that are now

broader and deeper – and we might talk about that later – and we've also got a very robust balance sheet, reducing leverage now lower than pre-pandemic levels. So I recognise that this is not yet translating into strong shareholder returns – something that I'm absolutely clear needs to change. We clearly have to chart a path back to pre-pandemic margins. However, I'm confident, with the right interventions, we've a business that is fundamentally well positioned for the future and which can deliver the returns our shareholders expect.

**There are opportunities throughout our business, which we are going to chase at pace and with zeal**

Lastly, despite the challenges we're facing, there are significant opportunities for us. Since joining the business, I've seen a number of areas which give me confidence. We've put to bed the post-COVID volume recovery question, which now gives us the space to face into tough questions on the profitability of our portfolio and our conversion efficiency, which obviously will be a major near-term focus for me. We're helped here by plenty of growth headroom, with existing and new customers to go after, thus giving us choices on capacity allocation. We're also doing a good job on inflation recovery, and all in FY '22, as Gary said, and continue to engage constructively, if not at times a little robustly, with our customers.

So I'll come back to discuss these themes in more detail. What I'll do now is hand you over to Emma, and we'll go through the '22 results.

## Financial Review

**Emma Hynes:** Okay. Thanks, Dalton, and good morning to everyone, and thanks for joining us in the room and on the call today. My overarching focus during 2022 has been pretty simple: to work on progressing our economic model and returning the business to profitable and cash-generative growth so we could accelerate effectively out of COVID. I'm really pleased with the results we've delivered, noting that 2022 has been a year of significant challenge, with substantial inflation to recover, labour availability issues and supply chain challenges, particularly in the first half, and that then followed by extreme weather events in the summer, combined with disruption from rail strikes. We've a lot of detail to cover over the next few slides, but I'll first reflect on our key financial metrics on slide 9.

### FY22 key financial metrics

So the first metric is pro forma revenue growth, and our strong recovery is clear, with revenue up 29.4%. As we noted in the first half, we were back comfortably above pre-COVID levels in food to go and remained well ahead of pre-COVID levels in our other convenience categories, so we delivered real progress in year-on-year profitability, with adjusted operating profit of 72.2 million, up from 39 million last year. And this was also reflected in a significant improvement in adjusted EPS to 9.2p, up from 5.5p due to earnings growth. We'd free cash inflow of 58.7 million in the year. We're very pleased with this, as we delivered a more normalised working capital inflow having exited the COVID period. And we continue to make real progress on deleveraging to 1.5x, which is approximately half a turn lower than at the end of FY21 and has now reached our target leverage of 1 to 1.5x, which was rebased from 1.5 to 2x post COVID. We've a lot of detail to cover now over the next few slides, but I'll – sorry – sorry, if I just think about that 1.5x to 2x pre COVID, actually the leverage at September '17 was 1.8x, so we're actually lower than our September '19 leverage at this point. And finally,

ROIC at 8.4% has increased 390 basis points from FY21's 4.5%, so we're really pleased with the continued progression, while recognising it's still below the historic levels.

### **Much improved year-on-year performance – strong revenue growth and margin progression**

So, moving to slide 10 and the detail of the half one income statement. Our reported revenue grew by 31.3% in FY22. Now, that was mostly driven by recovery in our food-to-go categories. And pro forma growth was a little bit lower at 29.4%, and that's after adjusting for the impact of the 53<sup>rd</sup> week in 2022 and the disposal of the molasses business in quarter one in '21, and for some movements in foreign exchange as well. Our adjusted operating profit rose by 33.2 million to 72.2 million, with year-on-year profit conversion improving as volumes recovered, and, look, I'll run through that in more detail in later slides. So, in this context, FY22 operating margin was 4.2%, compared to 2.9% in FY21, which, while still below historical levels, showed continued progress, notwithstanding the substantial inflationary environment in the year.

So, moving further down the income statement, adjusted profit before tax increased by 37.2 million to 59.8 million due to the operating profit increase and to a reduction in finance costs as well. The exceptional cost in the year was principally related to our Better Greencore reorganisation programme and represented a cash outflow in the period of about 13 million. And then, from an earnings perspective, we reported 6.2p basic EPS and 9.2p adjusted EPS.

### **Strong revenue momentum across food to go and convenience categories**

So, on the next slide, I'll look at our revenue performance, and we were delighted to deliver pro forma revenue growth of 29.4%, given the level of volatility and the trading environment we had to manage our business through in 2022. Pricing effects were in – were in the mid-teens right across the group. Most of the revenue increase was in food-to-go categories, where we saw pro forma revenue increase of 35.2%, which was driven by the volume increase due to the full-year effect of new business onboarded in FY21 which continued into 2022, and then the continuation of the ramp-up of the underlying business to pre-COVID levels. The strongest growth rates were in sandwiches and in those customers that have a balanced mix of urban and suburban locations, and inflation had a low-teen impact on food-to-go categories in-year. We're also really happy with our revenue performance in other convenience categories. Revenue grew by 19.2% on a pro forma basis and, you know, volume was broadly flat year-on-year, with inflation recovery and new business driving the revenue growth – the numbers, and that was particularly in our Irish ingredients trading business.

### **Continued progression in operating profit conversion despite challenging environment**

So, if we just turn to profitability on the next slide, so – because you know, for KPI purposes, we focus internally on the absolute level of adjusted operating profit, which increased from 39 to 72.2 million in-year, and we're really pleased with this outcome, as we delivered these year-on-year improvements while managing through the impact of substantial disruption in the period. And, look, it may feel like just a memory now, but in the earlier part of the year we were – we were impacted by the emergence of the omicron COVID-19 variant, which impacted the food-to-go market and did hold back profitability in December and, particularly, in January. We experienced extensive supply chain and labour availability challenges, particularly in the first half, and we did invest a little earlier than normal in the year to secure labour availability

ahead of product launches and our peak season trading, which was the correct decision for us, and it did support strong summer service levels. Then, later in the summertime, we were impacted by the extreme weather conditions as the chilled food supply chain experienced temperatures which it was just not set up to withstand. There were also multiple rail strikes to absorb and – as well as the effect of the unexpected bank holiday in September. And, you know, all of these items combined had probably about 3 to 4 million impact on profitability in that last quarter. And, in addition, we're in the process of commissioning our new ready meals production unit, and we're dealing with some start-up disruption to operations and, look, this has been complicated due to the challenges associated with building a factory during COVID-19 and the supply chain issues that we had to work through at the time. So, look, in this context, we're particularly pleased with the half two component, which was an increase from 38.9 in half two '21 to 55 million in half two '22, having absorbed, you know, the effect of all of those factors. And that outcome compares with the half two FY19 outcome of 61 million, which market commentators will have noted was a challenging target, you know, absent those factors. And it's also important to note the margin outcome for the year, which is a 130 basis point increase in adjusted operating profit margin in the year, of which there was a 50 basis point increase in adjusted operating profit margin to 5.7% in the second half. And people will know that we're seasonally second-half-weighted in that respect.

### **Effective recovery of inflation through a challenging environment**

Now just moving on to slide 13, which focuses on inflation. And, look, while this is a scale of inflation we haven't experienced before, our market strength and our customer partnership model has underpinned what we feel is really impressive management of this challenge. And, look, I'm pleased to note that we've fully recovered inflation in the year. The challenge isn't over as we end 2022, and we'll continue to focus on the same recovery mechanisms in 2023. So we've provided some direction on the composition of the inflation. The largest element, as you would expect, is raw material and packaging, where we do have explicit pricing recovery mechanisms in place with a number of our customers, and the other elements are being recovered through a combination of constructive dialogue with our customers and also operational efficiencies. So we work with our customers on multiple initiatives to manage inflation, which includes range alterations, packaging redesigns and product reformulation. So what I'd say is it's a very collaborative and constructive approach, moving in lockstep with our customers, and our purchasing expertise is also really important here. It gives us early visibility on pricing trends and gives us the flexibility to adjust rapidly across ingredients and suppliers if required. And inflation is increasingly being reflected in consumer pricing at this point across all our product categories, so we – you know, we continue to monitor that closely to assess whether, you know, we are seeing demand impact by those price points changing.

### **Adjusted EPS growth driven by increased profits**

Now if we move further down the income statement and, briefly, to the composition of EPS growth and slide 14, you can see that improved profitability was the primary driver of growth in the period, and reduced interest costs partly offset the impact of a higher effective tax rate.

### **Positive free cash flow in FY22, as anticipated with strong conversion**

And then, if we just move on to slide 15, which outlines a waterfall of free cash flow movements in FY22, so working capital was an inflow of 2 million, which reflects a more normalised year-end position now that we've exited COVID-19. Maintenance CAPEX at 16.9 million was broadly

in line with the prior year. And then exceptional cash flows of 13.6 million were largely due to Better Greencore, which we noted and half one. And, look, the other line items were much as expected, resulting in a free cash inflow of 58.7 million.

### **Free cash inflow, offset by strategic CAPEX, share buyback and FX drives net debt decrease**

So, bringing all of this together on slide 16, there was a 3.1 million decrease in net debt, excluding lease liability, since the end of FY21. We spent 33 million on strategic CAPEX in FY22, up from 24 million in FY21, as we revitalised our excellence agenda and supported our initiative to onboard new business from a key customer. We also completed a substantial proportion of our 10 million share buyback programme in the period, and that concluded in October. And, as a result of all of this, we ended up with net debt excluding leases of 180 million, compared to 183.1 at the end of our last fiscal year.

### **Continued financial resilience through FY22 leverage delivered within Group target range**

So, if we just move on to the next slide to our balance sheet, leverage and liquidity position. As I – as I mentioned earlier, our leverage as measured under our financing agreements reduced to 1.5X at year end, and that reached our target range of 1 to 1.5x. And this, as I said earlier, is lower than our leverage of 1.8x in September '19, which was pre COVID. And this balance sheet strength is also reflected in our cash and undrawn facilities, which stood at 398 million at year end, and our weighted average maturity of debt, which was a healthy 2.5 years. And, look, in this time of focus on pension fund investments, I think it's also useful to draw your attention to the funding position of our legacy defined-benefit pension schemes and the reduction in our net pension deficit. So there was a 25.7 million reduction in the period, and our actuarial accounting net deficit after related deferred tax now stands at 10.4 million. And this was driven by an actuarial gain on our UK scheme liabilities as discount rates increased, and our Irish scheme remained in net surplus throughout. So, from a funding perspective, the schemes have also performed well. The UK scheme funding position has improved by 20.8 million in the period, and there has been no requirement to supply incremental collateral to support its hedging position, and that hedging position remains intact. The triennial actuarial valuation is due in March 2023 and, based on the current funding position, the pension deficit contributions are expected to remain unchanged from where they are today. The Irish scheme remains in funding surplus, and we're now in the process – in fact, we've just concluded the purchase of annuity contracts to insure the pensioner liabilities, and that represents 80% of that liability. And following the completion of that, there remains a very healthy surplus to manage the remaining liabilities in that scheme. So, overall, our annual cash funding requirement for pension schemes is modestly below the previously guided levels of 15 million, so, look, we've very pleased with where those pension schemes are sitting, actually, given the volatility of the last number of weeks.

### **Strategic capital investment programme**

Now, if we just move to slide 18, looking – and we talked about this earlier in the year. In a real step change for us, we've continued to invest in our ready meals and salads portfolios with the onboarding of new business from one of our existing key customers. We've talked about the overall detail before. So it was a strategic capital investment of about 30 million, involving capacity expansion at three sites in Kiveton, which is in Sheffield, in Wisbech and Boston. And



we've now onboarded this business across all the sites, with commissioning ongoing. We are experiencing some challenges in volume ramp-up, and our focus is on delivery of output and driving efficiency to our target levels now in half one. The launch involved adding about 70 additional SKUs to our portfolio across ready meals and salads. The expansion of the site at Kiveton has increased our overall network capacity by about 30%, so it is a meaningful increment to our existing footprint, and this is the type of investment that we've executed successfully with multiple customers over the years, and it's a tried and trusted approach for all parties involved and a hallmark of our customer partnerships.

### **Capital management framework**

So, moving on to slide 19. With our balance sheet in a good place and our financial model improving, we continue to have confidence in our model, and our longer-term reference point for all of our thinking continues to be maintaining an appropriate level of leverage for a business of our size and maturity in our type of industry. And we've now reached that target range of 1 to 1.5x. Our intention remains to return 50 million of value to shareholders over a two-year period. We've already completed the first 10 million of that, and we plan to return another 15 million in 2023. And we'll be guided by our own capital management policy and market conditions as to what mechanisms we use as we deploy this return of value to shareholders over time, but this phase will be in the form of a share buyback, as we believe it remains a good use of capital, given the current valuation. We've of course reserved the right to be flexible around the future phases of the value return and whether it would take the form of share buybacks, a reinstated dividend or a combination of both.

So that concludes my section. In summary, I would say that we're happy with our full-year financial performance and it gives us a strong platform for future delivery. I'll come back in for Q&A, but I'll hand back to Dalton now.

## **Initial Perspectives**

**Dalton Philips:** Thanks, Emma. So let me now share a bit more about the potential I see, touching on our key markets, our consumers and my first impressions of Greencore, before focusing on our near-term priorities and some of the medium-term opportunities I see.

### **Our size and scale enables us to play a unique role in feeding the nation**

So, if I turn to page 21, our size and scale enables us to play a unique role in feeding the nation. We produce 1.2 billion food items annually, which can be found up and down the country, from large supermarkets to motorway petrol stations, providing consumers with fresh, great-tasting and comprehensively priced products. Supporting one of the largest food manufacturing networks in the country is a unique distribution network, with a Greencore site located within an hour of 90% of the British population. All of this plays a key role in the British food industry, with over £500 million spent annually supporting British farmers and packaging businesses.

### **The UK sandwich market has been resilient to macroeconomic headwinds**

If I turn to page 22, I mentioned the theme of resilience earlier, and I've been really struck by just how robust our categories are. While we have faced questions about rebounding post pandemic and coping with the current cost-of-living environment, I think it's telling to look back at just how well the market held up in previous recessions. This chart shows that, during the

past recessions, sandwich growth barely skipped a beat relative to the longer-term growth average. This gives me confidence that we can successfully weather the current headwinds.

**Our markets have grown well and Greencore's recovery has outpaced both, especially in food to go**

Turning to page 23, more recently we see food to go recovering well, with the overall market shown in the grey bars, forecasted to reach 103% of 2019 values this year. Despite changes in working habits towards more remote and hybrid working, food to grow rate – food-to-go growth has rebounded strongly, noticeably in suburban locations. We're also seeing the grocery retail market settling at a materially higher level than pre pandemic, with lots of headroom to grow further. In all of this, Greencore has had consistent outperformance, recovering stronger and faster than our markets, as shown by the green bars. Our food-to-go business has outgrown the market by 20 percentage points when indexed to 2019, while in UK grocery retail we once again outperformed a strong market by 15 percentage points.

**We have observed strong market performance despite record inflation in sandwiches and ready meals**

Turning to page 24, this performance is clear when looking at demand, despite record inflation. We've seen a 14% year-on-year sandwich retail price rise in the 12 months to Q3, yet at the same time market sandwich volumes grew 10%. What's clear is these products provide great value for money at a time when every pound counts. Likewise, ready meal volumes have weathered unprecedented inflation. Since Q3 2021, prices have increased 16%, but we're only seeing a modest decline in volumes, which are still higher than pre pandemic. Together, this data on inflation and past recessions gives us confidence that we are well positioned not just to weather the current macroeconomic challenge but thrive as consumers seek good, fresh food with value for money top of mind.

**Pre-packaged sandwiches are the go-to out-of-home lunch option with a unique value proposition**

You can see on page 25 some consumer research specifically on the sandwich market. This data is clear: sandwiches are a mainstay of the British diet. 57% of the UK population buy pre-packaged sandwiches at least once every fortnight. We offer a unique value proposition in quality, convenience and competitive pricing. A sandwich meal deal is 20% cheaper than an equivalent in QSR, and one in three regard pre-packaged sandwiches as one of the best value-for-money lunch options. As a result, 35% of sandwich consumers don't even consider another option, and pre-packaged sandwiches are the number-one out-of-home food option consumed more than once a week.

**Our business has disproportionate exposure to outperforming food-to-go channels and white space to go after**

Page 26 shows we are well placed for future growth, supported by a health channel mix. On this chart, we can see IGD's prediction of food-to-go growth, broken down by channel, and, to the right of that, Greencore's exposure to these channels by share of revenue. There are three takeaways here. One, the market is projected to grow strongly, at close to 5% CAGR, over the next three years. Two, Greencore is disproportionately exposed to the highest-growth channels. And, three, there is still white space for us to pursue. We made some gains in the coffee channel through COVID, but there are still plenty of opportunities beyond our grocery heartland.

**Our performance is supported by distinctive capabilities across the value chain**

Turning to page 27, I want to now transition from our markets to Greencore itself, where I've been impressed by the capabilities I've seen in the business, right through the value chain. Firstly, we have privileged, highly integrated customer relationships across the fastest-growing UK food-to-go players. We've also regained our position as the number-one private-label chilled convenience supplier in the prestigious Advantage survey, as rated by our customers.

Two, there's a really strong food DNA running through the business. Despite taking conscious actions to simplify our organisation and product portfolio, we still developed some 800 new and refreshed products last year – many of them, of course, award-winning – and this is all supported by a food development team of nearly 150 people.

The third point is our distribution footprint, which enables us rapid delivery with over 10,000 daily drops across all British coast code – British postcode areas, from factory to shelf in as little as 12 hours.

Number four, we mix speed with precision and consistently adhere to the highest standards, scoring 100% on the A and AA ratings in BRCGS audits for the fourth year in a row.

Number five, our business is supported by a scaled manufacturing network producing a whopping 3 million products a day across our 15 product categories. So that's an average of 35 products a second coming out of our facilities day in, day out.

And, number six, we're supported by a 14,000-strong team where we are continually driving engagement, and this year our engagement scores grew 2 percentage points despite all the headwinds I described earlier. So, taken together, these capabilities are not easily or cheaply replicable, so they give us confidence in our unique proposition and long-term position in the market.

**Our immediate priority is driving core performance to rebuild profitability and cash generation**

On page 28, you'll see that we are leveraging these capabilities with laser focus in the near term, where our priority will be driving core performance to start to rebuild our profitability and drive cash generation. So, firstly, we'll enhance our manufacturing efficiency through improvements to labour performance and automation across our network. We continue to make investments in operational efficiency, most notably in sandwich automation but also through initiatives to unlock latent capacity and drive-up utilisation. Secondly, FY23 is forecast to be another year of record inflation. However, we're building on solid foundations and have a clear playbook for price recovery that we had from FY22, where we've recovered, as you know, this – recovered this either directly through pricing or offsetting through our excellence programmes. We're working with our customers to both mitigate and recover inflation and increasing the share of inflation that benefits from automatic pass-through via contractual commodity trackers. Thirdly, we're working to simplify our portfolio. In the near term, this will mean reducing product complexity throughout our ranges. To give but one example, we use over 20 different plain mayonnaises across our group. This creates significant complexity across our operation, so we're working on simplifying this to unlock value for us and, of course, for our customers. And fourthly, we'll continue to deliver on phase one of our Better Greencore programme. This is a multifaceted transformation targeting 30 million of benefit by FY24 across people, overheads and capacity. We've been making strong progress already, with the

successful implementation of a new functional operational model, both to help our efficiency and manage our cost base. Alongside this, we're also making headway on a range of initiatives to reduce overhead costs in everything from standardising PPE to tightening our equipment spend controls. We will combine these immediate-term actions with longer-term planning to set the trajectory for our future performance.

**Over time, we will focus on five key areas across our business to further build profitability and drive shareholder returns**

Now, if I turn to the longer term on page 29, over the last nine weeks I've also observed several areas where I believe we can do much better to drive meaningful change to our performance and longer-term outlook. These are areas that I'm going to put a laser focus on over the coming months. As I said in my introduction, this is a business whose profitability has suffered materially. We have a strong and robust top line, but our ability to convert this into pounds, shillings and pence has been compromised, and this needs to change.

*Operational excellence & efficiency*

Firstly, on operations, there's a real opportunity for us to build on the foundations of Greencore manufacturing excellence to deploy a truly world-class operational model. Our new COO, Lee Finney, will be instrumental in this, and although he, like me, is pretty new in the role, he's really hit the ground running. Together, we're building a perspective on how we can deploy a reinvigorated view of excellence across five pillars, including, number one, driving up overall equipment effectiveness or OEE. This is the metric that measures the full 24/7/365 utilisation of our assets. Off the back of this, we can optimise utilisation and efficiency within our factories and across our product set, grounded in a clear fact base. We'll also enhance our network and supply chain management by building a digital twin of our assets. Alongside this, we'll put in robust processes for early equipment management care, and, finally, we'll drive efficiency within our distribution network. These interventions will support the delivery of our sustainability strategy too, with particular near-term focus on managing utilities and food waste.

*Customer & Portfolio optimisation*

Secondly, beyond the tactical interventions on ranging and ingredients mentioned previously, we'll also be reviewing our customer and category portfolio in the months ahead. Across all customers and products, I want to take a long, hard look at what is driving profitability and how we can enhance this further to get the right margins. In particular, we'll be looking at who is using our capacity. I recognise that, in the past, we may have priced marginally to drive up utilisation. However, in a world where we are producing more volume than pre pandemic, we can be more selective and assertive about how we deploy our capacity, because this capacity doesn't come cheaply. To put this in real terms, just after I started, we made a decision to exit a material ready-meal contract rather than renew on unacceptable terms without full inflation recovery. We did this because we believe that we can deploy this capacity, over time, more efficiently and profitably elsewhere. Now, of course we can't shrink to greatness. When taking these kinds of – these kinds of tough decisions, we will need clarity on profitable growth opportunities against which we can deploy this capacity, which is a parallel work stream.

*Capital discipline*

Thirdly, I want to ensure we take a very disciplined approach to capital investment and allocation. I'm acutely aware that, at a ROIC of 8.4%, we're not covering our cost of capital,

and this clearly needs to change. While over time we'll look at – over – whilst – excuse me. While, over time, we'll need to look at all growth and margin levers, first and foremost, my focus will be on doing everything we can to enhance performance from our existing assets to drive returns. Alongside this, I'll also want to understand the profitability and returns profile of the different assets that we hold. I'm already seeing variations across the portfolio. I want – although it's early days, I'm keen to understand what drives this and the potential actions we can take to make meaningful change.

#### *Technology investment*

If I now turn to the fourth area on page 30 and, whilst mindful of the point I just made on capital discipline, I want to take a good look at how we use technology and what opportunities there are to do better. I appreciate I'm still only a couple of months into role, but I've seen some really clear opportunities in this area while touring our sites. Our IT landscape is complex, to say the least, with eight different ERPs in place. Our systems are also pretty dated. Until earlier this year, we still had Windows 2003 live in certain parts of our network. Now, that's not to say that we don't also have pockets of technology distinctiveness; we do. For example, we recently developed in-house a dynamic 'should cost' analysis tool to ensure our purchasing teams can secure the best possible deals on supply. All in all, I think there's a real opportunity to ensure our technology supports our value creation ambitions, which in time I believe can become a real source of competitive advantage for us.

#### *People engagement*

Lastly, but significantly, I'll be very focused on engaging our people – all 14,000 of our colleagues – to ensure we're all in it together on this journey. I'm very cognisant that our front-line staff have a tough job, which is often shift work on their feet. Perhaps unsurprisingly, we have high levels of staff turnover which add significant cost to the business in recruitment fees, duplicate training, loss of productivity – the list goes on. My early sense here is that this provides a real opportunity for us. With direct labour spend of close to £300 million a year, small movements here will make a big difference to our P&L. Beyond the front line, I also think the reset earlier this year of our organisation from five disparate business units to one functional team will help us drive a single best Greencore way of working. I'm also encouraged by the high-calibre team that we're building. I've been well supported not just from experienced hands like Kevin and Emma but also from a new crop of Greencore leaders who I'm thrilled to be starting this journey with. For example, as mentioned, we have Lee Finney as our new COO. Damien Moynagh has recently joined as general counsel and company secretary. And, of course, Leslie Van de Walle due to come on board in January. I'll also be spending a day and a half with our top 50 leaders in person next week to reset how we're going to work together and make sure we're all crystal clear on the priorities I've just outlined.

## **Outlook**

Turning to page 31, and to summarise, I'm both excited to be here and by what I'm seeing across the operation – by what I'm seeing across the operations, from our scaled and precise manufacturing to our unique customer relationships. Our business is robust and well positioned in so many ways. We're in strong, recession- and inflation-resilient categories and provide consumers fantastic value for money. And, despite our challenges, we have significant opportunities to go after across our business, from the people to portfolio and operations, with

a talented, engaged team to do so. We've a strong top line, but our profitability is not where it needs to be. However, I'm confident that, with the right interventions, we can grow both our top and bottom line, and this is what is going to get all my energy and focus as we move forward.

### **Outlook – we have a positive outlook for the years ahead**

If I turn to page 32, specifically to the outlook, and you'll note in the presentation we've added some additional details on page 38 to help with your modelling in the appendix. So FY23 will be a year of further substantial inflation, and we're working with our customers on recovery and mitigation. We continue to make decisions on customer contracts. We will remain focused on the execution of our Better Greencore change programme and will now plan for the second phase. Revenue performance is holding up in the early weeks of this new year. However, we remain cautious about the potential impact of the recessionary environment and cost-of-living factors. And finally, the board is confident that a continued focus on the strengths of the business, underpinned by our resilient balance sheet and the efficiency and productivity gains related to our Better Greencore programme, will support the further successful progress of the Group in the years ahead.

So, with that, I'll conclude the presentation, and we'd be really open to taking any of your questions. Thank you.

Right, shall we kick off? Martin, do you want to – see your hand coming up first, so...

## **Questions and Answers**

**Martin Deboo (Jefferies):** Yeah, I've got a couple. Maybe the fair thing is to ask one and come back to me later. Dalton, just picking up on everything you've just said in the last few minutes, so I know it's a first draft, but I'm going to try and pin you down a bit more. I'm reading it as a margin, returns and cash story going forward, because everything's – and that's not a – no criticism implied. I'm just trying to get a rise out of you, you know, because it's not – not so much about top-line growth. You're saying the category's resilient; it's all about driving efficiency, portfolio optimisation – Am I hearing you correctly, I guess is the –

**Dalton Philips:** Yeah, I think in the short –

**Martin Deboo:** I'll come back for another one later on.

**Dalton Philips:** Yeah. Look, I think in the short term you absolutely are, because our – you know, we're not covering our cost of capital. There's 200 basis points that have been shipped out of late, and I think you've got to earn the right to grow. And, you know, we have very – you know, we're in resilient categories, as you know. We've got good volume growth in our food-to-go categories. Food for later is a little bit tighter at the moment, as we talked about. But until we can start getting back to where we should be, I think there's no point in me coming back to our shareholders and saying, 'We're going to grow in these different categories or channels', because there's a lot of self-help here, and I think that's to be a priority.

**Martin Deboo:** Okay. Very clear. Thank you.

**Dalton Philips:** Here we go Andrew[?].

**Andrew Ford (Peel Hunt):** Is that working? Morning, all. Firstly, well done on navigating a tricky year and welcome, Dalton. Just a couple of questions from me. In the statement, you talk about sort of noting a mix effect between categories. I just wondered if you could explain sort of what you mean by that – sort of a bit of detail around there. And on costs through FY23, can you give us an idea of what sort of cover, if any, you've got in place?

And maybe similar to what we see on Slide 13, the distribution between where those costs are coming from and the weighting of recovery there?

And lastly, on the security incident that you mentioned in the results, can you give some detail as to what that was? And I note it's not going into exceptionals, so is there a sort of recurring element of that? Thank you.

**Dalton Philips:** Yeah, so look, actually, I'll probably throw most of that to Emma, but we clearly have a mix effect going on between the Food for Now and the Food for Later and, you know, and that obviously throw – flows through. I don't know if you want us to talk specifically to FY22 on that. I can come back on FY23.

**Emma Hynes:** Yeah, I mean, look, we've talked in Food to Go about some mix effect, where we've seen volume come back to the business and then we see some negative mix impact, which is, you know, as we look at some of the sub-categories within Food to Go, but also when we look at all our customer set and sort of relative levels of complexity and relative margin performance for us, so this is what Dalton's talking about in terms of looking at how we've allocated capacity and making sure that we're getting value for all of the capacity that we've allocated. So we're going to look at mix closely but we're also seeing, you know, from a consumer perspective different choices being made around what products they buy. We'll have talked about it earlier in the year where we'll have looked at, you know, less Food to Go salads and more sort of pasta-based salads as consumers make, you know, choices around the types of products that they're going to buy and those higher-premium products that come at a higher price point have seen lower demand in yearend, and I think we're watching that pretty closely now as we go into the winter. And Dalton can pick this up, but things like sushi, we're seeing less demand for that, and you know, more demand come through for our ambient sauces, which are seen more as a component for people quasi-scratch cooking at home.

**Dalton Philips:** On the – you might want to pick up on some of the costs and I'll just pick up the security. It was a – we got hacked. Cost us – you know, we had to deal with all just the disruption of all of that. There's no reoccurring coming back.

**Andrew Ford:** So it's nothing to obstruct you [inaudible] the IT systems to [inaudible]?

**Dalton Philips:** Look, we've got – as I said, we've got work on our IT platforms to do, but it was an incident. We've worked our way through it. Not unusual for many companies to have had similar incidences.

**Emma Hynes:** I – yeah, I think what I'd say is we had a breach. We moved to contain it pretty quickly. We mitigated the impact on customers very, very quickly. We were also insured, which is why you'll see a fairly limited impact on the P&L, and we will have done an enormous amount of work since then too to make sure that, you know, there's an appropriate level of containment in place.

**Dalton Philips:** Did you have a specific other cost that I didn't get though?

**Andrew Ford:** I mean, I guess maybe on the – with regards to the IT.

**Dalton Philips:** No, was there a third?

**Andrew Ford:** It was just on the recovery profile, as in the distribution between – well, I think firstly the distribution between raw materials, labour, etc, but then also the recovery. I think you had about 90% recovered through price and, yeah, 8% through internal efficiencies. Is that balance shifting in FY23?

**Dalton Philips:** I don't see it shifting, and Kev, you might have some thoughts on this. I certainly don't see it shifting at the moment. It's – you've got high inflation in terms of ingredients and packaging, you've got high inflation in terms of labour, wage rates, and so, you know, the majority of that we'll get back working collaboratively with our supply chain base. I mean, you know, you've got pass-through mechanisms, so we've got a very high percentage of pass-through mechanisms. You've obviously got efficiency programmes in place, like Greencore Excellence that we've talked about. You've obviously got the one-to-one conversations on when there's inflation coming through the tracker that's not on a tracker, obviously we have one-to-one conversations. You've got range rationalisation. You can obviously have strong conversations up and down the supply chain, because obviously we're a big customer for many people as well. And then finally, you've got hedging in place. So I don't... And those are the – you know, those are the six tools we used in '22. We'll be using them in '23.

**Kevin Moore:** Yeah, I'd probably make a couple of observations on some of that, Dalton. I think the first thing is, if I think about last year and I think about this year, we're already well ahead of where we were this time last year. We're used to it. It's not that inflation's new to us, but bearing in mind where we were last year, we're significantly through. I think, to Dalton's point, there is a series of levers that we've got. Clearly, there is more volume going through pass-through models this year than there was last year, which I think is really important for us and I think we've evolved that really well.

I think the second area is that retailers, despite what you may or may not hear more broadly, are very understanding and sensible about the fact that we are facing into inflation and clearly, we have to work together on that and the level of collaboration continues to be very positive. The next area is – and Dalton's touched on it here earlier in terms of one of the areas of technology investment – it's around how we think about our buying model itself, because inflation's not just a one-way street. We obviously have to think about that back down the supply chain. And I'd say that we're continuing to get efficient in that, and that's – whether that be the balance of where we get those ingredients, how we get those ingredients, is really important.

And then the final area is around specification and ranging. And a great example of that, well, this Christmas we've launched probably 10% less SKUs into the Christmas range, and year-on-year that range is performing better than it was this time last year. So, we're just getting more efficient and more smart at dealing with inflation more broadly is what I'd probably say to that.

**Emma Hynes:** And if people could just say their names for the transcript, please.

**Patrick Higgins (Goodbody):** Thanks. Patrick Higgins from Goodbody.

**Speaker:** Oh, Patrick.



**Patrick Higgins:** You mentioned you've walked away from one unprofitable ready meals contract. Is there any other business currently under review and maybe how should we think about the impact of that lost contract in terms of revenues or profit or maybe additional capacity?

And then the second question is just on the commissioning problems in the new ready meals unit. What are the main issues there? How quickly can they be resolved? And I guess, is there any penalties that you could be charged with if you don't resolve them quickly?

**Dalton Philips:** So, why don't I – I'll just take the Kiveton and then maybe next you, Kev.

**Kevin Moore:** Yeah.

**Dalton Philips:** So look, on Kiveton, you know, as Emma said, you know, this is a tried and tested model of working with our customers, making material investments into new capacity for them. Kiveton is absolutely state of the art, but building a state-of-the-art plant during a pandemic with global supply chain challenges has not been without its challenges. And specifically that, Patrick, you've got a lot of different kit. It's a highly automated line, so you've got a lot of different kit that needs to talk to each other. Now, often this kit – you know, it's not from the same manufacturer, so getting them to speak the same language can be challenging. And because of the global supply-chain issues, we had to make some decisions on equipment that we might have, you know, normally got equipment piece A and we've actually bought equipment piece B from somebody else, so we've struggled to stitch it together. We're not comfortable with where we are. It is obviously material, which is why we're talking about it. Lee[?] is all over it, but I think we're going to be dealing with this through H1.

And obviously coming out into H2 we should – you know, we should have all this rectified. I think in the longer term, you know, we'll stand back and say 'Did we make the right decision by putting leading-edge technology into this category?' Absolutely. The challenge always – and this is the debate you have – is, you know, do we go leading edge, which can at times be bleeding edge, or do we go with tried and trusted? But you've got to push on. You've got – and I would really admire the team for pushing on and trying to be ambitious. And I think we'll work our way through this and we'll be stronger for it, because we'll have a – you know, I mean this is highly efficient, we should take the guys – we should take you around it at some stage. It would be very interesting. In terms of customer choices?

**Kevin Moore:** Yeah, I think my reflections would be that the first thing is we were, certainly in the – if I look back over the last three years, we've been in a period of recovery and finding volume. We're now in a period where we're just valuing our capacity in a slightly different way. And the decision on the specific piece of[?] business was the right one for us. We're in a world of inflation and we need to recover inflation and, as Martin's [?] question alluded to, and Dalton's response was that we're in margin recovery mode in certain categories. This was a particular category where we made a choice that we didn't want to continue with this particular piece of business. And I refer you all to 12 months ago, where there was a particular piece of salads business where we gave notice on and a relatively low level of margin. None of you will be surprised to know that that particular piece of business has now come back into Greencore at a much higher level of margin, and therefore I think the approach that we take with valuing capacity and the price at which we charge for that capacity is absolutely critical to our future, and that's exactly what we're doing. So, we'll continue to look at the business in that way.

**Dalton Philips:** And I think we just need to look at the complexity, because we've taken on customers, which can be very complex. I think 50% of the runs out of [?] one of our salad lines, you know, that 50% of the items, the line only goes for 30 minutes, i.e., we've got constant changeovers. And I think those are the sorts of areas where we've got to look at and say – it's like the mayonnaise example, going from 23 to nine, or I think we're going from three duck suppliers and types of duck to one, three croissants to one. All of that complexity just costs money and we've got to take it out and – or at least we've got to be sitting down with our customers and saying 'If we can't be compensated for it, we can't subsidise it.'

**Ashton Olds (Berenberg):** Hi guys. Ashton Olds here from Berenberg. I guess just touching on that last point that you were making, Kevin, just on that business which you dropped last year and it came back into the system, I suppose just trying to understand the market, like, from a competitive perspective, are there other options at the moment in the market where that volume might go, which you dropped? Are there people turning down business? Are there other people that can beat you on price? Just trying to get a feel for that.

I guess secondly, just on the price point of your product at the moment, you sort of said that what's reflected in the market at the moment is more reflective of inflation. And I suppose do you have sense of if that needs to go a little bit further based on where inflation is at the moment? And I suppose, you know, are retailers absorbing inflation in your categories?

And then I suppose just a third one, a little bit cheeky, but you know, no profit guidance. You know, what are you thinking directionally and what would give you the confidence to issue guidance?

**Dalton Philips:** So look, between us we'll take some of those. Look, you know, in terms of – I don't think it's a cheeky question. It's just I think we've outlined that this is a very difficult market, there's lots of challenges, there are – there's a lot of self-help in this business. We've been very clear in terms of the five levers, Ashton, where we can go after that self-help. I think we're all aligned as a senior team that there's money there and we'll focus hard on that. But it's a very complex market at the moment. I think in price point – I'll maybe hand to you for capacity and competitors, but I think in terms – and you may have a view on price point –

**Kevin Moore:** Yeah.

**Dalton Philips:** But look, in price point, I think the charts are very clear that these are two categories that have absorbed a lot of – you know, there's great inelasticity, you know, in these categories, particularly in the Food to Go. And there's been pricing that's been pushed through. You've seen the meal deal pricing continue to nudge up across all retailers. But the point is, Ashton, that you've got a 20% minimum delta between, you know, a meal deal offer out there and a QSR. And what we're seeing is just with the propensity of people who are, you know, taking on second jobs or, you know, are just working longer hours, this is a very resilient category. You can go in, you can feed yourself very quickly and very cheaply. So, the retailers, you know, and the manufacturers, everybody's absorbing some of this, because everybody is trying to do their best to protect the consumer. And when I talk to the retailers, they talk to me about how great Greencore is, the relationships, the data, the insight, the people we put on it, but they're very firm, they are really struggling with the levels of inflation being pushed through, because they are struggling to push it on. So I think we're all caught in this difficult

situation where we've got to kind of do the best we can and wait it through. In terms of capacity –

**Kevin Moore:** Yeah, and I just had one point on pricing, if that's okay, Dalton.

**Dalton Philips:** Yeah, go on.

**Kevin Moore:** I'll just give you some colour. In the last 12 weeks, the Food to Go market has grown 8%, and you've got to bear in mind that in that same period, price inflation has been 8% as well. So, these – to – going back to the point earlier on about resilient categories, they are very resilient. Is there more to go? There potentially is more to go. When Dalton talks about that 20% premium to QSR, for example. So, look, we're really confident there is more to do, but look, ultimately that's the retailers' decision in terms of what they do. What's really important for us to do is to protect our business and make sure we're getting value for the products that we've got.

With regard to market capacity, what I'd say – and I'll use the particular piece of business that's come back into Greencore or coming back into Greencore in January as an example – retailers can make short-term decisions on pricing, but fundamentally Greencore offers more than just pricing, and it's really, really important that the market in this particular country reflects that: reflects on the quality of the team, the quality of the technical service, the capacity consistency, the service levels we provide. But one of the most challenging things for us over the last 12 months, as Emma will say, has been actually getting business back to a 99.97% service level. Having that as a sensible position in fresh food sounds incredible, but that's exactly how we operate, and retailers are prepared to pay for that. So, one of the reasons I think that Greencore has been able to get the level of inflation recovery that it's got is because we've been able to give the service levels to retailers, because they can only sell product when it's on the shelf. And I think that's where Greencore benefits and values and I think the retailers respect and understand that, especially in difficult times.

**Dalton Philips:** I think in terms of capacity, there's not a lot of capacity out there in the market. I think people would have to make meaningful investments, meaningful capital investments, before we'd see more capacity in the market. That doesn't mean we're not complacent, but there's been a lot of the smaller suppliers who essentially were dormant during COVID who've come back into the market, but particularly in Food for Later, you'd have to put capital in the ground for that capacity.

**Emma Hynes:** And look, in terms of –

**Dalton Philips:** Go on, Emma.

**Emma Hynes:** – sort of forward guidance, just given the challenges we have, you know, in guiding when you think about the economic environment, what we have done for the first time is include a page in the appendix of the deck where we can give guidance on some specific items – so page 38 has got some notes to help people with their modelling.

**Damian McNeela (Numis):** Hi, everybody. Damian McNeela from Numis. Can I just follow up on the sort of perhaps your comments, Dalton, on the Food to Go market, and then Kevin, get your thoughts on where sort of Greencore's capacity currently stands, and sort of whether you think – how quickly you think you can sort of fill whatever uplift you have? And just to

clarify your comments, Dalton, on the industry capacity in Food to Go, there isn't any ready meals, there isn't any either – can you just clarify that, yeah?

**Dalton Philips:** Right. So, in – just in terms of the Food to Go market, look, as Kevin said, you know, we've got 8%, 9% volume increases at the moment, so it's very – you know, we've had a strong start to the year in Food to Go. Sandwiches obviously is the driver there. Sushi, you've got nearly 20% volume declines, for obvious reasons. This stat around it – and some of you will have it – I'm really trying to get my arms on a better stat, but it looks like there's about 5.2 million people now picking up second jobs in the country. Anecdotally, I'm hearing that could go to 10 million, and I'd be – you know, if somebody's got better information on that, great. But this second job is becoming – I think this is partially a driver of that volume growth, because you've got more people out there, less time, and the value proposition is still strong. And if – you all know if you go out and you buy the individual components of a meal deal, it's going to cost you £6 and you get it for £3.50 to £3.90 with most retailers. So, I think I would be encouraged by the category at the moment.

**Damian McNeela:** Okay, and then Greencore's capacity to sort of grow in Food to Go?

**Kevin Moore:** Well, I'd – again, I'll make a couple of points. I think the first point I'd say that puts us in a very unique position is that we've got a network of six sites. So, not every single one of those sites are what we'd describe as full. That's the first thing. The second thing I'd say is that the impingement point comes at peak, and our peak is in the middle of summer when it's really, really warm. So, one of the skills here and one of the points that Dalton's already made is this piece of work that we're doing about efficiency, rationalisation, working with the retailers around how big those ranges are, how we do changeovers, gives us scope to be okay for capacity. So, from a capacity perspective in general, we're okay. The other thing I'd say that's really, really important is this time last year a lot of our frontline employees were relatively new. Those individuals are now bedded down. When people bed down, they become more efficient. As a consequence of efficiency, our output gets better. So, from a capacity perspective, we're broadly okay. There are certain points within the network where we will make limited levels of investment to create more capacity, but for now from a capacity perspective we're actually – we're okay.

**Damian McNeela:** Okay. And just one last one from me. Just sort of Dalton, you've sort of said you're not at the right margin yet. Can you tell us what that right margin is, and also what your WACC is?

**Dalton Philips:** Yeah. So, I'm not going to tell you either at the moment. But Damian, on a serious note, look, you know, we're not covering our cost of capital. We've got – you know, we've shipped out margin for many good reasons and I think what's beholden on me and the executive team is to be very clear about the value creation that's out there, and I think we at the appropriate time need to be coming back and sharing that with our shareholders about where we see the margin and where it can get to.

**Clive Black (Shore Capital):** Yeah, Clive Black from Shore Capital. I guess just to say also congratulations on the appointment, Dalton, and congratulations on the departure, Gary. Long-term badge. Two questions just around a single subject of cost recovery, please. First of all, how do you see the shape of 2023, given that you are in a period of what looks like quite intense cost recovery again? You said you'd got '22 recovered but there's work to do.

And then, in relation to that, a lot of inflation has been passed through. I can't remember who asked the question a moment ago, but the actual resistance, not just from the retailer but the shopper, as to how much more they can take and what that means therefore for 2023 in terms of margin recovery capability. Thank you.

**Dalton Philips:** Yeah, thanks Clive, and look, Emma, I'll hand to you in a second, but look, I think that – we know that the shopper is under huge pressure and I think the Asda Index is showing that the loss of disposable income, but I go back to what Kevin was saying in terms of, Clive, on the Food to Go categories, the volume is still there. And I think it's the fact that, you know, people have to eat. And though we are seeing obviously packed lunches increase, I think it's about a 14% increase year-on-year in terms of people making packed lunches at home, but it hasn't been impacting our volumes. I think obviously we're going to see that, you know, I think sushi's going to remain under pressure, salads are going to remain under pressure, but I think in the core sandwiches we should be okay. In terms of the shape, it is clearly going to be a H2 story, but maybe you'd like to share more on that.

**Emma Hynes:** Look, I mean, what we'll have talked about in terms of shape of the year is second-half weighting. We're always second-half weighted. But I think we're doing a good job on inflation recovery so far. But it's a big number and, you know, it's as big a number as it was in 2022. So, we've got a very large proportion of it done already – about 40% of it comes through our transparency models – and then we've got a lot of negotiation to do. And you know, the big areas of increase, you know, include energy, which wouldn't typically be in our models. We've talked about that before. Some of that is coming through. So, we're going to see a lag impact on the first half on inflation recovery with more to come through in the second half and we'll do what we did this year and aim to get it all in year.

**Martin:** Thank you. Two from me, just building on what you've said, Emma, and building on Ashton's question. I completely understand why you don't want to offer guidance or a forecast for '23, but can you just walk us through the obvious moving? And I've seen page 38, by the way, but the question is EBIT. What are the obvious moving parts of EBIT you would encourage us to think about when modelling? And a technical one, Emma, is that debt maturity's 2.5 years. Would you just remind me of when your next re-fi event is and sort of what the quantum of that will be?

**Emma Hynes:** Yeah. Look, we've – I'll deal with debt first, actually. So, we've got a 75 million facility that comes up in March. That was the COVID liquidity facility we put in place, and given how substantial our headroom is, we're not going to seek to extend that. We're going to let that go and that will save us on commitment fees as we go forward as well. The big event actually is our revolving credit facility, so that's a 340 million facility and that's in place until January 2026, so we've got some smaller ones with that, and you know, we will think about how we manage average maturity as we go through, but really the big chunk is that RCF.

Then when we think about modelling and the building blocks on EBIT, I suppose, look, it's quite challenging to land given the environment we're trading in and the recessionary environment in the UK. So, we've said, you know, we're seeing, you know, some mix in demand at the moment, so encouraged in some spaces, like sandwich demand and where it is and things like ambient sauces, but we're seeing some choppiness elsewhere and we're pretty cautious about meals overall, given what the market is doing there. I mean, we're predominantly in Italian,

which is a sub-set, but we've got to wait and see how that plays out overall, because there's a decline in overall market.

When we think about inflation, it's a very big number. We've got a lot of it done, but it's going to go right out to the end of the year, so we're just cautious about that last mile actually as you get to the end. I mean, we'll have got 92% in price this year and offset the rest with our recovery mechanisms internally. We'd be delighted if we got to something like that next year, but we've also got to think as we push it through on price what that's going to do to demand. So, I think just adds a bit to that level of uncertainty. But we've also, you know, got, you know, some challenges around commissioning of our meals facility, which we flagged, and that's going to impact us through Half 1 and will be a weight to the Half 1 numbers.

And the other thing we've referenced is, you know, customer contracts and how we're thinking about them, and we are exiting a meals contract in-year, and that will have an impact, and we're reviewing other customer contracts and assessing, you know, how we're going to think about all of that. And I think, you know, we will have some short-term pain on things like that if we make decisions to exit, but I think it's the right thing to do for the business, which again, you know, does lead to some challenges on how you think about the full-year outcome, depending on when we exit.

**Martin:** Is that[?] in the 53<sup>rd</sup> week, Emma, is that in there as well?

**Emma Hynes:** Yes, there is a 53<sup>rd</sup> week this year that won't recur next year, so we don't normally give certain EBIT impact of that, but I think you probably have a reasonable estimate, Martin, of how to think about that.

**Speaker:** Okay.

**Emma Hynes:** We'll take a call, yeah.

**Speaker:** Another questions from the call.

**Operator:** Thank you. Thank you. To ask a question over the telephone, please signal by pressing star one. That is star one for telephone questions. Our first question comes from Karel Zoete of Kepler Cheuvreux. Please go ahead.

**Karel Zoete (Kepler Cheuvreux):** Yes, good morning, all. Thanks for taking the question. I've two questions. The one is on the piece on the choices for the medium term, how to recover margins and where to compete, but at the same time you have in the near term the Better Greencore programme, which also, yeah, focuses to improve efficiency. What are kind of like the differences in between the two programmes or things you have in mind? And the other thing built onto that is a reducing complexity. You provided some examples on [inaudible] different products, etc. But could it also entail really fundamental choices around segments where you play that are just less profitable or where Greencore has a more limited scale? Thank you.

**Dalton Philips:** Thanks, Karel. So look, the Better Greencore is a platform on which we can build the rest of these opportunities. So, Better Greencore is a 30 million by financial year '24, which looks right across our business. What we're talking about now is we're going to have to go again. We're going to have to look – you know, that, you know, 30 million isn't going to repair the erosion in margin and that's why we're saying if we look at our manufacturing, particularly our OEE, where we think that there's a material opportunity to improve our OEE,

it's a hypothesis at the moment, we'll obviously need to come back with the detailed workings, but we think there's a – you know, if there is a material opportunity there, if there is a material opportunity – and this leads to your second question about the segments we play in – if there are material opportunities to re-look at our portfolio, the complexity of our portfolio, who we serve, how we serve them, we will. We're not absolutely in any stage today to be talking about the segments we will or we won't be playing in, but we'll certainly be looking at it all. And I think over the years, Greencore has evolved the segments. You know, it's been in desserts, it came out of desserts, you know, it's got into salads, so it is a business that is comfortable in moving with, you know, the market, but it's too early to say at this stage. I don't know if you wanted to – either of you wanted to add anything to that. Is that okay?

**Karel Zoete:** Yes, very clear. Thank you.

**Operator:** Thank you. Our next question now comes from Doriana Russo of HSBC. Please go ahead.

**Doriana Russo (HSBC):** Yes, thank you very much for taking my question. I just want to come back to this – to basically profitability versus new opportunity. I have a sense that the priority for the immediate future is actually more to try to find areas to improve return on invested capital, improve service – maintain service level and improve the profit conversion ahead of finding new opportunities. But nonetheless, in the presentation, there was mentioning that there's plenty of room to grow. Now, am I correct that priority is profit first and growth next? And can you give more of a sense of where do you see the opportunity for Greencore to expand? That's my first question.

And my second question is on the change in relationship with clients and trying to prioritize contracts which address inflation and give you more opportunity to pass it on. So, the question is on timing of recovery. Have you changed the timing? Normally it would take you a quarter to pass on prices. Are you trying to basically shorten the time that it takes you to recover inflation and have you changed anything in your new contracts to include inflation in your favour more than, you know, vis-à-vis past practices?

**Dalton Philips:** Thanks, Doriana. Look, in a moment I'll pass you back to both Kevin and Emma on inflation recovery. We haven't changed our timing. We're trying to more on trackers and the team have done a good job of that. And you know, the timing hasn't changed. We want an in-year – all in – you know, it's – we want to be compensated for all of it. But I'll come back to that with the guys. I think in terms of the – your first question, look, the priority is to improve the ROIC and that's how we will earn credibility with our shareholder base. So, you know, there's a lot of opportunity to expand and I showed that slide, Doriana, on page 25, which showed if you just take the Food to Go categories the sort of the blue – you know, the blue sky or the, you know, the space that's out there for us to expand, but I think first and foremost let's get our house absolutely in order and let's really look at how we can be the most efficient in what we do in... And that's good for us, it's good for the retailers and it's obviously good for the consumers. And I think we've got to look hard at our efficiency, as I said, our OEE. I mean the – you know, we now have challenges. We have plants where we are now having to take outside storage to house, you know, raw materials because of the complexity that's in there. And complexity is good if you're properly compensated for it. It's bad if you're not. And so, I think that's where we feel there's a real focus. And remember, for three years there's been a huge amount of effort on a whole lot of other things, Doriana, and now it's time

to re-look at how we do things around here. So, that's the priority. There will be in time opportunities to expand. I could name five categories, which I won't do, but you know, where there's real opportunity to grow, but that's not our focus at the moment. In terms of the contracts, either of you want to add anything to that?

**Kevin Moore:** I mean, the specific point on is inflation included in the contracts – the answer is yes. I'd say that 10% more of our inflation this year is covered on trackers than it was this time last year. So, yes, that is a mainstay of how we think about that. We're also putting other mechanics into contracts as well, such as – I mean, you just take the lessons of life. So, we now volume mechanics in those particular contracts and such like. And as Emma touched on earlier on, we're trying to find ways of getting into those contracts extended areas of inflation, whether that be labour or utilities as well. So, we'll continue to evolve those and you'd expect us to do that, and that's exactly what we will do.

**Speaker:** Thanks, Doriana. Is that okay Doriana?

**Doriana Russo:** Sorry, can I ask – yeah, can I ask just a follow-on on the contracts that have been put on – [inaudible] that have been put on trackers? Can you give us a sense of what sort of percentage of total contracts is not on trackers, the way you want it to be?

**Kevin Moore:** I mean, the answer to that is I'd like everything on 100% trackers, quite frankly, but the reality of either the customer or the engagement, both ways actually, means that that's not the case. But as I say, I think the figure I could give you is that there is 10% more of the cost of goods that is now on trackers this year than it was against last year, is probably as close as I can get. I don't know if there's anything you can add, Emma.

**Emma Hynes:** Yeah, I mean, Doriana, you know, typically we wouldn't have had energy. We've got that with, you know, a couple of our customers now. We wouldn't have had labour historically and the more recent contracts we've a component of labour inflation going in as well. But you know, they're all quite different and what we do now when we're renewing contracts is we make sure actually that we do have commodity trackers in place and we look to include things like labour and energy as well.

**Kevin Moore:** I think I'd probably just say to the floor one other thing that this particular phase of our industry has generated, which is just a better level of collaboration, even more so than previous. So, how we buy, when we buy energy, we do it in collaboration with our retailers. We're talking to them about it. We're helping each other do that. I mean, this is a completely different world to where we were three or four years ago and I think the market needs to recognise that as well. The way we're thinking about inflation is not just one single lens. It is a broad-brush approach to how we think about it.

**Speaker:** Thanks, Doriana. I think we'll take more one question, because I think people need to go.

**Operator:** Yes. Our next question comes from Roland French of Davy. Please go ahead.

**Roland French (Davy):** Hi, morning. Thanks everybody. A couple of questions, if I could. Maybe one for you, Emma. If you could firstly try and quantify I guess for FY23, to the extent you can, the impact from the challenges from Kiveton and the exit of what you know in context of ready meals, if there's some timelines[?] around that.



And then the second question is for Kevin. You talked about valuing capacity appropriately, which I thought was an interesting phrase, and it might be a difficult question but what percentage of capacity are you referencing there and I guess how confident are you in achieving that objective?

And then finally, one for Dalton. I guess we've seen, you know, multiple years of heavy capital investment and clearly that's been accretive top line, but less so to returns and cash conversion. And I guess the question is, how are you thinking about capital allocation and discipline going forward? I'll leave with that. Thanks.

**Speaker:** Thanks, Roland.

**Emma Hynes:** Okay, Roland, a very specific question. In terms of disruption on what we're seeing on meals, you know, the impact is going to mid-single-digit millions of that disruption, and when we look at the exit of the meal contract, you know, when we're looking at a full-year effect you're looking at between 40 million and 50 million of revenue.

**Kevin Moore:** Should I just pick up –

**Speaker:** Yeah.

**Kevin Moore:** – on valuing capacity? I think how I'd respond to that, Roland, is that in particular categories where our service is tight or our capacity is tight, the natural thing for Greencore to do is to look at the top and the tail of those particular customers and those particular contracts. And it's around those areas where we will make decisions. Either we will reprice or we will exit, and that's something that we actually do constantly on an ongoing basis and we'll continue to do so. That's what I mean by valuing capacity in a different way. And when you're obviously in recovery, as we were at the beginning of the pandemic and building volume back, it was about finding volume. Now it's about the quality of those – of that particular volume.

**Dalton Philips:** Roland, just in terms of capacity, look, I'm going to look at all assets and what their returns are, what their capital needs are going forward, so I think that's going to be the first step. The second is to really look at what latent capacity is in the system that we may not have identified, and that goes back to the OEE and really looking at 24/7/365. And I would hope that we would be able to unlock latent capacity. That may not be the case. There's been a lot of smart people in this business for many years looking at it, but if we can, I mean, that's the best return on capital that we'll find.

**Emma Hynes:** Okay. I think Nicola Mallard has probably dropped off the call because of the treat[?] results, so I think just as we conclude, I'd recognise she's retiring and this was going to be the last call that she was joining, so did want to sort of recognise her and say she will be missed, I think right across the industry, as a very, very experienced analyst who's covered us for many, many years. And I guess what I would like to follow up with is a recognition of, last but very far from least, our Chair, Gary Kennedy, who has shown unwavering commitment to Greencore over the years. I have, you know, very much appreciated his support and encouragement over the years and, you know, through COVID and particularly in the last 12 months, where he stepped in at, you know, at great personal cost as Executive Chair at a time when he might have been thinking about doing other things. And but really wish him the very

best for the future and would like to thank him for everything he's done for Greencore and all of that support over the years. Thank you, Gary.

**Gary Kennedy:** Thank you, Emma. Thank you. Just thank you very much. It's been a pleasure.

**Dalton Philips:** Anything else before we close out, Gary?

**Gary Kennedy:** Nothing from me, no. All good.

**Dalton Philips:** Okay, we'll close it out. Thank you again for your time.

[END OF TRANSCRIPT]