Greencore FY23 Results

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Greencore FY23 Results

Operator: Hello, and welcome to Greencore Group plc Full Year 2023 Results Presentation. Please note, this conference is being recorded. And for the duration of the call, your lines will be in a listen-only mode. However, you will have the opportunity to ask questions at the end of the presentation. This can be one by pressing star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero and you will be connected to an operator.

I'll now turn the call over to Dalton Philips, CEO. Please go ahead.

Dalton Philips: Good morning, and thanks for being with us on a cold London morning. Look, I've now been in the role for just over a year. I have to say I'm absolutely loving it.

So look, I'll start with a brief summary of our performance. Then I'll hand over to Jonathan, who'll provide a more detailed analysis of the results, and then I'll return to discuss how we intend to move the business forward further. This should take about 35 minutes. And then Jonathan and I would love to take your questions, if you have any.

So if we move into the exec summary on slide five, we certainly feel we're off to a good start and have achieved a lot in the last year. Importantly, we've seen manufactured volume growth of 0.5%, which is a solid number against the backdrop of a declining grocery market, coupled with our decision to exit a number of low-returning contracts.

In particular, I'm pleased with the strong volume growth in sandwiches, growing at 3.5% and beating the wider market and highlighting our positioning in this core category. We've seen another year of significant inflation. However, the vast majority, which is in excess of £200 million has either been recovered or mitigated throughout the year. This has been alongside proactive product and customer portfolio management, allowing us to deploy our capacity more effectively.

We're taking a hard-nosed approach to how we're deploying our current assets, having already said goodbye to our Ingredients business, Trilby. And by focusing on our network footprint, we've been able to improve our operational efficiency, demonstrated by our exceptional service levels averaging 98.5% throughout the year.

We've embedded our new functional structure, having consolidated our five independent business units into one. We've created a new and what I see as high-functioning senior leadership team. We've doubled down on our cost base, an example being the removal of 350 management roles. We've begun the journey to overhaul our legacy systems with a targeted IT investment programme. We've reset our sustainability programme to ensure we hit those approaching 2030 targets.

In fact, look, I could keep the list going on with material actions we've taken in here. However, I think you'll get the point. We're a business that is trying to dial up the pace of change in order to build back our profitability and returns. And these types of key actions have ensured that we've stabilised the business.

And to that end, profitability improved almost 6% year-on-year. We've strengthened our balance sheet with a new £350 million refinancing facility, and we've returned £26 million of capital to shareholders.

So with that introduction, let me pass you over to Jonathan, and then I'll return for the strategic and operating update.

Jonathan Solesbury: Thank you, Dalton. Good morning to you all, and thank you for being with us in person and on the call today.

Since joining Greencore in June, my focus has been on stabilising the business, improving the financial performance and ensuring that Greencore is well positioned for FY'24 and beyond. Against these short-term objectives, I'm pleased with the results that we delivered in FY'23.

In my relatively short time at the company, I've witnessed the strong foundations that underpin this business, and I'm struck by the ambition and the execution of change that has been undertaken in recent months.

Greencore's biggest strength lies in its people and stakeholder relationships, and I'm really impressed by the capability across all areas of the organisation.

I have a few slides on the financial results, and I'd like to start with an overview of our key financial metrics as presented on slide seven. Firstly, pro forma revenue is up 13.5%, adjusted for the impact of the additional trading week in FY'22 and the disposal of the Trilby Irish ingredients business. Much of this growth can be attributed to recovery of inflation, although as Dalton mentioned, it is pleasing to see that this was also driven by manufactured volume growth ahead of the market.

On a reported basis, revenue growth was 10%. We have delivered an improvement in our adjusted operating profit of £76.3 million, up by 5.7% versus last year. It is worth noting that the additional trading week in the prior year accounted for approximately £2 million in operating profit. And adjusting for this, the growth would be circa 8%. Adjusted earnings per share were up 0.1p at 9.3p, support underlying operating profit growth, partially offset by an increase in financing costs.

We had a free cash flow inflow of £56.8 million over the year, marginally down from the £58.7 million in FY'22 with the improvement in EBITDA offset by increased maintenance capital expenditure and higher financing and tax costs. We continue to make progress on deleveraging with our leverage coming to now at 1.2 times, down from 1.5 times at the end of FY'22 and comfortably within the Group's target range of 1 to 1.5 times.

Finally, the return on invested capital at 8.9% has increased 50 basis points from FY'22. Whilst we are pleased with the continued progression, we've recognized that we're still below our historical returns. The rebuilding of profitability and returns remains our key focus, underpinned by a strong balance sheet.

Moving to slide eight. We have covered off revenue and operating profit metrics already, so a couple of additional callouts from the FY'23 income statement. We noted previously that adjusted operating profit improved 5.7% to £76.3 million. The FY'23 operating profit margin was 4.0% compared to 4.2% in FY'22, although this was clearly impacted by the effect of inflation recovered in the top line.

While we recognise that this is still below historic levels, FY'23's focus has been very much on stabilising the business and building a platform for future growth.

Further down the income statement, adjusted profit before tax decreased from £59.8 million to £58.1 million due to the increase in the interest rates and the consequent impact on our financing costs. The exceptional costs in the year principally relate to the reduction in roles as announced in May, with 250 roles removed from the organisation and a further 100 vacant roles removed. The cost of this was approximately £9 million with the overall annualised reduction in payroll representing a payback of approximately six months.

And from an earnings per share perspective, in addition to the adjusted EPS, we reported a basic EPS of 7.2p, up 1p versus FY'22.

I'd like to cover further detail on revenue on the next slide. With the 10% - within the 10% reported revenue growth, inflation recovery drove 11.3% of this with manufactured volume growth driving 0.7% of the revenue growth in the period. The negative 1.9% showed on the chart reflects the impact of an additional trading week in FY'22, together with a softer performance in the Irish - Trilby Irish ingredients business as well as the performance of the DTS business following the exit of several low-margin contracts during the year.

Detail by category is included in the appendix, but I'd like to briefly outline the relative performance of our two main categories. Food-to-go saw reported revenue growth of 7.9%, driven by the impact of inflation recovery of 9.1% in addition to volume growth driving 0.8% of the increase in revenue, although offset by the adverse impact of the prior year trading week of 2.1%.

We saw strong growth volume across sandwiches, wraps and rolls, highlighting the continued resilience of this category. New business was onboarded in salads, however, sushi and outsider plate volumes remain muted versus prior year.

Reported revenue and other convenience was up 14.3%, again, predominantly driven by inflation recovery. Volume was marginally ahead year-on-year, with the impact of onboarding new business driving a positive performance in chilled ready meals and growth across ambient sauces and soup categories.

Inflation has clearly been a big focus over the year. So let's turn to slide 10.

There was broad-based cost inflation across FY'23 with a total inflation impact in excess of £200 million for the year. The second half of FY'23, however, saw an easing in inflation across the Group with overall FY'23 inflation at low double digits as a percentage of our total cost base. Despite the slowdown in some areas, we also recognize the continued high rate of inflation across labour linked to the increases in the national living wage.

Inflation was proactively managed during the period with the vast majority of inflation either recovered or mitigated. Input cost inflation was recovered through our customer partnership model with pricing recovery mechanisms and continued collaborative and constructive customer dialogue. Other inflationary increases were largely mitigated through operational efficiencies, including cost control and other commercial initiatives, including working with our customers on range changes, packaging redesigns and product reformulations.

Turning to slide 11, which outlines our free cash flow movements for the year under review. Working capital saw an inflow of £2.2 million with improvements in accounts receivable and

accounts payable, partly offset by an increase in safety stock in our grocery business. Working cap management - working capital management at Greencore is good with a negative cash conversion cycle of over 40 days.

Investment in maintenance capital expenditure was £26.6 million, up from £16.9 million in FY'22, returning to more normalised pre-COVID levels. Exceptional cash flows of £10.9 million were largely due to the reorganisation with the largest cash impacts in the first half. This brought our Better Greencore programme to a close with the targeted annualised benefits from this programme realised during the year, and importantly, supporting the mitigation of labour, fixed costs and other overhead cost inflation.

Other items were broadly in line with expectations with the cash flow also benefiting from the disposal of the Trilby Irish ingredients business, resulting in an overall free cash inflow of £56.8 million.

On slide 12, we can see the impact of the strong cash flow in reducing our net debt by £26 million over the course of the year. We spent £10.8 million on strategic CapEx in FY'23, down from the £33.1 million in FY'22, the higher number in the prior year largely, driven by the investment in the ready meal subcategory. We also continued with our share buyback programme in the period, reflecting a £26.2 million cash outflow in addition to the purchase of shares for the Group's employee share ownership scheme of £3.9 million.

We ended the year with net debt excluding leases of £154 million, down from £180 million at the end of our last fiscal year. Our leverage, as measured under our financing agreements, reduced to 1.2 times at the year-end, a reduction from 1.5 at the end of FY'22 and substantially down from the 1.8 times in FY '19.

We also have strong liquidity with cash and undrawn facilities of £328 million at year-end. Although our weighted average maturity of debt fell to 2.1 years at the end of the year, we have recently completed the refinancing of our banking facilities, moving our weighted average maturity of debt to 4.5 years.

The refinancing includes a new five-year £350 million sustainability-linked revolving credit facility maturing in November 2028 with the option to extend for further two years. The facility also includes £100 million accordion option, which provides additional potential financing facilities. The strength of the balance sheet and our disciplined approach to capital allocation will guide future organic and inorganic investment, targeting growth.

Moving on to slide 13 and capital allocation. We continue with our targeted leverage range of 1 to 1.5 times. We will prioritise internal investment to support growth and development of the Group, which includes maintenance and strategic CapEx, investment in technology and sustainability programmes. We will look to continue shareholder returns through buyback and/or dividend.

Finally, as previously mentioned, the ongoing value return of up to £15 million, which commenced in October this year, will complete the commitment of £150 million return of capital to shareholders that was announced in May 2022.

So that concludes my section. And in summary, I'll say that we are pleased with our financial performance in FY'23, which gives us a strong platform for future profit growth.

I will return for Q&A. Now I will hand you back to Dalton.

Dalton Philips: Thanks, Jonathan. So let's turn to slide 15. I look at this year and beyond with real confidence that we can grow and deliver enhanced returns. We're building off some very solid foundations.

Firstly, we play in attractive markets and we typically win. We're number one in sandwiches, the number one player in Italian ready meals, the number one in own-label ambient cooking sauces and the number one in own-label sushi. And in categories where we're not the number one player, we're normally the number two. Our largest category, which is food-to-go has typically outperformed the wider grocery market, and we believe this trend is likely to continue.

Secondly, we have long-standing, deep partnerships with every major retailer in the UK across numerous categories. It's hard to imagine a more testing time for these relationships, given the multiple crises of recent years, yet in every conversation I have with retail CEOs, they're asking us to do more, not less.

Thirdly, we've got that really solid management team I mentioned earlier. There was a lot of change, particularly at the top of the house, and this new leadership team is really bedded in with a clear focus on what needs to be done.

Fourthly, we've strong innovation capabilities and a network of well-invested facilities that allows us to create those great new products that customers really want to consume.

Finally, we continue to strengthen our balance sheet and cash generation, giving us the strategic muscle for future investment and progressive shareholder returns.

All these things mean that our business is robust, and we're now in a position to rebuild that lost profitability and set our business up for the future. Before speaking to that future, let me orientate you on how we see the market, which you can see on slide 16.

The key point on this slide is that we're well-positioned and have outperformed key categories in the last year. The overall grocery market in volume terms declined by 2.7% in the past year with the backdrop of a challenging inflationary environment and the cost of living crisis.

Encouragingly, food to go, which is our biggest market, outperformed the grocery market by 2 percentage points with a decline of 0.7%. And this market is forecast to return to growth with a CAGR of some 3% through to 2028.

You can see on the right-hand side of - right-hand side that our growth as a Group and specifically our sandwich business was positive and outperformed these key market categories, which I believe demonstrates the resilience of our business even in challenging times.

Let's turn to slide 17. At our last interim results, I shared the framework we're using for our recovery, which is based around three horizons. As a reminder, Horizon 1 was about stabilising the business, and I hope you saw from Jonathan's presentation that we've definitely done that. Horizon 2 is all about rebuilding profitability and returns, which we see as a three-year journey. And Horizon 3 is about priming for future growth. This will be a longer-term focus on Horizon 2 to ensure we expand into high-growth products and channels, and we'll start this work in parallel with Horizon 2.

Turning to slide 18, and as a recap of Horizon 1. In order to stabilise the business, we pulled three levers across revenue, cost of goods sold and fixed costs. First, as discussed, we had

positive relative volume performance across our key categories, and we were pleased to have been able to recover inflation or otherwise mitigate it throughout the year.

Through this process, we continue to proactively manage our product ranges and our customer relationships, being unafraid to professionally but firmly end relationships with customers where we didn't believe we were have been fairly compensated for the value we created. In fact, let me put that in context. We actually resigned about 5% of annualised contract value last year, yet we still managed to grow manufactured volumes by 0.5%. This, in turn, unlocked capacity for us to sell at a more profitable level.

We kick-started a new operational excellence model under the leadership of our new COO, Lee Finney. This model enables us to capture some low-hanging fruit. There's lots of examples, often small in themselves, but the aggregate became a material number. For example, unlocking capacity in our ambient sauce factory in Selby that we could then resell or delivering improved sales forecasting, thereby lowering waste in our largest ready meals plant in Warrington, or for example, streamlining direct labour, resulting in higher colleague productivity at our Wisbech meals plant.

In parallel, we had a critical look at our central management cost base and made significant headcount reductions. This work in FY'23 clearly allowed us to stabilise the business, which now means we can shift our focus towards our second horizon of rebuilding profitability and returns.

So turning to slide 19. We recognise that there is still a material gap in our performance relative to our peak in 2019. You can see that gap in the operating chart on the left. And on the right-hand side, you can see the simple Horizon 2 framework we've been using to guide how we will rebuild over the next three years. This frames choices on where we play, how we win and the kind of enterprise-wide investments that will enable us.

We have clear targeted action plans against each one of these initiatives, which will drive significant upside in terms of both profitability and returns. Let me take you through this in further detail.

Starting with our portfolio on slide 20. We recognize that levels of profitability and returns are varied across the Group. This is true of different customer contracts, different sites and different product categories. We're addressing this in a structured way, analysing the returns on capital from each parts of the business and holding them to a clear bar. It must generate a return above our cost of capital. If not, it's not sustainable for our Group in the longer term.

With our customer contracts, we're rationalising low-returning contracts and thinking hard about how we allocate capacity. With our sites, we have a commitment to turn around, repurpose capacity or scale back business in underperforming sites across our manufacturing footprint, which will also enhance returns. And in our products and categories, we're deploying the same tactics to improve returns.

For example, in our longer life salads business, we've really improved our profitability through better operational performance via things like improved machine reliability and much lower waste levels. In our direct to store, or otherwise known as our DTS business, after a couple of really difficult years, we've stabilised our performance through a number of operational improvements, such as picking reconfiguration, overhead reduction and fleet and fuel efficiency.

These sorts of examples of disciplined rigour into the detail, and look, we have many more right across the network, really does enable us to build back those returns and profitability levels that the business once had.

Turning to slide 21 and looking at our commercial excellence strategy, which will be driven by new initiatives across volume and growth, cost management and price and mix.

Firstly, in terms of volume and growth, we spoke earlier about being exposed to structurally outperforming categories in markets like sandwiches, and we expect this trend to continue. Alongside this, we will deepen our existing partnerships with selected customers and build a strong pipeline of new format innovations. We launched nearly 400 new SKUs into the market last year. On average, these SKUs had a 1 percentage point higher margin than our core portfolio.

Furthermore, 46% of shoppers buy new, more premium food-to-go and meals propositions have been new to the category, which demonstrates the value of this innovation for growth. At the same time, we're acutely focused on costs. We're challenging ourselves to ensure each product earns its place in our portfolio. This effective range management enables us to reduce complexity. For example, by producing 9% fewer products, we were able to drive 10% more units per product.

We're also broadening coverage of our inflation pass-through models on labour and enhancing our procurement process to ensure that as inflation moderates, we're able to capture it as quickly as possible.

On pricing and mix, we're remaining focused on customer selection and in resetting our approach to product development, enhancing the efficiency of each launch and ensuring that we're deploying our resources in the right areas. For example, we see an increased trend in consumers buying into premium offerings. Premium sandwiches have grown 34% in volume in the last year versus a core market that has been flat in volume.

As a consequence, we've expanded our presence in this market with examples like our freshly prepared range in M&S or our kitchen deli range in Sainsbury's. Identifying and focusing product development in these high-growth areas enables us to improve our pricing and product mix.

Moving to operations on slide 22. We've been deploying a continuous improvement methodology called Greencore Manufacturing Excellence for some time. This has historically been a principal driver for offsetting inflation in cost lines, which were not directly recovered from customers. However, in recent times, this methodology and the scale of intervention was insufficient to offset inflation. As such, we've totally reshaped our team and are deploying a new methodology to deliver efficiency improvements and cost savings right across the business.

The process has four steps. Firstly, we've been running what we call factory model diagnostics across the network to identify opportunities for improvement, in particular, focusing on any quick wins that we can achieve.

Secondly, we've selected four sites to act as pilot centres of excellence. These sites were chosen as representative of our business. And together, these four sites cover about 50% of our cost of goods sold. Thirdly, each site will pilot a specific pillar of our new operational excellence model. So each site is deploying new methodologies in either material waste, labour planning, supply chain planning or engineering.

Finally, the sites will each build up capabilities, develop best practices and new ways of working, which in turn will be deployed rapidly across the network. This new operational excellence methodology will be underpinned by new management control and reporting system to gain granular insight into site level performance. It will also be supported by our migration to a new zero-based budgeting methodology, something that Jonathan has deep expertise in.

Now turning to slide 23. We've grown through acquisition, but without integrating our IT infrastructure. As a result, we have a complex and disparate ecosystem without standardisation of processes, systems or data. In practice, this means we're not as efficient or as responsive as we should be.

And we've decided to tackle this head-on through a focused investment plan. An important foundation for this was the delivery of an upgrade to our core ERP last month. This ERP is the backbone that sits behind 12 of our 16 manufacturing sites. So in October, we upgraded the estate from the 2006 to the 2022 version, thereby unlocking 16 years of potential new capacity without missing a beat in terms of customer service. And we'll progressively migrate the remaining four sites to the system with the target completion of all sites being on one standard platform by FY'26.

We also launched seamlessly earlier this month a cloud-based HRIS people system, which will give us the ability to manage labour, resourcing, people costs and people processes to a whole new level. The truth is you can't manage effectively 14,000 people without these sorts of systems. So this is a real game changer for us.

In aggregate, we'll be investing some £10 million in technology this year. We're very conscious that this is a material OpEx investment, but we're also approaching this, I believe, in a pragmatic way, focusing on progressive controlled change versus going big bang, which we're just not ready for.

If I turn to slide 24 and the sustainability agenda, which is becoming ever more critical for our growth. We focused and have built our strategy on three pillars: Sourcing with Integrity, Making with Care and Feeding with Pride. Within these pillars, we're focusing hard on four areas: energy, food waste, communities and healthy and sustainable diets.

Some key call outs, we progressed last year and our priorities ahead. Firstly, in FY'23, we reported on our soy footprint for the first time and kicked off Scope 3 engagement with those suppliers who have a high environmental impact, particularly animal protein suppliers.

Secondly, we're putting specific focus on improving our energy and water KPIs, both of which have not been where they need to be.

Thirdly, we've evolved our partnership with Mondra, which enables us to create a formulation footprint for each of our products, allowing the comparison of the potential environmental impact of different recipes. And finally, we'll continue to develop partnerships with our key customers on our healthy and sustainable diet strategy as well as addressing our current data challenge on packaging.

Underpinning all of this, we've deployed a new ownership model to bring accountability back into the line so that individual senior leaders are on the hook for specific programmes and targets. In parallel, we've also invested over 1,000 hours in climate literacy right across the business and stepped up considerably our data and reporting.

Turning to slide 25 and looking forward. Our third horizon is focused on driving further growth into our business. Of course, an important part of this will be to continue to broaden and deepen our relationships with existing customers. However, we have an ambition to further lift our growth trajectory.

As I said earlier, we're encouraged by the outperformance that we see in our core categories, but we also recognise that they may not return to the same high growth rates of the past. To really drive growth, we will need to evolve our portfolio and diversify our category, channel and market exposure. This will inform our investment agenda.

In the first instance, this will be about developing new higher-returning product opportunities - higher-returning opportunities with existing customers. In parallel, we will also look to organically build share in attractive adjacent categories or channels which complement our manufacturing and distribution capabilities.

Where there is a compelling rationale to do so, we will consider augmenting this over the medium term with acquisitions, which are consistent with this agenda. We'll be sensitive on the timing of execution. We cannot wait for the completion of our Horizon 2 profitability rebuild to begin to make growth investments. But we also recognise that Horizon 3 must build on the strategic flexibility created in Horizon 2.

What I mean here is that by progressively enhancing profitability and returns in our existing business, we will help to build the credibility and the balance sheet required to win in new markets.

Turning to slide 26. And in summary, you can see that we're encouraged with the progress to-date. Our focus for Horizon 1 was on stabilising the business, which we've done. As we move to Horizon 2, our focus shifts to driving returns across our portfolio. With urgency, we're making the decisions to rebuild our profitability and I feel we're on a good trajectory.

In parallel, we have real ambitions for our Horizon 3 agenda. A healthy balance sheet gives us strategic flexibility to invest in future growth. And this will strengthen further as our profitability rebuild drives increased cash generation.

And I'll briefly turn to the outlook on slide 28. We've exited FY'23 with a more stable business underpinned by strong foundations to drive further and future delivery. Our focus remains on returning the Group to historical levels of absolute profitability across our Horizon 2 strategic framework.

As part of this, we're investing roughly £10 million in technology upgrades in FY'24. We're pleased with the start of the year. And although it's early days, we remain confident in delivering FY'24 within the range of current market expectations.

So thank you for your time this morning. And now what I'd like to do is open it up for any questions you might have.

Questions and Answers

Dalton Philips: Great. Michael, you’re going to do the honours? Charles, you might just - for everybody, say your name. Just

Charles Hall (Peel Hunt): Charles Hall from Peel Hunt. Dalton, you talked about the – wanting all the businesses to deliver their cost of capital. And given the rise in interest rates, can you just update us on what you see the cost of capital is and which businesses currently fall below that level and what you're going to do to address that?

Dalton Philips: Well, I'll let Jonathan comment on some of that. But we're pretty focused now on looking at the returns. We've made good progress. A number of our businesses haven't been making their returns. We've got about 12% of our total volume, Charles, comes out of plants that basically are loss-making. So that's improved significantly.

We basically halved that year-on-year. But we want to make sure that we don't have any supply coming out of plants that ultimately aren't meeting that cost of capital. Jonathan, do you want to add to that?

Jonathan Solesbury: Yeah, Charles, in terms of our weighted average cost of capital, it's obviously ticked up a little bit with the cost of debt, obviously, going up 350 basis points. Low level digits is where we're at.

Charles Hall: And you talked about resigning –

Jonathan Solesbury: Sorry, low level double digits, I think, yeah.

Charles Hall: You talked about resigning roughly £100 million of business. Is that now completed that programme and is now about allocating that - the spare capacity to address those returns?

Dalton Philips: Correct. So in total, Charles, about £200 million, if we pick up our Trilby business ingredients, it's about £90 million. And then you got about £110 million coming from a variety of different contracts. And the purpose now is to resell that at more profitable levels. So it's been difficult. There's 5% of our total turnover, but I think we feel comfortable now.

And I see Andy Parton's in the room, our Commercial Director, to go back out and resell that capacity. But it wasn't something that was in our DNA. We've always been a business that's sort of taken and held at any cost. We've had to really rethink that and say, no, look, we're just going to walk away from it.

Charles Hall: And the final question, with the increase in national living wage next year, have you started discussions with customers as to how you're going to address that? And how much is covered by current policies of pass-through?

Dalton Philips: So look, the national living wage, 10% increase, I mean, that's - it's gone up a third now in three years. You're acutely aware of it. I think the challenging part - look, we are all for real wage growth, and real wage growth benefits our business because it puts more money into people's pockets and that's disposable income on the High Street. So we're absolutely for it.

I think the challenge is this was a surprise. And we're obviously holding our guidance irrespective of that surprise. I think it was a surprise for most people. And the challenge is that, that's got to be mitigated. And so clearly, we'll do everything we can as a business to mitigate as much of that as we can. But it also means we're going to have conversations with customers again.

And just at a period of time when Andy and his team have just done this phenomenal job of sort of moving customer conversations from all about inflation to let's talk about growth and innovation, we're having to now go back and reopen that Pandora box of pricing again. So I think it puts us and I think it puts the whole sector in a much more difficult spot.

Now the retailers have to deal with it as well, which means on one hand, they understand it. But on the other hand, they're saying, well, we've got to swallow it and you guys can swallow it. So we've got to manage that. In a number of our contracts now, we have been able to repurpose and put labour in as part of the model. So we don't have to swallow the whole sum of it, but we'll have to swallow some of it.

Charles Hall: And can you just give an indication of what proportion is on auto pass-through?

Dalton Philips: Well, in general, 50% of our raw materials and packaging are on pass-through. It's less in labour, but our top three contracts have labour built into them. But our direct labour build is around 300 million quid. So do the math, it's real money. Thanks Charles. Sorry, did you want to comment on that, Jonathan?

Jonathan Solesbury: No.

Dalton Philips: It’s good to go. Thank you.

Patrick Higgins (Goodbody): Patrick Higgins from Goodbody. First question, just, I guess, could you give us a sense of how we should think about the phasing of profits for next year between H1 and H2 and maybe some of the key factors to consider to each half in terms of potential headwinds or tailwinds?

Jonathan Solesbury: Yeah, Patrick, good question. I think what we're going to see, obviously, in H1, we've got some tailwinds through some of the work that Andy has done on the commercial side or at least done on the operational efficiency side. And some of that price recovery has been annualised into the first half of this year.

And then in the second half of the year, we're going to get the impact obviously of the national living wage coming through in addition to the IT investment, which we referenced, a lot of that will come in H2.

So bottom line, I think what you're going to see is in H1 that should show good profit growth. And then for H2, probably on a like-for-like basis, pretty flat. You'll recall, obviously, in FY'23, we had a pretty good second half of the year. So I think in terms of percentage-wise, we kind of think about 25% in H1, probably 75% in H2.

Patrick Higgins: And maybe a second question, just around, I guess, the rebuild of profitability back to the pre-COVID levels. How should we think about the importance of the levers of delivering new volumes at a higher margin versus the ongoing cost efficiencies that you expect to deliver?

Jonathan Solesbury: Yeah, I think our volume now is at 102% of what it was pre-COVID, okay? So there's absolute volume improvement. And to your point, Patrick, around high margin business, you saw what Dalton had in his presentation, 1% higher in terms of contribution. So yeah, you should see a higher contribution coming through relative to 2019, yeah.

Dalton Philips: But it's very much self-help generated, I see Horizon 2. I mean it's stuff that we can do in terms of our operational excellence agenda, our commercial agenda with some

volume growth, clearly. But we look at Horizon 2 and we go, Patrick, look, this business used to make that. There's no reason why I can't make that again. These are the levers we need to pull. Nothing is rocket science. All of its hard and all of it is attainable.

Andrew Wade (Jefferies): Hi there. Andy Wade from Jefferies. A couple for me. First one, following on from Charles, I guess, really, where you talk to what you're prepared to exit and how sharp you're being in terms of your ROIC requirements or return requirement. Would there be areas that you'd be looking to exit or potentially prepared to exit or dispose of, for example?

Second one, I'm interested around the sort of tech investment. Obviously, previously, this would have been capitalised and - well, at least as I understand it anyway, correct me if I'm wrong, would have been capitalised. And I'm just interested as to whether that's made any difference as to how you - how much you choose to take on and the phasing of it because there's obviously market perception that you need to deal with as well and hit numbers and so on. I know it's only an accounting standard and cash is cash at the end of the day, but I'm really interested as to how you've managed that and what you're thinking around that has been?

And then finally, on growth, any early thoughts on sort of channels or categories which look attractive to you? Thanks.

Dalton Philips: Okay. Thanks, Andy, look, and we'll do a double act on that. In terms of our sites, I went back to this fact that 12% of our sales are coming out of low returning or no returning sites. I think everything is on the table. At the same time, we've been really encouraged by some of the - like we've basically halved that, Andy, first - in the last 12 months by just a relentless focus on some of these individual business units.

I think it's too early to talk about disposals, but nothing is off the table. We love all our children, but sometimes not equally. So people have got to pay their way. And we disposed of Trilby because it didn't fit, and we're prepared to look at other parts of our assets. Having said that, Andy, I'd like to think that I'm standing back here in a year's time saying, actually, we've moved all the business on.

And our salads business is a really interesting business where that business was just not performing. Really focused intervention this year, and actually, it's been a shining light. So I look across the portfolio, there's no reason why we can't turn it all around, but we're prepared to ask some hard decisions if we don't. And Jonathan, I might come back to you on that because I'm sure you've got some thoughts.

In terms of the software or the IT, as you know, Software-as-a-Service, it's all cloud-based, it's all getting expensed, no, we have had no conversations about, my goodness, could we do more, but we can't afford it. Actually, this is the most expensive investment programme. I mean we've still got sites working off Lotus Notes. We've still got floppy disks out there. I mean I'm not joking.

So actually, this investment, we think is material and is sort of at the upper end of what we can take on. I think any more than that and you'd get into putting the business at risk, which is why I said we didn't want to go big bang. But if we're really serious about Horizon 3 and having a sustainable source of growth, we have got to put the plumbing in now, and it's just not

acceptable to have a business that's so disparate and is a patchwork of Excel and we're prepared to face into that.

And then on the third point, but again, Jonathan, come back on these other points as well, growth. Look, there's some real opportunities out there, but I think we're trying to keep the team very much focused on Horizon 2, which is, look, there's no reason why - you've seen the consensus numbers that are out there for next year and the year after, and we should be hitting them and some more.

But as we look to Horizon 3, we will need to start repurposing teams, smaller numbers of teams to look at what are those channels and what are those categories that we're not in that are potentially fragmented, showing growth that we can play in. We really don't want to get too distracted on it, but we're standing up a small team that actually in December, will be starting to look at this work. No further than that at this stage because it's early days.

Jonathan Solesbury: Yeah. Just maybe on the first point, in terms of - you spoke about sites and what have you. I mean there is a likelihood that we may, in fact, reduce as opposed to grow in terms of assessing the sites, looking at our manufacturing footprint and then taking a view from this. There's a big piece of work underway with Lee and his team looking at that.

In terms of the tech investment, in my 30 years in business, Andy, I've seen things blow up as we all have in terms of rolling out IT. This is perhaps more than just an IT project. This is looking at making business easier, simplifying things, hugely complex at the moment. We have different processes. We have, I think 10 or 12 different chart of accounts.

A lot of the financial analysis is done on Excel spreadsheets. So it's around standardising processes, standardising chart of accounts and then looking what technology can do to enable those processes. So it's not just rolling out a new ERP. It's a whole business end-to-end process review.

As Dalton said, it is progressive. We're definitely not going big bang. Probably multiyear - not multi as in five years, probably two years, perhaps two to three years, and we'll take it step by step.

And in terms of the accounting, yes, when the accountants got involved in saying now that Software-as-a-Service cannot be capitalised, so we've got to expense a large portion of that. There could be an opportunity to capitalise some of it, some of the components of that, Andy, but largely, it's OpEx. And yeah. But certainly, I think it's going to be a fantastic investment for the organisation and take Greencore into the 21st century.

Andrew Wade: Can I just ask what your IT SaaS spend was this year?

Jonathan Solesbury: IT SaaS spend this year was about £3 million, £4 million.

Andrew Wade: Right. So a step up of £6 million?

Jonathan Solesbury: Yeah. I mean you're probably aware of the history better than I, but there was a significant investment in IT and Greencore, I think back in 2015, 2016, which did not have a happy ending. And then certainly, the organisation has learned from that.

So yeah, it's a huge enabler for the organisation across all functions, not just in finance.

Andrew Wade: Thanks.

Doriana Russo (HSBC): Hi. Doriana Russo from HSBC. I've got two main questions that I'd like to ask. First of all, you put up in the slides as a target return for profitability, the £105 million, £106 million that was delivered pre-pandemic. Is that the target that you're setting yourself to reach by end of 2026, which should be the end of the second horizon? Just to clarify.

Dalton Philips: So we're saying that, look, we should - we need to get back in the next three years to the pre-pandemic levels, and that £106 million is consistent with what consensus has out there.

Doriana Russo: And that would be - sorry. And this would be including the national living wage headwind that we have to take into account?

Dalton Philips: Correct, that we have to absorb. I mean, as you know, we're not putting sort of specific guidance at. We were saying, look, we used to make £106 million. We can do that in the next three years, and we can see an avenue easily to doing that.

Doriana Russo: And my second question is more looking at the returns that you're currently achieving in food-to-go versus convenience. I think you mentioned in the presentation that convenience margin were marginally up year-on-year. Shall I conclude that the - all of the drag in margin was in the food-to-go category? And within that, I think you highlight sushi as a category, which did not make positive growth - did not deliver positive growth. Is there any other area that you think within food-to-go, which is below the returns and is part of that 6% of the portfolio that you're hoping to build up over time?

Dalton Philips: Well, look, I'll let Jonathan comment on that, but you're absolutely right around the sushi. I mean it's double-digit down year-on-year and has been a challenge for a variety of reasons, cost in the market. It's just - it's had such inflationary impact. And also there's just a lot more specialist retailers operating in the market. But Jonathan, do you want to pick up?

Jonathan Solesbury: Yes. But I think in terms of relative margins, you're probably right, food to go higher than convenience. But what you're seeing more recently is growth in premiumisation in the food to go area. So we're seeing, I think 34% growth in premiumization, obviously, off a lower base. So that's obviously going to drive margin there. But as Dalton said, there are a couple of categories which are laggards in terms of profitability, sushi definitely being one. But it's a function, I think of the industry and competitive dynamics within some of those categories.

Doriana Russo: Shall we expect you to take some drastic decisions there, I mean, perhaps just exit sushi altogether and refocus on where you actually have a competitive advantage, vis-à-vis the rest of the market?

Dalton Philips: No, look, I think sushi can - is a very important part of the High Street proposition for food to go, Doriana. So I think we just need to relook at some of the economics that are there. And there's essentially a ceiling on price that consumers can tolerate at the moment, and we're kind of getting squeezed in that. But I would see sushi being a part of our proposition going forward.

And look, if you - we're still the number one sushi provider in the market. But it's - sometimes categories, as you know, just get caught in a squeeze. You can't put the pricing up. You can't get the cost lower or you impact quality. And in something like sushi, you can't reengineer sushi. So I see it very much as within our portfolio, but I think we're going to have to really

look again, very carefully at the economics. And that's certainly in that 12% of businesses that we have to relook at. But I'd like to think I'm back here next year, Doriana, saying we've got it sorted out.

Doriana Russo: And sorry, my last one is - and is there any other area other than sushi that you might highlight in terms of being below that threshold of double-digit WACC?

Dalton Philips: Well, we don't really want to go into the specifics of the plants for obvious reasons that this is sort of conversations that we would have with our own team before we would talk about it externally. But I think what we are being very clear with our teams are we've got to get back to the old levels of profitability and everybody's got to pay their way.

And sometimes that means difficult conversations with our customers saying, look, if you want this product, you're going to have to pay more for it because we can't serve you. And at other times, it says we've got to take a deep hard look at how we operate and what our cost structure is and are we being as efficient or as effective. Actually, in the sushi example, we've invested in some new automation, which again has been able to increase throughput, increase quality and obviously take cost out. So there's a whole series of different things going on there.

Doriana Russo: Okay. My super last one is on the cost of financing. You said that the available credit lines have been renegotiated and the maturity has now pushed down to - push backed to 4.5 years. What has been - what is the margin on cost that you've got at the moment that we need to think?

Jonathan Solesbury: In terms of the incremental cost of the new financing?

Doriana Russo: Yeah.

Jonathan Solesbury: It's not much more than it was. There's a slight increase in base margin of 30 to 40 basis points, Doriana, but very competitively priced.

Doriana Russo: So we shouldn't expect a big increase in finance costs into next year?

Jonathan Solesbury: Yeah, what we're guiding to in terms of P&L finance costs is £22 million for next year, which is up on this year. But the big increment came in FY'23, where [inaudible] increased by 350 basis points. What we're trying to do - 10% of our debt is fixed, 90% is variable, but we have an internal policy that's asked us to get to 50% at least of fixed. So we take out swaps to lock in the fixed rate. So currently, we are at 50% fixed. So we manage it very tightly, Doriana.

Dalton Philips: Okay. Thank you.

Dalton Philips: And I think at a time when it's been - some companies have been finding it hard to refinance, I think the work that Jonathan has done here has been absolutely fantastic to give us that sort of surety for the future.

Jonathan Solesbury: Yeah. Just lastly on that, sorry, Doriana. I mean the reason for the financing was obviously we had 2.1 years of maturity left on our debt. And you obviously want to push that out. Obviously, it's not the greatest time in the world to be refinancing, but it was about extending the tenor. And I think David and the team had done a fantastic job in securing our finance flexibility for the next five to seven years.

Damian McNeela (Numis): Good morning, both. Damian McNeela from Numis here. Just a couple of questions on category. I think, Dalton, the business outperformed the category in the

period. I was wondering if you could give us any insight into whether that was particular customers or certain channels that allowed you to deliver that outperformance? And then as we look to the future, it's pleasing to see that the food to go market is projected to grow about 3%. Can you sort of provide any colour on where that 3% is coming from in terms of are there any particular channels that we should expect to grow? Or is it premiumisation, please?

Dalton Philips: Yeah. So look, we were delighted with the outperformance. All manufacturers worry about their portfolio of customers and how they're performing, we've been really fortunate with our customer base that essentially 60% of our customer base are just winners in the market at the moment. So you can see what's going on with JS, you can see what's going on with M&S, you can see what's going on with Aldi, and these are all big customers for us.

So we've been very fortunate with the customer base that we have. So it hasn't been specific to channels, although, obviously, the convenience channel, discount channel have been performing quite strongly.

I think in terms of the growth going forward, the 3% - the macro is definitely helping us, and we're starting to see the macro slightly help us now in funny sorts of way. So when I talk about the macro, I talk about the fact that mobility is up significantly. For the first time now, we've got more people in the office five days a week than we do work in hybrid. So the office is now 43% of office workers are in five days a week. That was up from 39% last year. And it's overtaken hybrid working. So that's an important factor.

Mobility in the suburban towns is up. I think if you probably, Damian, watch closely the Pratt Index, you've seen what it's like in suburban towns, now well over 120.

The third thing is the amount of people with second jobs - so because of the cost of living crisis biting so hard, people with second jobs is at the highest level now it's been and significantly up year-on-year. And if you're on a second job, you're moving from one job to another, obviously, and you need a source of fast, good value nutrition, and the sandwich and the meal deal is obviously key in that.

And then the last highlight, I would say that's driving growth, and I think will propel the further growth that we've talked about is just the premiumisation. So what's happening is you've got people who are looking for an affordable treat, and this isn't a new trend, but it's a trend that's continuing, whereby people are saying, I'm going to trade up on a sandwich. It's significantly cheaper than QSR or anything else or any of the specialty cafe stores on the High Street, and people are prepared to trade up. So you're seeing like the growth in meal deals, but premium meal deals, 34% volume increase.

I mean it's just insane. So - but you can get a £5 steak and caramelised onion sandwich for five quid now and a drink. So I think that's really impacting it. And the retailers, interestingly enough, Damian, are now going after that premium market. So you've got the likes of M&S, which we now produce a sandwich called freshly prepared, which is made in the day for them, we make it and get it into their shops and it's sold with one day shelf life. Now no clues for who they're targeting.

And now we're seeing that with other retailers, so like JS, for example, has launched this Kitchen Deli range, again, this incredibly - it's just an incredible product. No guesses for who they're targeting.

So I think there's just a lot of good macro going on despite the sort of the horrible headwinds that exist out there, Damian.

And then if people will come to, we'll wrap up after this. I'm slightly conscious of all of your time. Darren?

Darren Shirley (Shore Capital): Yeah. Darren Shirley from Shore Capital. Just a question on how you're seeing your categories from a competitor's perspective. I mean are you seeing any capacity coming in? Are you seeing capacity coming out? How are you seeing sort of balance sheets around the industry? How do you see that evolving over the next three to five years?

Dalton Philips: So in the food-to-go categories, Darren, we're not seeing any new capacity going down in sandwiches, nothing material. So it's pretty tight there and remains tight through the summer. It gets - like June this year was pretty tight for everybody. Salads is a funny one because as you know, there's no capacity in the summer and there's loads of capacity in the winter.

So I think people struggle with that, the investment case of should you put more capacity down. Don't really see much more capacity going down. The big issue is ready meals, which is there's just an oversupply in the market, and there's excess capacity in a market that is essentially declining 4%. It's an important category. It's about nearly 15% of our business, but there's excess capacity there, and that means it gets very competitive as different contracts come up and people chase it. So that's the one I'd be most concerned about.

Darren Shirley: But when you look at the dynamics, I mean, would most of your competitors be looking to do the same as you guys, as in sort of rebuild margins over the medium term? Have they suffered as much as you have post-COVID?

Dalton Philips: Look, I think everybody is in the same situation. They need to rebuild margins. But if you've got excess capacity, Darren, you can make certain decisions that may be rational for you but might feel irrational for the sector. And I think that's a bit of a dynamic going on. The good news is, in our case, the category with most exposure is ready meals. It's an important category. We're well invested in it, but it's a portion of our business. It's not a material part.

The food-to-go is the material part of our business. And I think the capacity balance there is just right. I think Clive had one and then –

Clive Black (Shore Capital): Darren’s assistant[?] at Shore Capital. Just one from me. What does operational excellence look like from a vision perspective for Greencore in, say, three years? Thanks.

Dalton Philips: Operational excellence. Well, there's a - we could spend a long time on that, Clive. But it's certainly - to the heart of that, we've got to look at efficiency and quality. And our efficiency is not where it needs to be. We spent a lot of time talking about OEE and TEEP, which I'm sure you know probably as much - or I guess - I suspect you probably know more than I do in terms of total equipment effectiveness. That's how efficient your plant is over 168 hours.

And I think what Lee is doing is that - Lee is our COO, is bringing a disciplined approach into looking at the available capacity and where we currently are. Our OEE, depends on the plants, can go from 12% to 40%. And really, we should be a lot higher than that. So I think there's a real opportunity to drive much further throughput through our plants than we currently have

much more effectively. Part of that is going to be the automation agenda. And so we've done some work on automation, but I think we've got a long way to go. We employ 14,000 people. Our direct labour is 15% of our P&L. And I think we need to look at that in a resource-constrained world.

And to give you some sense of what we do, like Clive, we are still wrapping sandwiches by hand, literally by hand. And actually, it's a very difficult job. And ergonomically, it's a challenging job, but we make 12 million sandwiches a week. A lot of our sandwiches are obviously done automatically, but our wraps aren't. And we're now looking into automation there.

So I think there's a lot of work on automation, efficiency, and then quality is going to be key. And just we're good in quality but I think we need to just keep at the forefront of that. But there's a ton we can do on the operational side. And with our current asset base, I'd be pretty excited by the opportunity. And really, Clive, that's about Horizon 2, which is the reason why we can see that rebuild that Doriana was asking about because it's there in front of us.

I mean there's so much just avail of self-help in this business before we talk about growing in new channels. So I'm pretty excited about the next three years.

Gary Martin (Davy): Good morning, all. Gary Martin here from Davy. Just one from my side, just kind of dovetailing on the premiumisation point that was mentioned a few times. Just how important is innovation to Greencore's core customer base? And how important of a difference here do you think it is that Greencore is just so - it's facilities are so well invested? And do you see further opportunity amongst your core customer base to kind of further expand the premiumisation range, well, say, beyond M&S and Sainsbury's? Thank you.

Dalton Philips: Yeah, Gary. Look, innovation is - I see, Andy nodding all the way in the back. I mean it's all about innovation. The challenges, Gary, is to do the innovation in the categories where there's volume. And I think too often we, working with our customers, have been doing the innovation on the tail of the assortment and that's just not good enough. So I think we're seeing more and more innovation going back into the core categories and relooking again at the bread carriers and relooking again at all the ingredients that are making up that product.

And to be able to do that at scale, as I say, we do about 12 million sandwiches when - at peak time in the summer, to be able to innovate at scale is key. The challenge, of course, is we've got a lot of customers and everybody's trying to innovate. And now this premiumisation drive that's going - everybody's trying to upgrade their ranges. So it's challenging and it's complex and it takes a lot of resources.

We make it a point of difference to our customers, hey, we can make anything, we can do anything and we've got incredible insight. And I think it's a point of difference, which is why we've been sort of been able to continue on this journey that we're on in terms of having such a strong position in this category. But it's not just in sandwiches, and ready meals, we talked about the excess capacity, but it's an area where there's huge innovation going on now as people are trying to get ahead of ultra processed foods and get ahead of really being able to produce organic premium ready meals at great pricing.

So I see a lot of opportunities. There's a whole ton of stuff, like think about all the dayparts we’re not in. We're not in breakfast, for example. It's something that we've talked about before

in years gone by. But as we look at it now, there are huge dayparts we're not in. Retailers want us to be in them. We can be in them. We just got to work. And so the innovation engine is just key.

What happened over the last three years of COVID is just the innovation just collapsed. There was just very little innovation going on, and now everybody's sort of breaking out again. And with this growth of these premium meal deals, people are saying, yeah, where else can we innovate? And I think you're going to see a whole upweighting. And what Mark's and Spencer's are doing in the marketplace, their growth has been on the back of this incredible strive for innovation, and I think many others are following.

Thanks. I think - I'm conscious of everybody's time. So look, we're very grateful for you being with us in person. We appreciate it. We'll be back in six months, and we look forward to working with you between now and then. Thank you.

[END OF TRANSCRIPT]