

A photograph showing several employees in a food processing plant. They are wearing white hairnets, blue aprons, and black ear protection. Some are wearing glasses. They are smiling and laughing, creating a positive and friendly atmosphere. The background shows industrial equipment and pipes.

Full-year Results

For the 52 weeks ended 28 December 2019

27 February 2020

Welcome**Simon Burke, Chairman****Introduction****Agust Gudmundsson, CEO****Financial Review****Peter Gates, CFO****Operational Review and Outlook****Agust Gudmundsson, CEO****Q&A**

Disclaimer – Forward-looking statements

This full-year results presentation, prepared by Bakkavor Group plc (the "Company"), may contain forward-looking statements about Bakkavor Group plc and its subsidiaries (the "Group"). Forward-looking statements involve uncertainties because they relate to events, and depend on circumstances, that will, or may, occur in the future. If the assumptions on which the Group bases its forward-looking statements change, actual results may differ from those expressed in such statements. Forward-looking statements speak only as of the date they are made and the Company undertakes no obligation to update these forward-looking statements. Nothing in this statement should be construed as a profit forecast. Some numbers and period on period percentages in this statement have been rounded or adjusted in order to ensure consistency with the financial information.

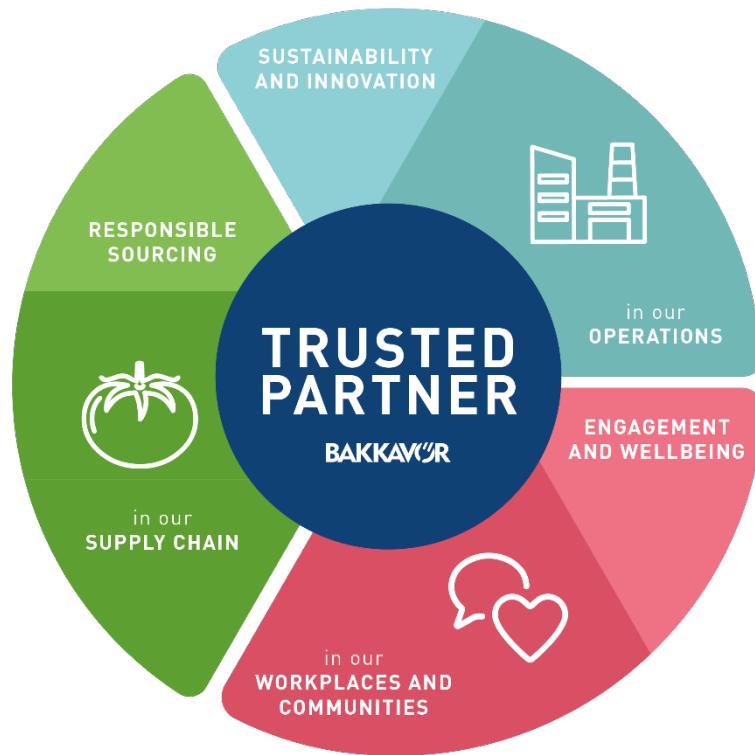


Introduction

Agust Gudmundsson, CEO

Growing responsibly and sustainably

Launched 'Trusted Partner' – new CR strategy and framework



Three focus areas: Responsible Sourcing, Sustainability and Innovation, Workplaces and Communities.

Being a 'Trusted Partner' reflects how we work collaboratively with suppliers, customers, colleagues and across the industry.

Making clear commitments on critical sustainability issues from food waste to sourcing to employment.

Rolling out externally in the coming weeks

Addressing sustainability issues across our value chain



Responsible Sourcing in our Supply Chain

1. Supply chain human rights
2. Environmentally sustainable sourcing
3. Ingredient traceability and integrity



Sustainability and Innovation in our Operations

4. Food and other waste
5. Resource efficiency and emissions
6. Impact of packaging
7. Product innovation



Engagement and Wellbeing in our Workplaces and Communities

8. Colleague wellbeing, health and safety
9. Responsible recruitment and employment
10. Engagement, development and retention
11. Local causes/community engagement



Some of our commitments include...



Support The UK Plastics Pact 2025 goals:

- Eliminate problematic or unnecessary single-use packaging
- 100% of plastic packaging to be recyclable
- 30%+ recycled content across all plastic packaging



Halve food waste by 2030



Manage environmental and social risks across our supply chain



Target zero serious accidents across the Group



Expand our graduate and apprenticeship programmes.



Reduce carbon emissions

Understand and mitigate our climate risk exposure



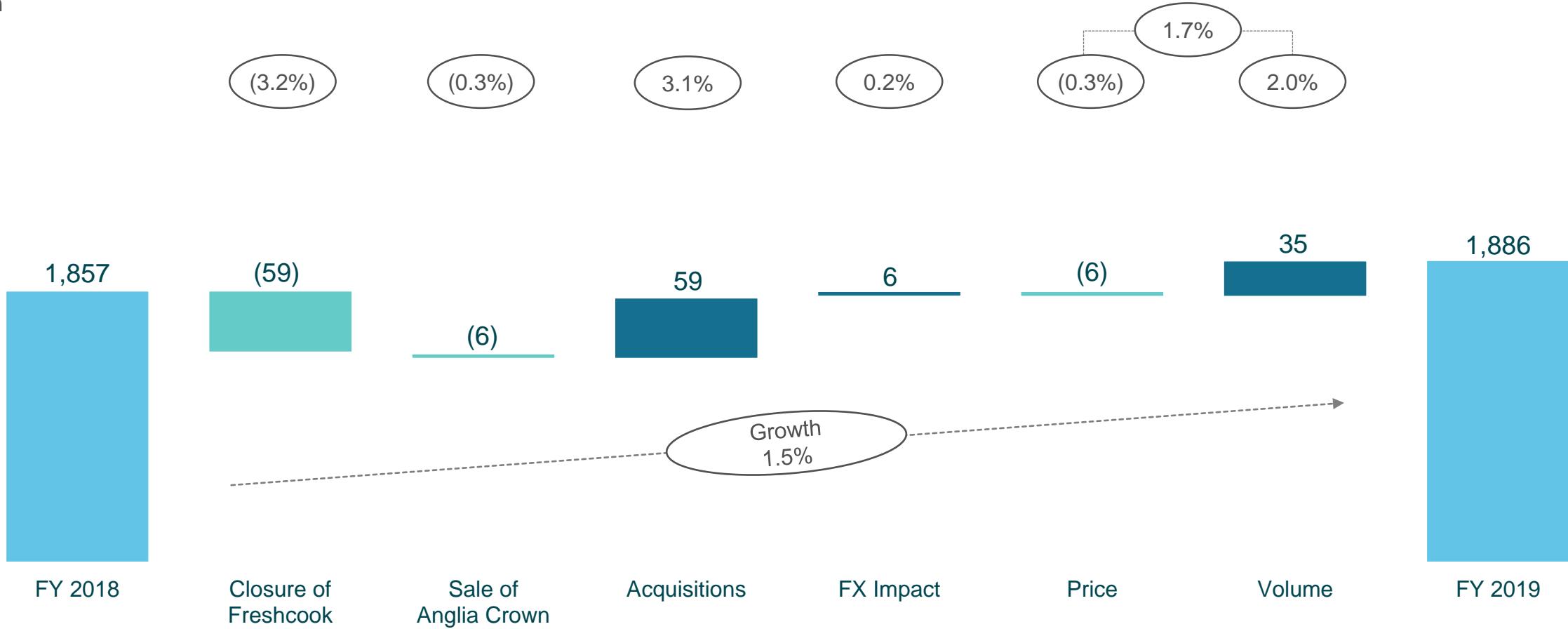
Financial Review
Peter Gates, CFO

Financial Overview

£m	FY 2019	FY 2018	
Revenue	1,885.9	1,857.2	1.5%
Revenue: Like-for-like	1,787.2	1,757.9	1.7%
Adjusted EBITDA pre IFRS 16	153.5	153.5	-
Adjusted EBITDA margin pre IFRS 16	8.1%	8.3%	(20bps)
Operating profit	69.4	85.6	(18.9%)
Operating profit margin	3.7%	4.6%	(90bps)
Basic EPS	6.4p	11.6p	(5.2p)
Adjusted EPS	12.7p	14.5p	(1.8p)
Dividend per share – paid and proposed	6.0p	6.0p	-
Free cash flow	51.1	55.1	(4.0)
Leverage	2.3x	2.0x	(0.3x)

Revenue Bridge

£m



UK Performance

£m	FY 2019	FY 2018	
Revenue	1,652.5	1,655.6	(0.2%)
Revenue: Like-for-like	1,559.8	1,556.3	0.2%
Adjusted EBITDA pre IFRS 16	147.1	147.7	(0.4%)
Adjusted EBITDA margin pre IFRS 16	8.9%	8.9%	-
Operating profit	89.6	99.8	(10.2%)
Operating profit margin	5.4%	6.0%	(60bps)

- Limited underlying volume growth of 0.5% mainly due to new business in Meals category
- Price decreases of 0.3% due to raw material deflation in the second half
- Labour costs continue to increase and put pressure on margins
- Adjusted EBITDA margin protected but operating profit impacted by depreciation, restructuring and disruption costs
- Guidance for 2020 – low to mid single digit revenue growth and progressive EBITDA

International Performance

£m	FY 2019	FY 2018	
Revenue	233.4	201.6	15.8%
US	130.6	112.9	15.7%
<i>China</i>	102.8	88.7	15.9%
Revenue: Like-for-like	227.4	201.6	12.8%
Adjusted EBITDA pre IFRS 16	6.4	5.8	10.3%
Adjusted EBITDA margin pre IFRS 16	2.7%	2.9%	(20bps)
Operating loss	(20.2)	(14.2)	-
Operating loss margin	(8.7%)	(7.0%)	(170bps)

- Strong underlying volume growth following recent investments in new sites in both markets boosted at reported level by weakness of sterling
- US volume uplift offset by operational investment costs as business is stabilised
- China good growth continues with further investments planned
- Further start-up losses for new sites and increase in depreciation resulting in higher operating loss
- Guidance for 2020 impacted by Coronavirus in China potentially reducing EBITDA by £6m to £10m
- Medium-term guidance for revenue growth remains unchanged at mid-teen%

Exceptional and Adjusting Items

£m	FY 2019	FY 2018
New site costs	-	12.4
Disruption costs	6.6	2.6
GMP equalisation	-	2.6
Restructuring, impairment and onerous leases	13.7	5.2
Gain on bargain purchase	-	(1.3)
Loss on disposal of subsidiary	-	4.6
Exceptional	20.3	26.1
Start-up losses for new sites	15.5	-
Total	35.8	26.1

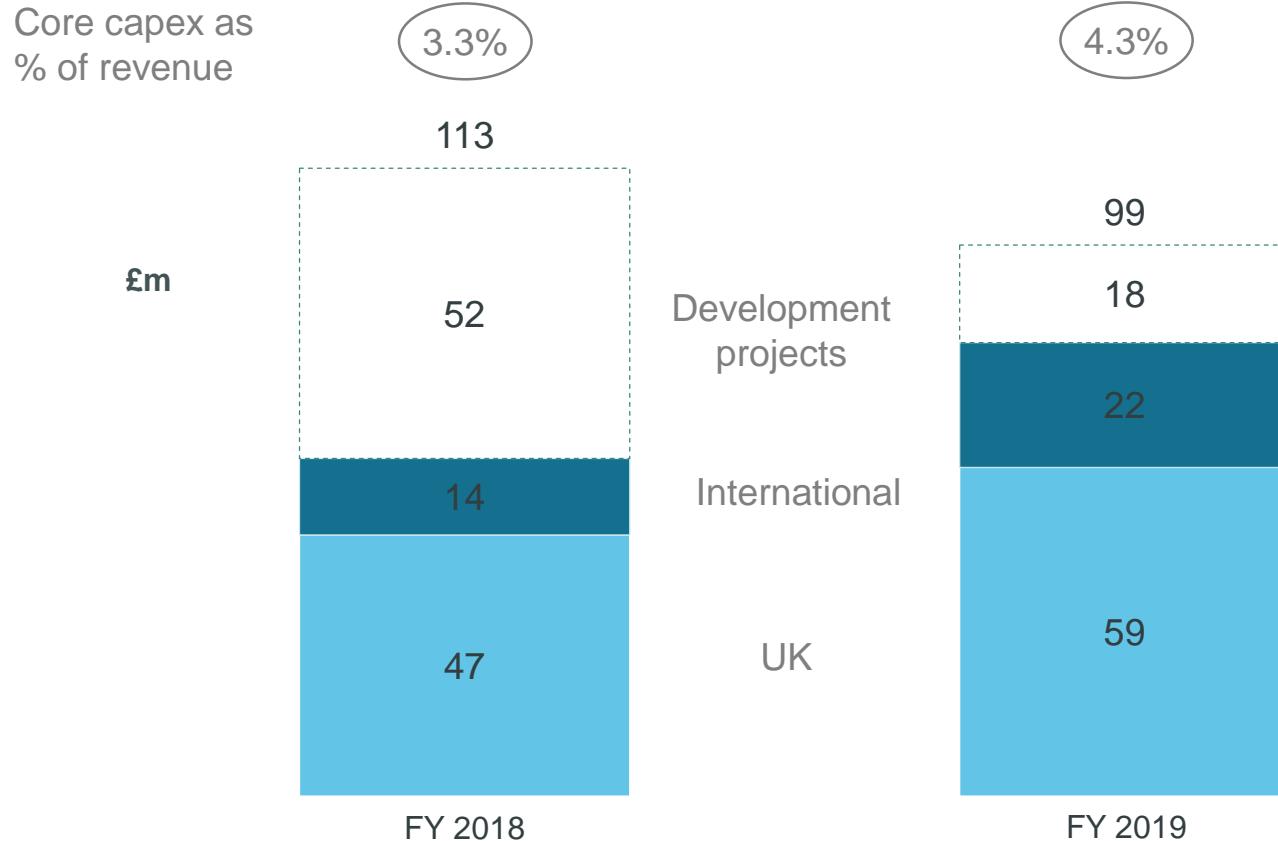
- Disruption costs in UK resulting from significant new product launches, and in US as site enables ready meals production
- Closure costs of £7.7m for UK meals business
- Closure costs of £4.3m for non-core UK restaurant business
- Balance of exceptionals is principally redundancy costs following UK commercial and marketing restructure
- Losses of £15.5m incurred by new International sites in first period of trading

Free Cash Flow

£m	FY 2019	FY 2018
Adjusted EBITDA pre IFRS 16	153.5	153.5
Working capital	8.9	(7.8)
Operating cash flow	162.4	145.7
Interest	(15.1)	(12.4)
Tax	(14.0)	(14.7)
Pensions	(1.9)	(2.9)
Core capex (net)	(80.3)	(60.6)
Free cash flow	51.1	55.1

- Working capital inflow largely due to new sites being operational for a full year and normal working capital cycle
- Interest higher due to increase in average borrowings
- Net core capex 4.3% of revenue
- Free cash flow still more than £50m despite targeted capital investment

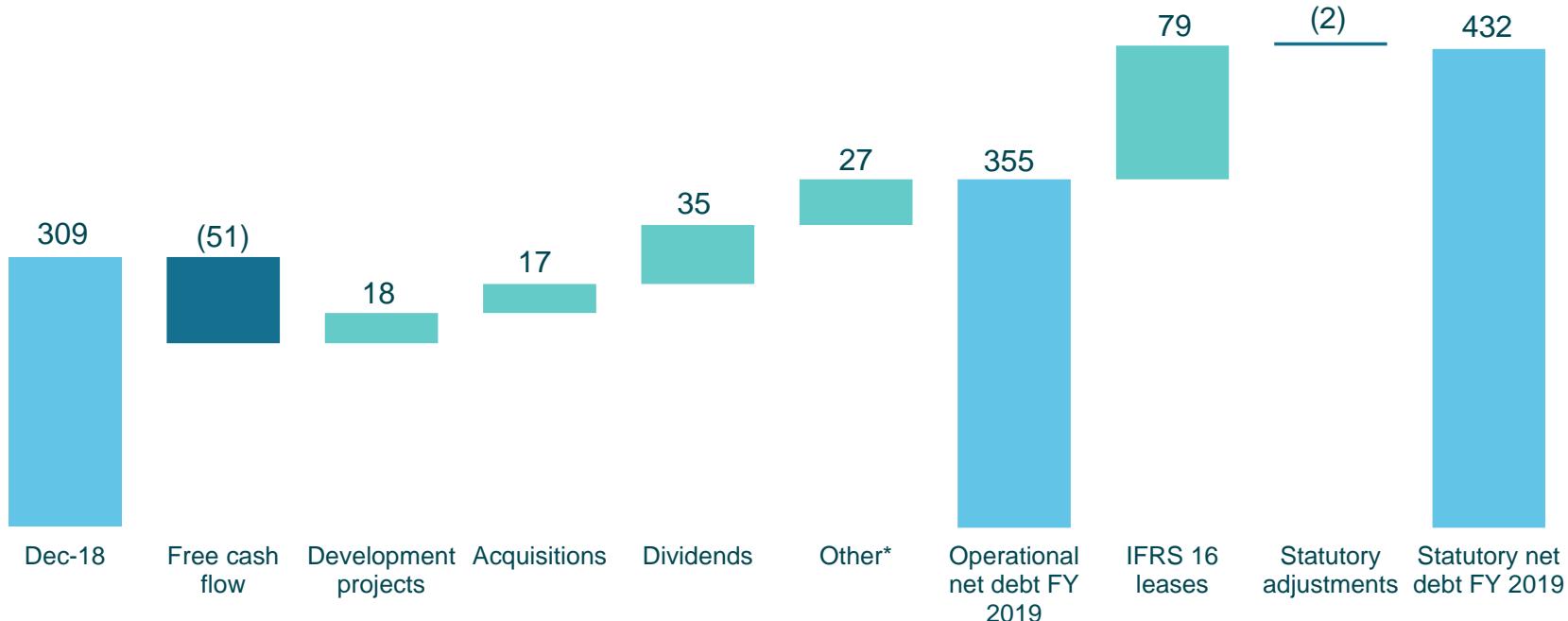
Capital Investment



- Completed final phase of development project at Newark Q3 2019
- Significant investments in four UK meals sites in preparation for new business from September 2019
- Commenced multi-year programme to replace legacy refrigeration systems in UK sites with further £14m to be spent in 2020
- Started construction of new factories in Wuhan and Xian to replace existing sites
- Increasing focus on productivity improvement projects to protect margins
- Guidance for 2020 slightly above medium-term level of 4% of revenue

Net Debt and IFRS 16

£m



IFRS 16 – details in appendix

- Transition date 30 December 2018 and comparatives not restated
- Operating profit increase due to reallocation of interest element of operating lease charge to finance costs
- Profit before tax decreases due to holding a relatively new lease portfolio - finance costs are therefore higher in the early years of the lease
- Basic EPS decrease of 0.3p
- Leverage ratio increase of 0.3x

Balance Sheet and Ratios

£m	FY 2019	FY 2018
Goodwill and intangibles	654	653
Non-current assets	603	460
Current assets	196	207
Operational net debt	(355)	(309)
Other liabilities	(524)	(442)
Net assets	574	569
Leverage ratio	2.3x	2.0x
ROIC	9.6%	11.6%
ROIC excluding development projects	11.0%	12.6%
Underlying effective tax rate	17.5%	14.9%

- Increase in non-current assets mainly due to capital investments and recognition of right of use (lease) assets
- Leverage increased as expected following acquisitions and capital projects
- ROIC lower as expected due to recent capital investment
- Other liabilities includes IFRS 16 leases

A woman with dark hair, wearing a white hairnet and a white lab coat, is smiling at the camera. She is in a food processing plant, with a conveyor belt full of packages of food visible in the background. The image has a blue overlay at the bottom containing the text.

Operational Review and Outlook

Agust Gudmundsson, CEO

Confident in Group strategy



1 Leveraging #1 position
in the UK



2 Accelerating growth
in international markets

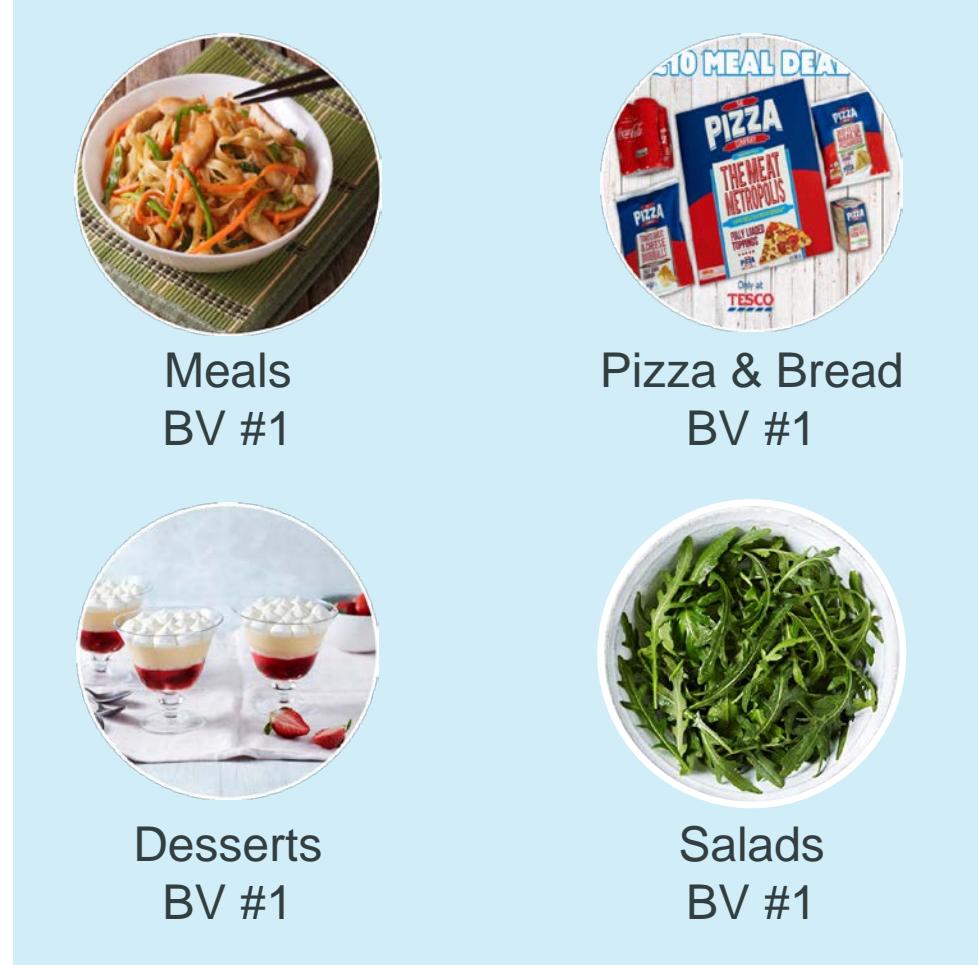
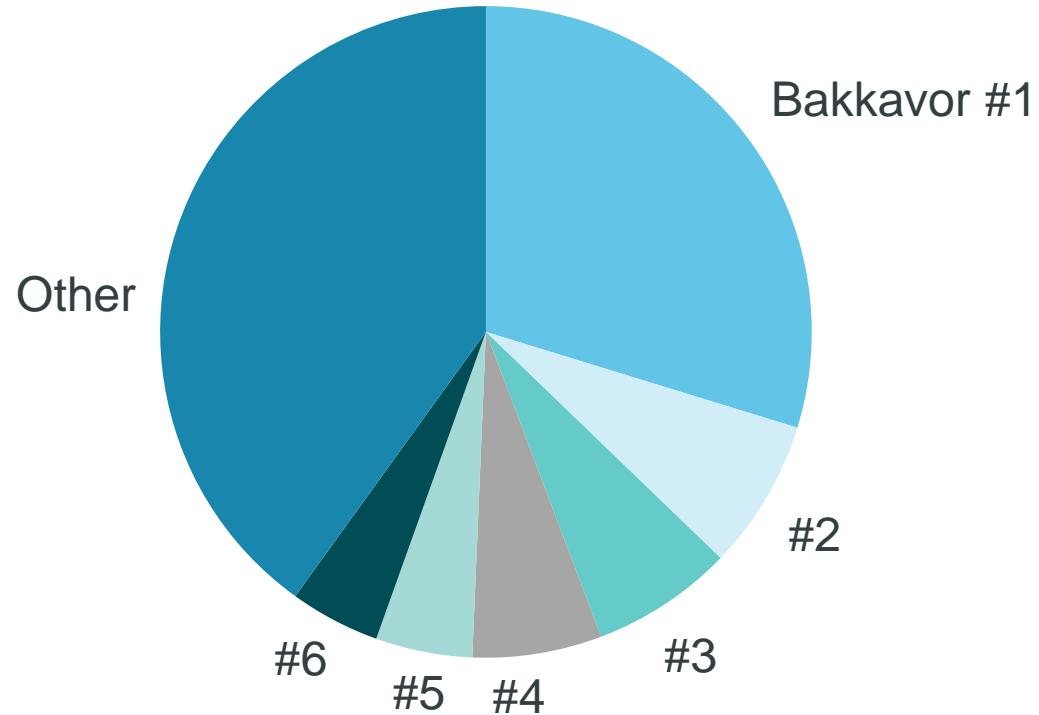


3 Improving
operational efficiency

1. Leveraging #1 position in the UK

Bakkavor is clear leader in the UK FPF market

FPF market share by supplier



1. Leveraging #1 position in the UK

Consolidated our market-leading position in desserts



Acquired Blueberry Foods in June – aligns with our customer strategy and integration on track

Completed final phase of investment at Newark

Increasing our capacity and capabilities – well placed to benefit from future growth opportunities

1. Leveraging #1 position in the UK

Significant gain in meals



Significant new business gain following strategic supplier review and largest single transfer of business to the Group

Dedicated project team to execute complex plan across four meals sites

Opportunity to expand our meal expertise into new ranges such as Asian

Redefined and strengthened our customer relationship

1. Leveraging #1 position in the UK

Reviewing our approach to the salads category



Volatile category impacted by availability of produce and 'sun hours'

Negatively impacted salads performance in 2019

Reviewing our operational strategy to improve efficiencies and protect margins

1. Leveraging #1 position in the UK

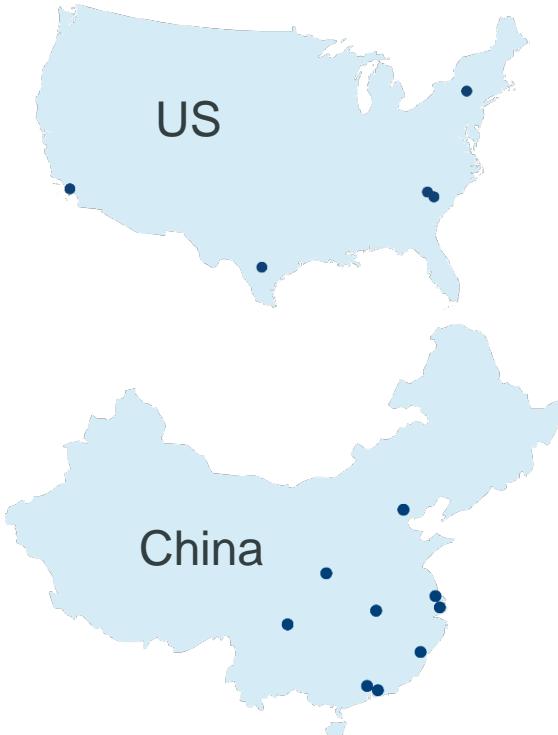
Category innovation



Continuing our track record of innovation and operational delivery
Creating best in class, convenient food products for busy lifestyles
Using category breadth and insight to deliver new meal occasions
Success in statement desserts, vegan and plant-based ranges, limited edition wraps and pizza meal deal concept

2. Accelerating growth in international markets

Delivering good underlying volume growth



International represents 12% of Group revenue

Recent capacity investments driving underlying volume growth

Profitability impacted by:

- rising labour costs
- further investment in technical infrastructure to support pace of growth
- start-up losses and depreciation

2. Accelerating growth in international markets

Strengthening foundations for the future



SHANGHAI



CHENGDU



CHARLOTTE



TEXAS

Investments
starting to deliver:
Profit drivers of
the future

2. Accelerating growth in international markets

US continues to be an attractive market



Continue to benefit from growing demand for fresh prepared meals

Scale of the US and distribution challenges for fresh – partnering with regional retailers or those with effective supply chains

State-of-the-art Texas meals facility became fully operational in 2019

Ready meals launch with key retailer is clear opportunity

Further developments to differentiate hummus offer

2. Accelerating growth in international markets

China showing good growth opportunities



Positioning ourselves as a 'partner of choice' for foodservice providers

Shanghai state-of-the-art, multi-product site now fully operational

Further investment in greenhouses and hydroponics

Further investments made in Wuhan and Xian sites to support growth

Coronavirus outbreak impact in 2020

3. Improving operational efficiencies

Continuous process improvement



Investment in operational efficiencies to help offset margin pressures, led by our operational finance team

Focus on automation and continuous process improvement - strategic investments and smaller payback projects at Newark desserts, London meals and throughout the estate

Completed closure of loss-making meals site, Freshcook, to protect profitability

Outlook

- UK volume uplift in H1 with business gains offsetting labour inflation
- UK Adjusted EBITDA pre IFRS 16 progressive for 2020
- Continue to develop our International businesses in the US and China to take advantage of long-term potential
 - US stabilised and encouraged by new sites
 - China Coronavirus having significant impact
- Focused on delivering long-term strategy and confident that business model, customer strategy and category excellence will enable us to capitalise on further growth opportunities



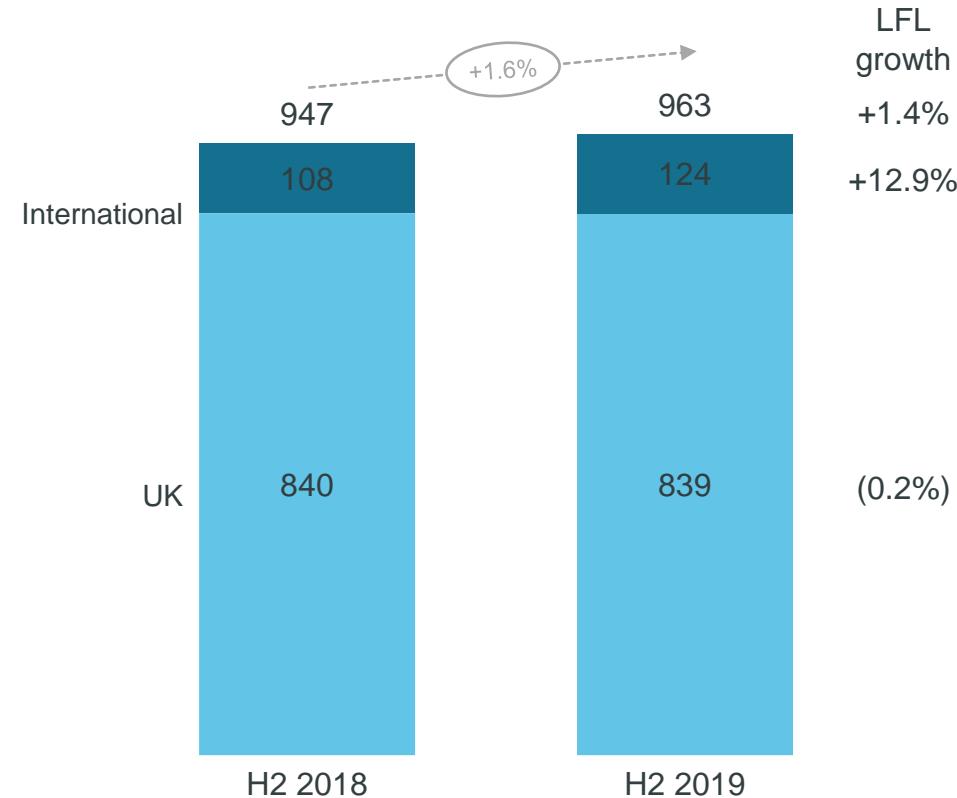
Conclusion / Q&A



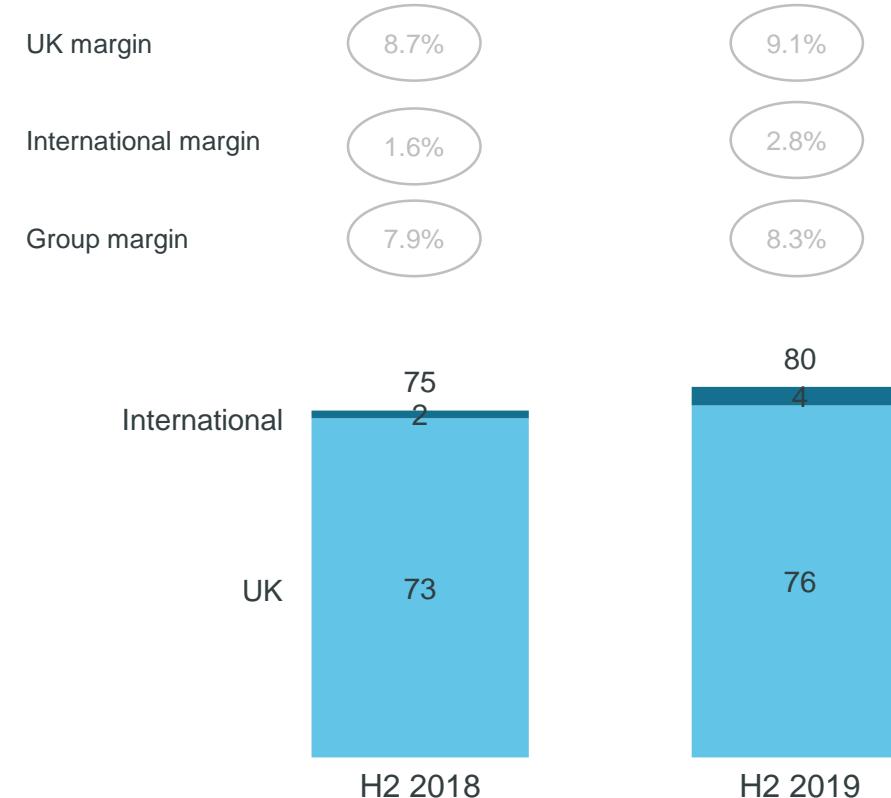
Appendix

H2 2019

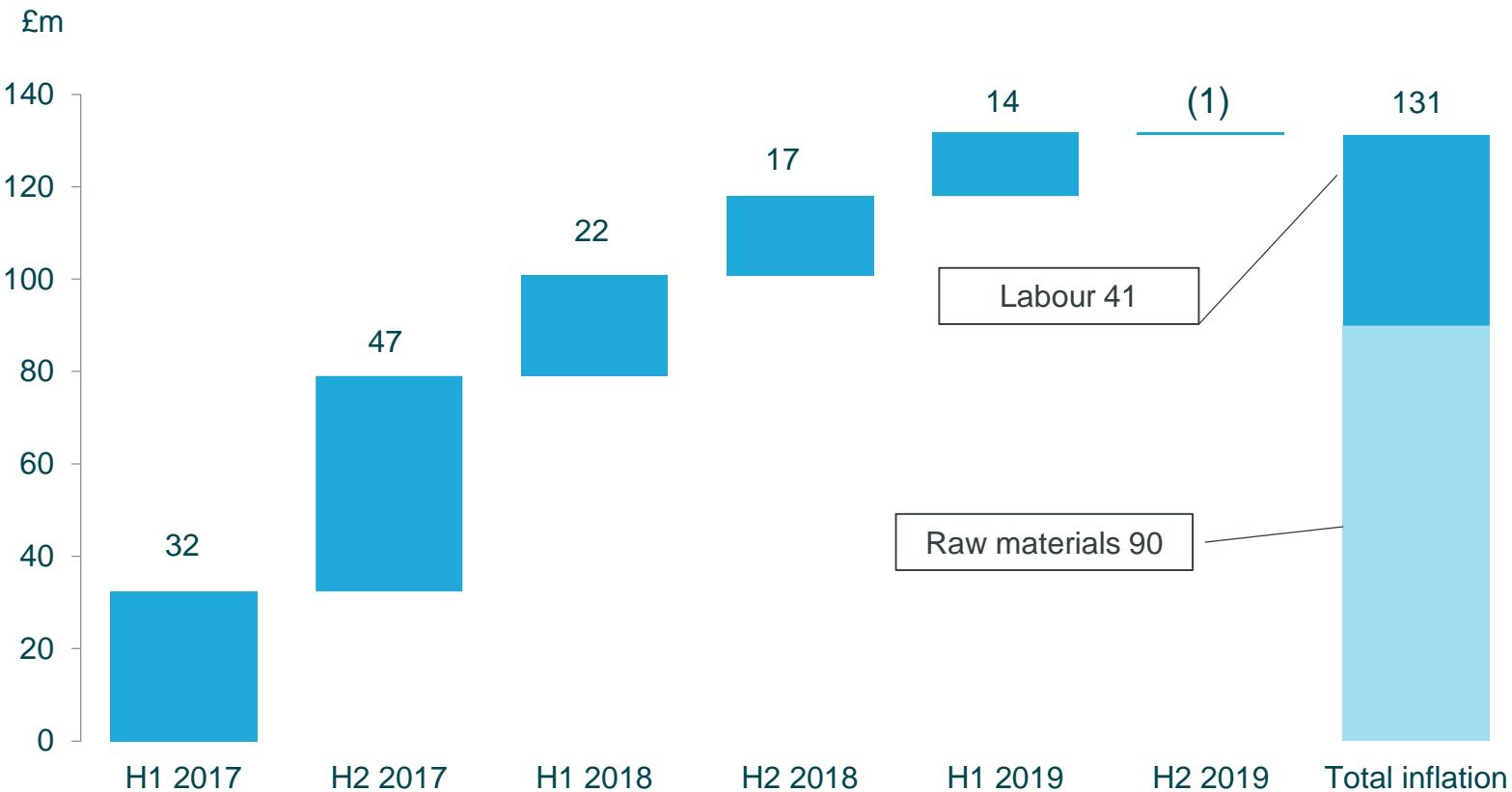
Revenue (£m)



Adjusted EBITDA (£m)



Inflation impact



- Significant raw material and labour cost increases since the last part of 2016
- Raw material cost increases mitigated through
 - Early price recovery discussions
 - Price recovery mechanisms for key ingredients
 - Product re-engineering
 - Resignation from low-margin business
- Labour inflation from National Living Wage, Apprenticeship Levy and pension Auto-Enrolment partly offset by productivity improvements and efficiency benefits

Earnings per share

£m	FY 2019	FY 2018
Basic earnings	36.9	67.2
Exceptional items	20.3	21.9
Start-up losses for new sites	15.5	-
Impact of IFRS 16	2.2	-
Change in fair value of derivative financial instruments	7.3	(1.1)
Tax on the above items	(8.7)	(4.0)
Adjusted earnings	73.5	84.0
Weighted average number of Ordinary shares 000's	579,426	579,426
Basic earnings per share	6.4p	11.6p
Adjusted basic earnings per share	12.7p	14.5p

Other financial information

Tax

£m	Profit before tax	Tax charge	Profit after tax	Effective tax rate
Statutory profit	43.8	(6.9)	36.9	15.8%
Exceptional items	20.3	(4.0)	16.3	
Other adjusting items	25.0	(4.7)	20.3	
Statutory profit before exceptional and other adjusting items	89.1	(15.6)	73.5	17.5%

Pensions

- UK DB scheme closed to future accrual in March 2011
- Investment assets of c.£270m
- Surplus of £9.7m on IAS 19 basis (Dec 2018: deficit £0.5m)
- Cash contributions of £22.5m over 8 years to 31 March 2024
- Next valuation at 31 March 2019 ongoing

IFRS 16 – Earnings impact

FY 2019 £m	Pre IFRS 16	IFRS 16 adjs	As reported
Revenue	1,885.9	-	1,885.9
Cost of sales	(1,376.6)	-	(1,376.6)
Gross profit	509.3	-	509.3
Distribution costs	(77.1)	-	(77.1)
Other administrative costs	(363.9)	0.6	(363.3)
Share of results of associates	0.5	-	0.5
Operating profit	68.8	0.6	69.4
Finance costs	(15.9)	(2.8)	(18.7)
Other gains and (losses)	(6.9)	-	(6.9)
Profit/(loss) before tax	46.0	(2.2)	43.8
Tax	(7.2)	0.3	(6.9)
Profit for the period	38.8	(1.9)	36.9
Basic earnings per share	6.7p	(0.3p)	6.4p

- Operating profit increases due to reallocation of interest element of operating lease charge to finance costs
- Profit before tax decreases due to holding a relatively new lease portfolio - finance costs are therefore higher in the early years of the lease
- Basic EPS decreases by 0.3p

In addition, there is a £2.4m post-tax exceptional charge relating to the impairment of the right-of-use asset recognised in the now closed UK restaurant business

IFRS 16 – Balance sheet impact

FY 2019 £m	Pre IFRS 16	IFRS 16 adjs	As reported
Property, plant and equipment	480.3	73.4	553.7
Trade and other receivables	132.4	(0.7)	131.7
All other assets	793.7	-	793.7
Total assets	1,406.4	72.7	1,479.1
Trade and other payables	(391.8)	0.8	(391.0)
Current tax liabilities	(4.8)	0.9	(3.9)
Borrowings	(379.5)	(78.8)	(458.3)
Provisions	(20.4)	0.1	(20.3)
All other liabilities	(32.0)	-	(32.0)
Total liabilities	(828.5)	(77.0)	(905.5)
Net assets	577.9	(4.3)	573.6

- Lease liabilities increase by £79m at end of FY 2019
- Leverage ratio increase of 0.3x
- No change to financing covenant calculations

IFRS 16 – Cash flow impact

FY 2019 £m	Pre IFRS 16	IFRS 16 adjs	As reported
Operating profit	68.8	0.6	69.4
Depreciation	47.4	12.3	59.7
Other operating cash flows	5.6	-	5.6
Working capital	10.2	1.2	11.4
Cash generated by operations	132.0	14.1	146.1
Income taxes paid	(14.0)	-	(14.0)
Interest paid	(15.3)	(2.8)	(18.1)
Cash generated from operating activities	102.7	11.3	114.0
Cash used in investing activities	(114.4)	-	(114.4)
Payment of lease liabilities	(1.6)	(11.3)	(12.9)
Other financing activities	27.4	-	27.4
Net increase in cash	14.1	-	14.1

- Cash outflow reclassification of £11.3m for FY 2019 from operating activities to financing
- No change to cash position

