

BAKKAVÖR

Full-year Results

For the 52 weeks ended
26 December 2020

16 March 2021

Agenda

Welcome

Simon Burke, Chairman

Introduction

Agust Gudmundsson, CEO

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Ben Waldron, CFO

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Agust Gudmundsson, CEO

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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,
Chief Executive Officer



FY20 Highlights

**REACTED
AT PACE TO
COVID-19**

**RESILIENT
OPERATIONAL AND
FINANCIAL
PERFORMANCE**

**ROBUST
FINANCIAL
POSITION**

**PROGRESS
TOWARDS ESG
COMMITMENTS**

**BREXIT
PREPARED**

**USA
TURNAROUND**



Reacted at pace to protect our colleagues

Introduced enhanced controls & support

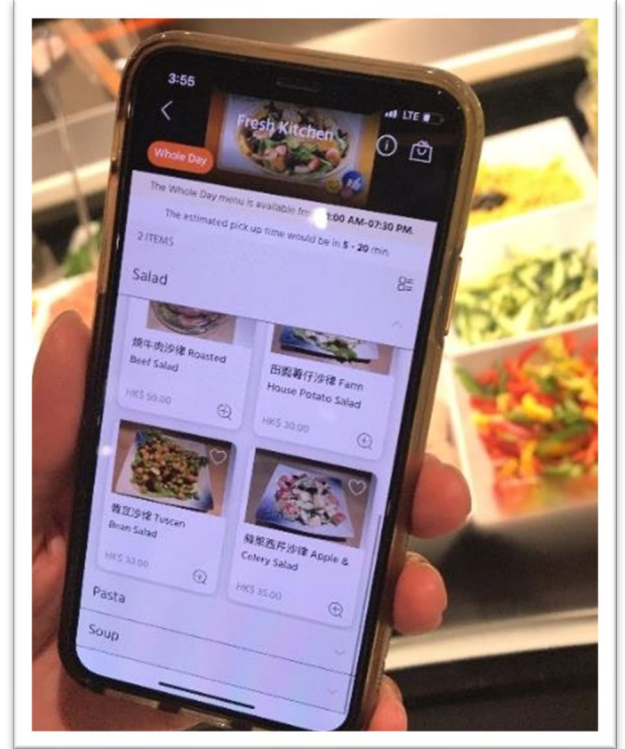
- Bakkavor Coronavirus Management Strategy (BCMS) launched for all colleagues
- New measures implemented in line with guidance
- Collaboration with local authorities, communities, councils and governments
- Voluntary participation in UK onsite testing programmes at Leicester, Newark and Tilmanstone
- Employee wellbeing programme, providing emotional, physical and financial support to those in need



Reacted at pace to manage volatility

Managing changes in demand & supply

- Significant volatility and changes in consumer demand across all regions, categories and sites
- Lockdown restrictions altered shopping behaviours and footfall
- New product launches delayed and existing ranges simplified
- Worked closely with customers in H2 across all three markets to drive growth back into categories
- Leveraged the expertise of our procurement and in-bound logistics teams to source and transport ingredients



Reacted at pace to protect financial position

Lowering cost base and protecting cash

- Reduction in capital expenditure and focus on essential maintenance projects
- Strategic restructurings actioned in all regions
- Temporary and permanent closures of food-to-go and Salads sites
- Limited use of Job Retention Scheme in the UK
- Voluntary reductions in compensation for Board and executive team
- Enhanced governance over all recruitment and discretionary spend

Financial stability

- Completed planned refinancing of core financing arrangements in March, extending maturities to at least March 2025
- Group liquidity position remains strong with comfortable headroom against all financial covenants
- Contributions continued to pension scheme with reduced funding deficit
- Liquidity headroom of £200m and leverage held at 2.3 times in line with prior year
- No dividend for 2020

Brexit preparedness

Modest operational impact

- Operational impact is modest following extensive Brexit planning, and we are well prepared for any near-term volatility in the supply chain
- Continuing to work through changes to the administrative process of importing and exporting goods as many more protocols are being implemented during 2021
- Minimal export disruption to both the Republic of Ireland and Northern Ireland given sales contribution in those regions
- Ongoing colleague support relating to Brexit developments, assisting EU colleagues in achieving settled/pre-settled status in the UK



Financial Review

Ben Waldron,
Chief Financial Officer

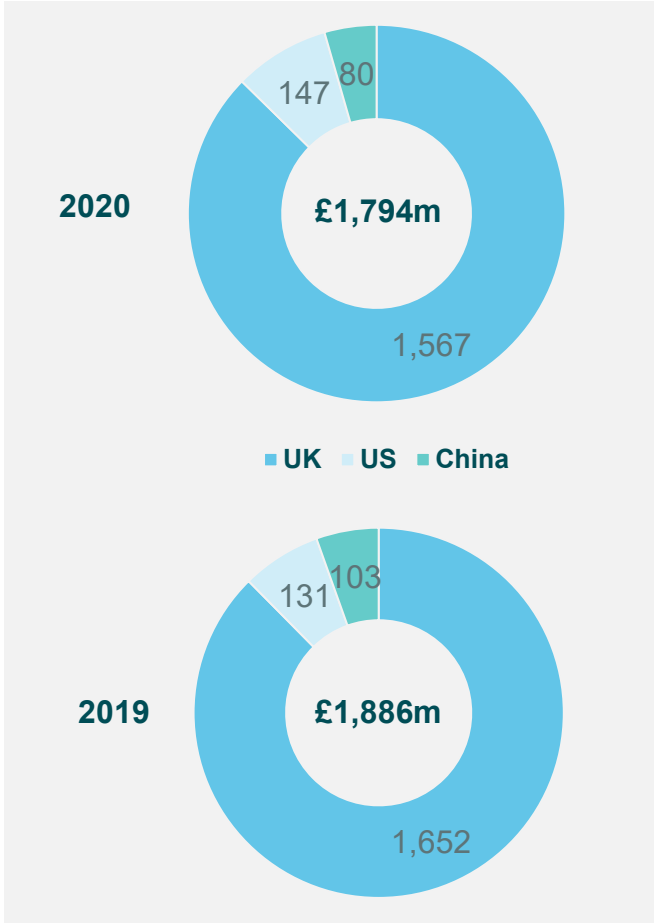
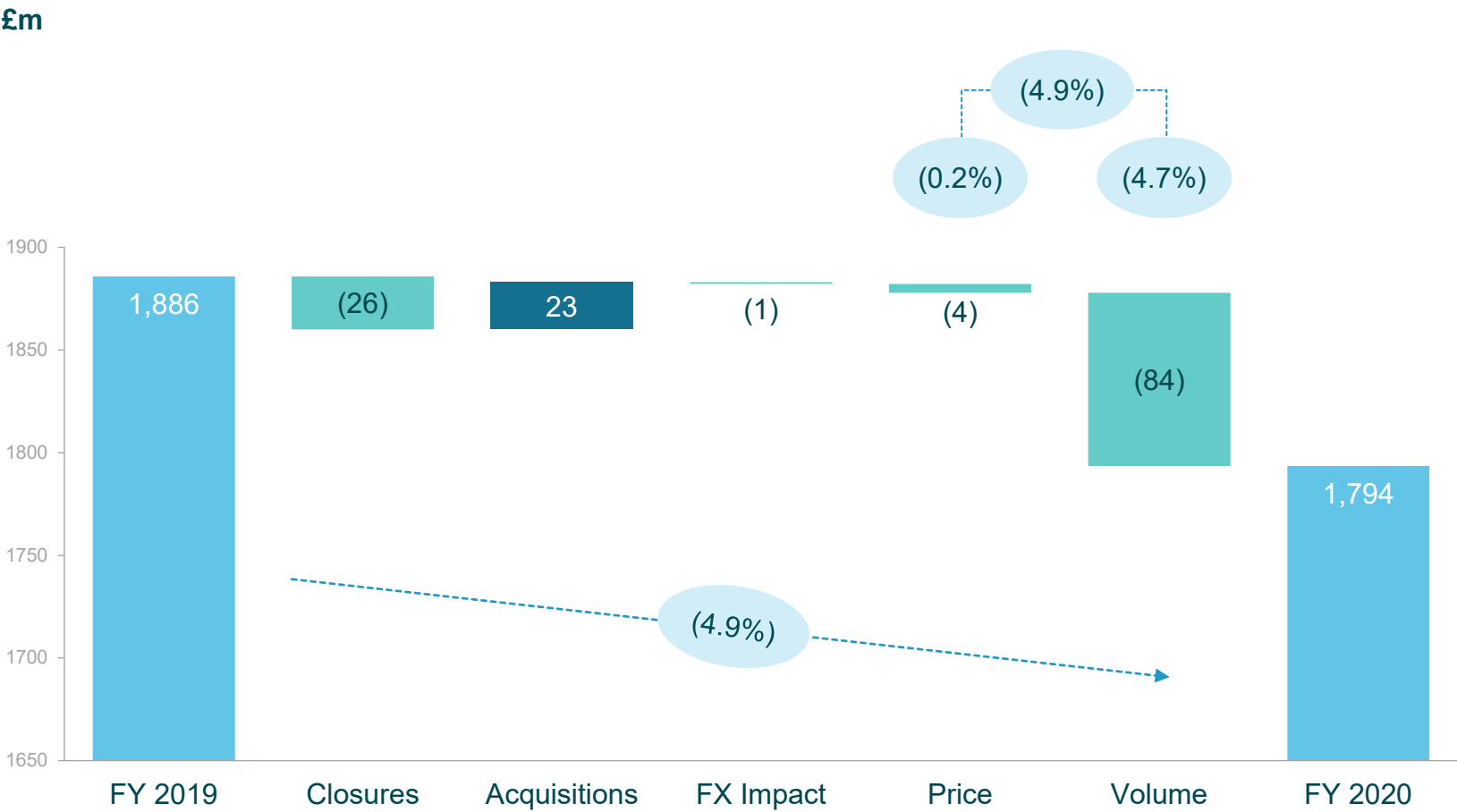


Financial Overview

£m	FY 2020	FY 2019	
Revenue	1,793.5	1,885.9	(4.9%)
Revenue: Like-for-like	1,721.9	1,810.6	(4.9%)
Adjusted EBITDA pre IFRS 16	139.2	138.0	0.9%
Adjusted operating profit	83.6	89.7	(6.8%)
Adjusted operating profit margin	4.7%	4.8%	(10bps)
Exceptional items	(21.6)	(20.3)	(6.4%)
Operating profit	62.0	69.4	(10.7%)
Operating profit margin	3.5%	3.7%	(20bps)
Basic EPS	5.9p	6.4p	(0.5p)
Adjusted EPS	8.7p	10.3p	(1.6p)
Dividend per share*	0p	2.0p	(2.0p)
ROIC	6.6%	8.0%	(140bps)
Free cash flow	40.1	46.9	(6.8)
Leverage	2.3x	2.3x	unchanged

Note: Alternative performance measures are used as a guide to underlying performance throughout this presentation, with definitions and calculations set out in Note 11 to the Company's Announcement of 16 March 2021 and Note 37 of 2020

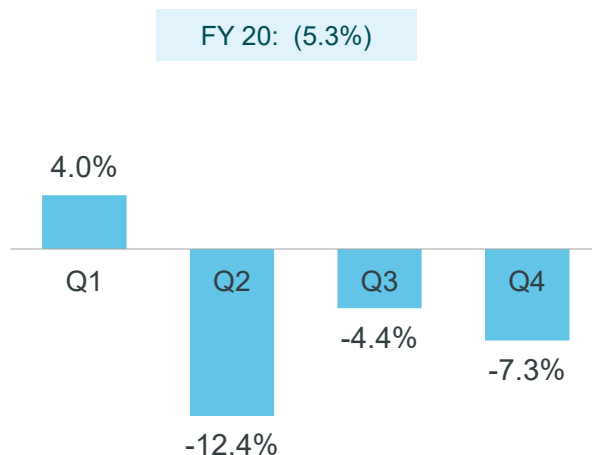
Revenue Bridge



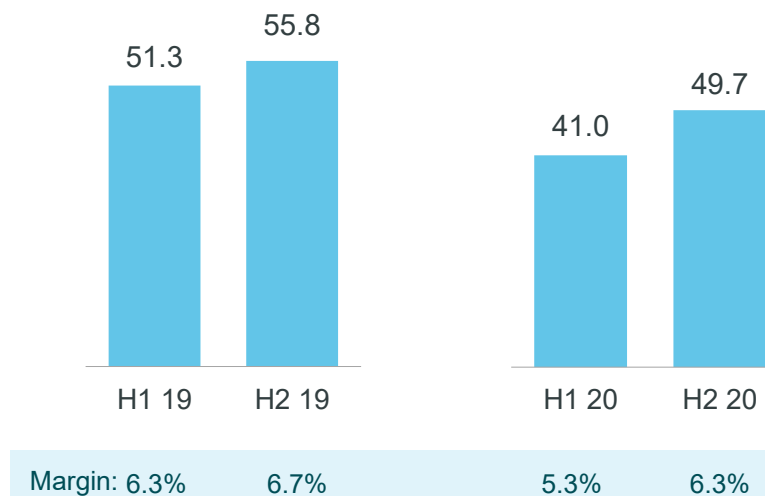
UK Performance

£m	FY 2020	FY 2019	
Revenue	1,566.6	1,652.5	(5.2%)
Adjusted operating profit	90.7	107.1	(15.3%)
Adjusted operating profit margin	5.8%	6.5%	(70bps)

UK quarterly growth LFL



UK adjusted operating profit £m

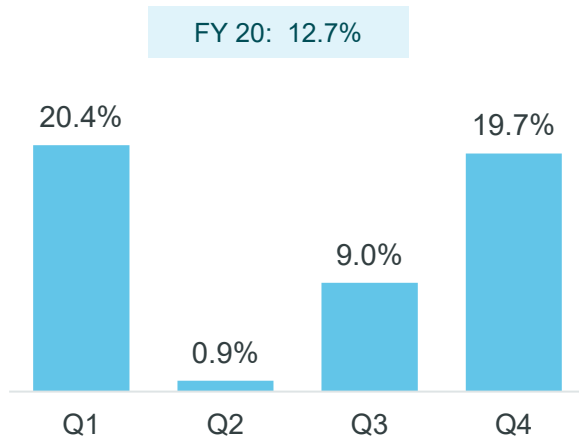


- Strong start to the year driven by meals win
- Significant downturn following Covid-19 outbreak in March with gradual recovery thereafter
- Q4 adversely impacted by further lockdown restrictions, although Christmas volumes in line with 2019
- Salad category remains heavily impacted with lower demand for 'Food to Go'
- Operating profit impacted by lower volumes, restructuring activity and costs relating to COVID-19
- H2 margins benefit from restructuring activity and a temporary reduction in discretionary spend

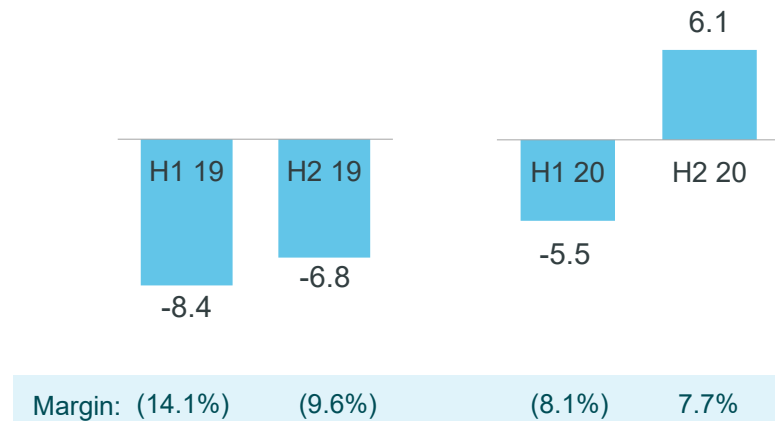
US Performance

£m	FY 2020	FY 2019	
Revenue	146.5	130.6	12.2%
Adjusted operating profit	0.6	(15.2)	-
Adjusted operating profit margin	0.4%	(11.6%)	1,200bps

US quarterly growth LFL



US adjusted operating profit £m

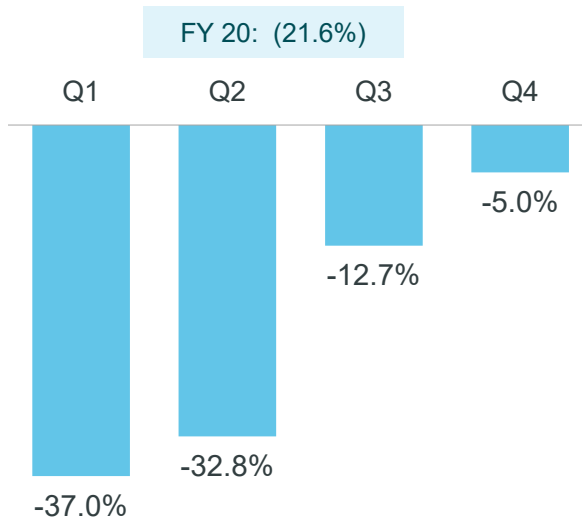


- Business initially impacted by COVID-19, but strong demand for fresh meals continues unabated
- Strong thanksgiving and Christmas leads to record breaking revenues in Q4
- US business underwent commercial and operational reset, with all sites now progressive
- Combination of reset and good underlying volume growth at new sites delivered profitability in H2
- Momentum continues into 2021 with good performance across all sites

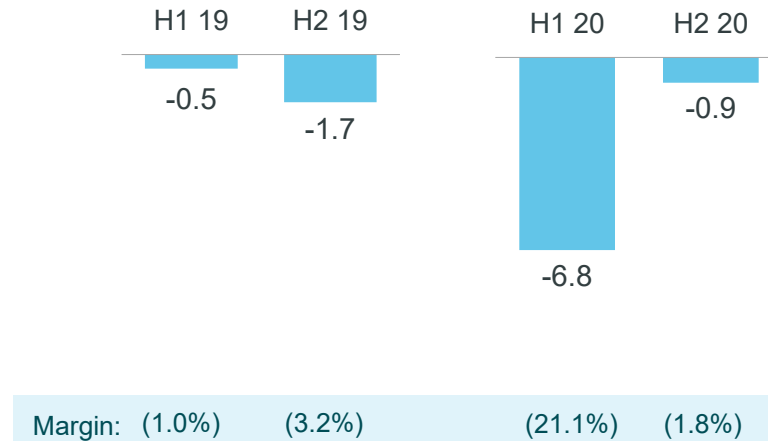
China Performance

£m	FY 2020	FY 2019	
Revenue	80.4	102.8	(21.8%)
Adjusted operating loss	(7.7)	(2.2)	(250%)
Adjusted operating loss margin	(9.6%)	(2.1%)	(750bps)

China quarterly growth LFL



China adjusted operating profit £m



- China business heavily impacted as Foodservice sector was worst affected
- Sales to retail customers, albeit small, starting to gain real momentum
- Volumes now returning across mainland China although Hong Kong sales continue to suffer due to ongoing civil unrest
- China profits significantly impacted in H1, but restructuring activity combined with improved volumes have reduced losses in H2
- Recent investments have unlocked capacity for further growth across new categories and channels

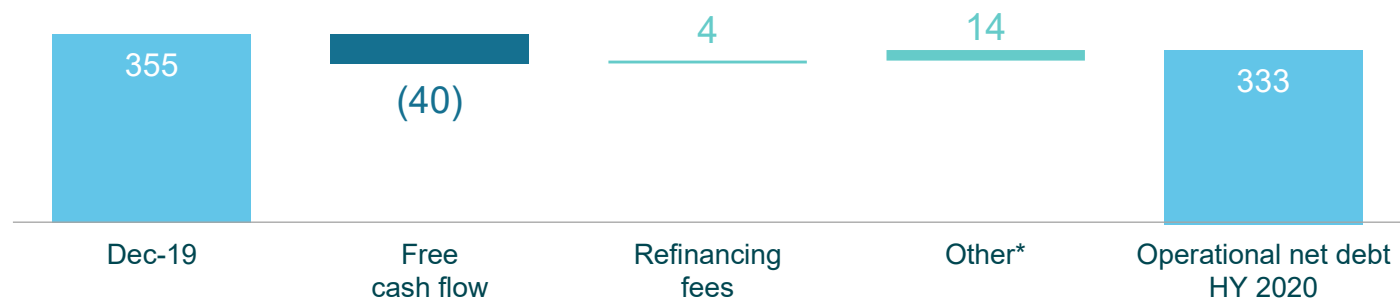
Free Cash Flow

£m	FY 2020	FY 2019
Adjusted operating profit	83.6	89.7
Depreciation and other*	71.0	61.2
Working capital	(23.4)	10.1
Operating cash flow	131.2	161.0
Interest	(17.2)	(17.9)
Tax	(16.5)	(14.0)
Pensions	(1.1)	(1.9)
Core capex (net)	(56.3)	(80.3)
Free cash flow	40.1	46.9

- Working capital outflow largely due to lower sales volumes combined with negative working capital cycle
- Tax increase due to changes in timing of payments on account in UK
- Core capex reduced initially, although investment recommenced in H2 with focus on productivity enhancements
- Free cash protected through restructuring and cost reduction

£m	FY 2020	FY 2019
UK	(47.7)	(57.9)
US	(2.6)	(10.7)
China	(6.0)	(11.7)
Core capex	(56.3)	(80.3)
Core capex as % of revenue	3.1%	4.3%

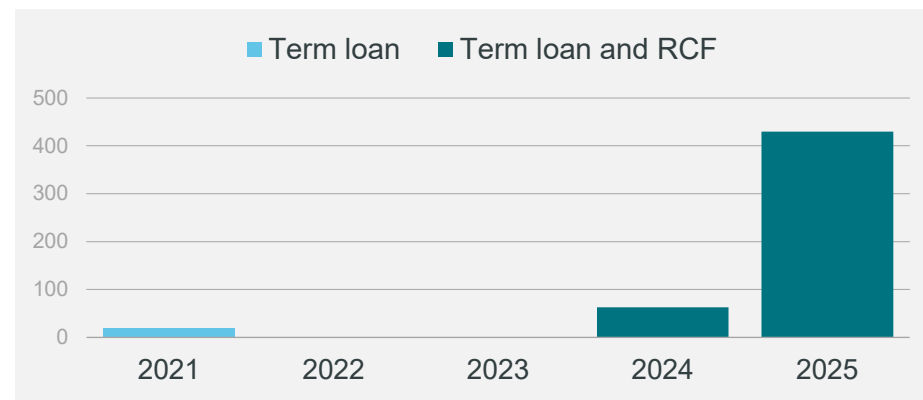
Debt and liquidity



£m

FY 2020

Cash and cash equivalents	(24.8)
Term loans	282.5
Revolving credit facility	50.0
Asset secured facility	24.0
Finance leases	1.7
Operational net debt	333.4
IFRS 16 leases	80.4
Other adjustments	(2.0)
Statutory net debt	411.8



Note – in addition £24m of asset secured financing repayable through to August 2027

- Successful refinancing completed in early 2020
- Operational net debt decreased by £21.4m
- Strong financial position supported by over £200m of liquidity headroom with funding maturities now extended to 2025
- Leverage held at 2.3x, in line with 2019
- 2020 dividend cancelled, 2019 final dividend remains suspended

Operational Review and Outlook

Agust Gudmundsson,
Chief Executive Officer



Developing our Management Board



Ben Waldron:
Chief Financial Officer



Mike Edwards:
UK Chief Operating
Officer



Donna-Maria Lee:
Chief People Officer

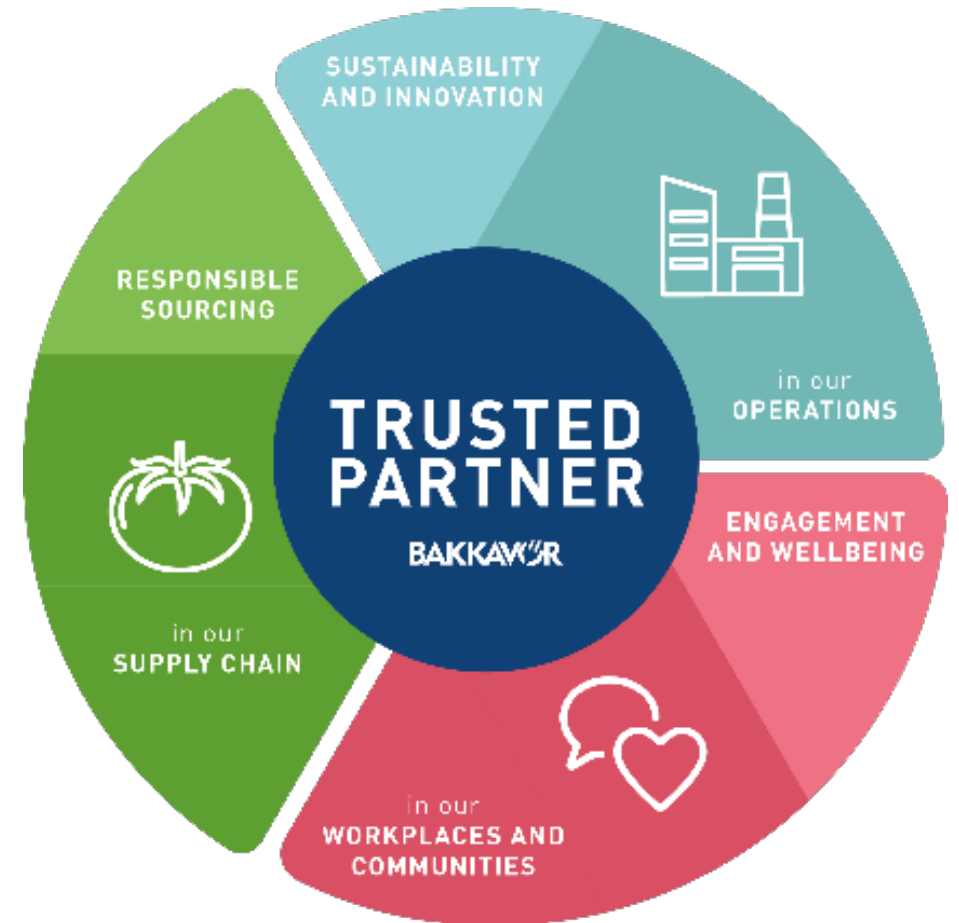


Pete Laport:
President USA

Progressing with ESG commitments

Key actions

1. Completed **supplier risk mapping programme** across all of our 500+ suppliers in UK and conducted an environmental and human rights risk assessment
2. Communicated a new **Supplier Code of Conduct** setting out our expectations on a wide range of sustainability and ethical business issues
3. Reduced our **food waste** by 4.7% or more than 2,000 tonnes
4. Continued to support our customers in delivering the goals of the **UK Plastics Pact** by eliminating 54 tonnes of unnecessary plastics
5. Prioritised reviewing our climate change goal and at the beginning of 2021, we confirmed a commitment to become a **Net Zero carbon business** in our Group operations by 2040



Good strategic progress made

1

Leveraging
#1 position
in the UK



2

Accelerating
growth in
international
markets



3

Improving
operational
efficiency



1. Leveraging #1 position in the UK

Meals



Salads



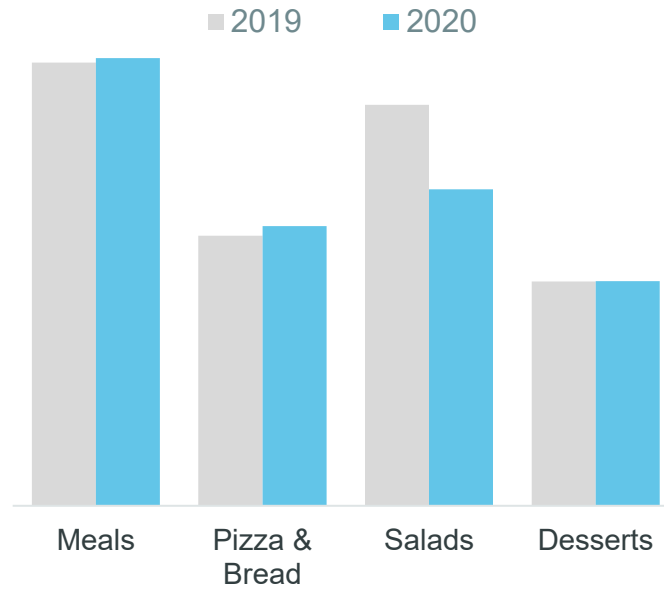
Pizza & Bread



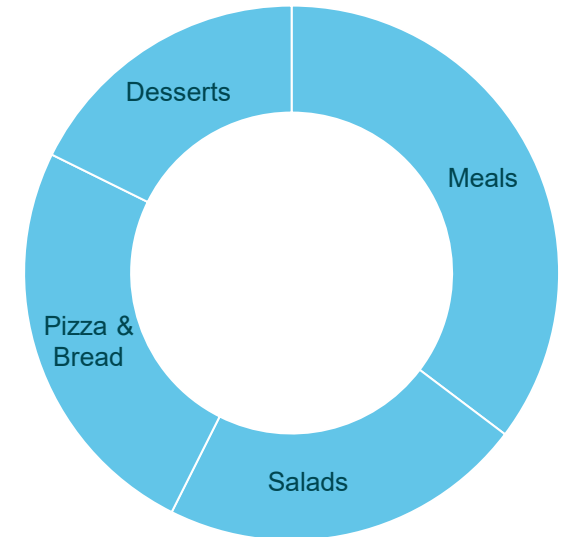
Desserts



UK Sales by Category



2020 share of UK sales (%)



UK: Meals



Solid performance, gained market share and extended our market leadership

Italian and Indian ranges performed particularly well

Q4 impacted by further lockdown restrictions, although Christmas volumes in line with 2019

Vegetable accompaniments and healthy meals suffered as consumers cooking more from scratch

Took advantage of the demand for in-home dining experiences with new range launches



UK: Pizza & Bread



Strong performance as consumers looked for familiar and convenient options due to more family meal occasions in the home

Most resilient category, providing two important meal solutions: an easy midweek meal which benefitted our core ranges, and a treat for the weekend which benefitted our premium and takeaway style products

Attractive pizza meal-deals proved especially popular and also supported sales of desserts and dips



UK: Salads



While warmer weather and the easing of lockdown restrictions supported the category in the summer, our salads business was severely impacted

Sales declined by around 20% in the year; Food-to-go contributing around 70% to this decline, with the remaining 30% related to the exit of low margin business and reducing our footprint to strengthen our model

Two salads sites closed in the year in Spalding and Alresford

Remain committed to the Food-to-go and salads sector, although sales recovery expected to take time



UK: Desserts



Proved resilient, despite sales being impacted by the initial appeal of home baking

Worked closely with customers in H2 to extend ranges

Continued to innovated and introduced popular new products such as the 'Yumnut'

Achieved our strongest ever Christmas performance in desserts



2. Accelerating growth in international markets

Transformation of the US business



8% of Group revenue

Undertook a commercial and operational reset to turnaround the profitability and sustainability of the business:

- Customers: resigned from 50% of customers, focused on building long-term strategic relationships, reduced portfolio by one third, capitalised on direct-to-consumer delivery
- Categories: simplified our operations and invested behind our three super categories - meals, dips, and heavily topped breads
- Leadership: several structural changes and new appointments made to drive through the transformation, training facilitated by UK teams

2. Accelerating growth in international markets

China still a significant opportunity



5% of Group revenue

Experienced a difficult year due to the pandemic and its impact on foodservice as well as civil unrest in Hong Kong

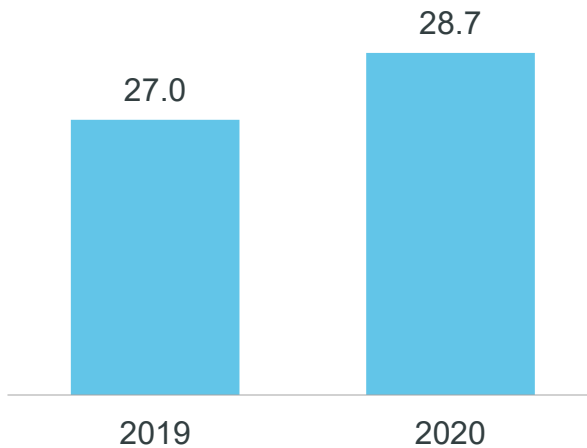
Completed new replacement factory in Wuhan, commenced works at a new site in Xi'an and expanded capacity at our Taicang bakery operation to satisfy growing demand

Successfully leveraged our capability to build customer relationships for online and new retail propositions

3. Improving operational efficiencies

Continuous process improvement

Group Gross Margin %



Pandemic prompted us to make several difficult yet necessary decisions to protect our profitability

New and more efficient ways of working identified with our customers, leading to restructure of several key functions, and streamlining of US and UK customer facing roles

Continued with a number of projects that developed our digital capabilities, including the roll-out of factory automation

Ongoing refrigeration replacement project provides efficiencies and supports our ESG credentials



Outlook

- Short-term trading environment remains uncertain, however consumer demand outside of lockdown is encouraging
- Scale and customer relationships position us well to benefit from future increases
- US demand continues and we are confident in sustainable profitable growth

- Focused on our continued steady recovery in China and excited about extending our routes to market
- Restructurings and new ways of working have delivered permanent benefits to the Group
- We look forward to building on this good momentum into 2021 and beyond

Conclusion/ Q&A



Appendix



Balance sheet and metrics

£m	FY 2020	FY 2019
Underlying effective tax rate	21.7%	16.8%
Adjusted EPS	8.7p	10.3p
Average invested capital	997.3	933.9
ROIC	6.6%	8.0%
Net debt including IFRS 16	411.8	432.4
Operational net debt	333.4	354.8
Leverage ratio (Operational net debt/Adjusted EBITDA pre IFRS 16)	2.3x	2.3x
IAS 19 pension surplus (net of deferred tax)	9.1	8.1

- Effective tax rate increased as UK tax rates held at 19%
- Increase in invested capital following recent expenditure
- Leverage maintained despite challenging environment
- Pension contributions maintained throughout the year and benefits from liability hedging increases surplus

Earnings per share

£m	FY 2020	FY 2019
Basic earnings	34.1	36.9
Exceptional items	21.6	20.3
Accelerated finance costs	1.7	-
Change in fair value of derivatives	(3.4)	7.3
Tax on the above items	(3.8)	(5.1)
Adjusted earnings	50.2	59.4
Weighted average number of Ordinary shares 000's	579,426	579,426
Basic earnings per share	5.9p	6.4p
Adjusted basic earnings per share	8.7p	10.3p

Other financial information

Tax

£m	Profit before tax	Tax charge	Profit after tax	Effective tax rate
Statutory profit	44.2	(10.1)	34.1	22.9
Exceptional items including accelerated finance costs	23.3	(4.4)		
Change in fair value of derivatives	(3.4)	0.6		
Statutory profit before one off items	64.1	(13.9)	50.2	21.7

IFRS 16 earnings impact

£m	FY 2020	FY 2019
Operating lease charge	13.0	12.9
Depreciation	(11.4)	(12.3)
Operating profit	1.6	0.6
Finance costs	(2.6)	(2.8)
Profit before tax	(1.0)	(2.2)
Tax	0.2	0.3
Profit after tax	(0.8)	(1.9)

Pensions

- UK DB scheme closed to future accrual in March 2011
- Investment assets of c.£295m
- Surplus of £11.2m on IAS 19 basis (Dec 2019: surplus £9.7m)
- Cash contributions of £2.5m pa to 31 March 2024

