

A woman wearing a white lab coat and a white hairnet is smiling at the camera. She is in a food processing facility, with a conveyor belt and various food items visible in the background. The background is slightly blurred, focusing attention on the woman.

# Half-year Results

For the 26 weeks ended 27 June 2020

# Disclaimer – Forward-looking statements

---

This half-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.

# Agenda

Welcome

Simon Burke

Our COVID-19 Response

Agust Gudmundsson

Operational Review

Agust Gudmundsson

Financial Review

Peter Gates

Q&A



A woman with glasses, wearing a white lab coat over a black turtleneck and a red hairnet, is smiling and holding a large metal basket filled with golden-brown pastries. She is in a factory setting, with another worker in a white lab coat and red hairnet visible in the background. A blue text box is overlaid on the left side of the image.

# Our COVID-19 response

Agust Gudmundsson, CEO



# Introduction

---

- Solid performance is testament to the hard work and commitment of everyone at Bakkavor
- Colleagues have worked tirelessly to minimise disruption and their health, safety and wellbeing continues to be our foremost priority
- Extremely challenging H1 given the COVID-19 issues the business has faced
- Scale and strength of our operations, coupled with our ability to react at speed, has reinforced our competitive advantage to our customers
- Whilst there will be further challenges ahead, we remain a robust, balanced and well capitalised Group
- Steps taken to protect our business, combined with recent improvement in trading, gives us confidence for the future



# An unprecedented year - managing the disruption of COVID-19

---

Impacted all three regions of operations (UK, USA and China)



## Key focus areas:

1. **People Management:** Prioritising the health, safety and wellbeing of our 'key worker' colleagues
2. **Supply Chain & Consumer Demand:** Minimising business disruption by managing volatile demand and delivering for our customers
3. **Cost Control:** Taking quick and decisive action on expenditure to preserve cash and adapt to the ongoing challenging trading environment

# People management: protecting our people is our priority

---

## Introduced enhanced controls across our business

- Bakkavor Coronavirus Management Strategy (BCMS) launched for all colleagues
- New measures implemented in line with guidance:
  - restricted visitor access
  - a more rigorous return to work procedure
  - more frequent cleaning regimes at touchpoints
  - additional handwashing protocols
  - adhering to guidelines for social distancing in offices, rest, changing and ancillary areas
  - following specific guidance for distancing in food manufacturing businesses
- Voluntary participation in UK onsite testing programmes at Leicester and Newark



# Recognising our people and supporting our communities

---

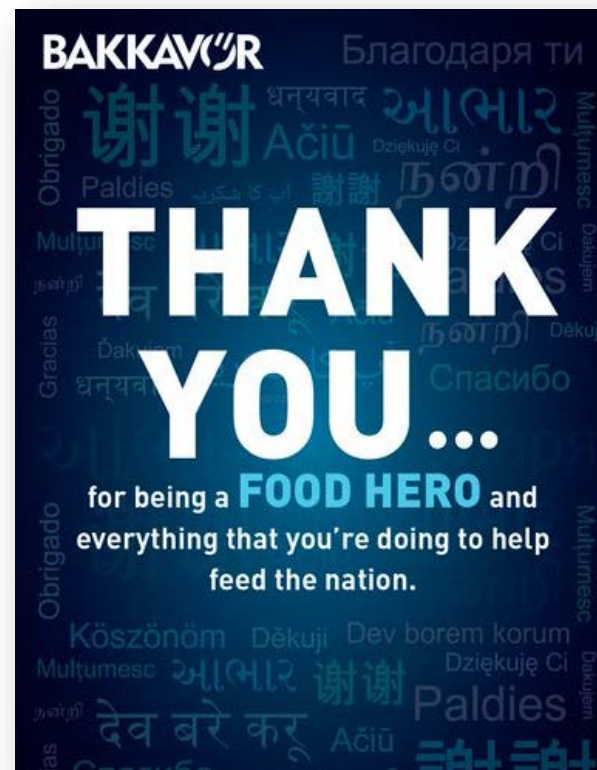
## Proud of our Food Heroes

### Launched:

- Food Heroes 'Thank You' campaign
- Well-being Toolkit
  - Offering emotional, financial and physical support

### Donated:

- Food to our local communities
  - Hospitals, care homes, emergency services and charities





# Supply chain and consumer demand

---

Maintaining our supply chain with minimal disruption

---

## Supply Chain

- Largely centralised function provided scale and visibility to mitigate impact
- Relationships strengthened with farmers, growers and suppliers
- On the ground presence in countries i.e. Spain, Italy and China provided good local knowledge of supply base and flexibility to source alternative solutions where required
- Now focussed on preparations for UK exit from EU

## Consumer Demand

- Significant volatility and changes in consumer demand across all regions, categories and sites
- Lockdown restrictions altered shopping behaviours e.g Food to Go, 'One big shop'
- New product launches delayed and existing ranges simplified
- Working closely with customers in all three markets to drive growth back into categories

# Cost control and financial stability

---

## Rapid response to the pandemic

Decisive mitigating actions implemented to lower cost base and preserve cash:

- Substantial reduction in capital expenditure and focused on essential maintenance projects
- Strategic restructurings actioned in all regions to strengthen financial position
- Temporarily closed two factories to realign our capacity to the drop in demand
- Limited use of Job Retention Scheme in the UK

## Financial stability

- Completed a planned refinancing of core financing arrangements in March, extending maturities to at least March 2024
- The Group's liquidity position remains strong with comfortable headroom against all financial covenants
- No interim dividend for 2020 to ensure we preserve cash during uncertain period



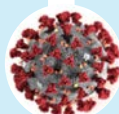
# Operational Review

Agust Gudmundsson, CEO



# The UK market - an unprecedented year

**NEW YEAR  
NEW OUTLOOK**



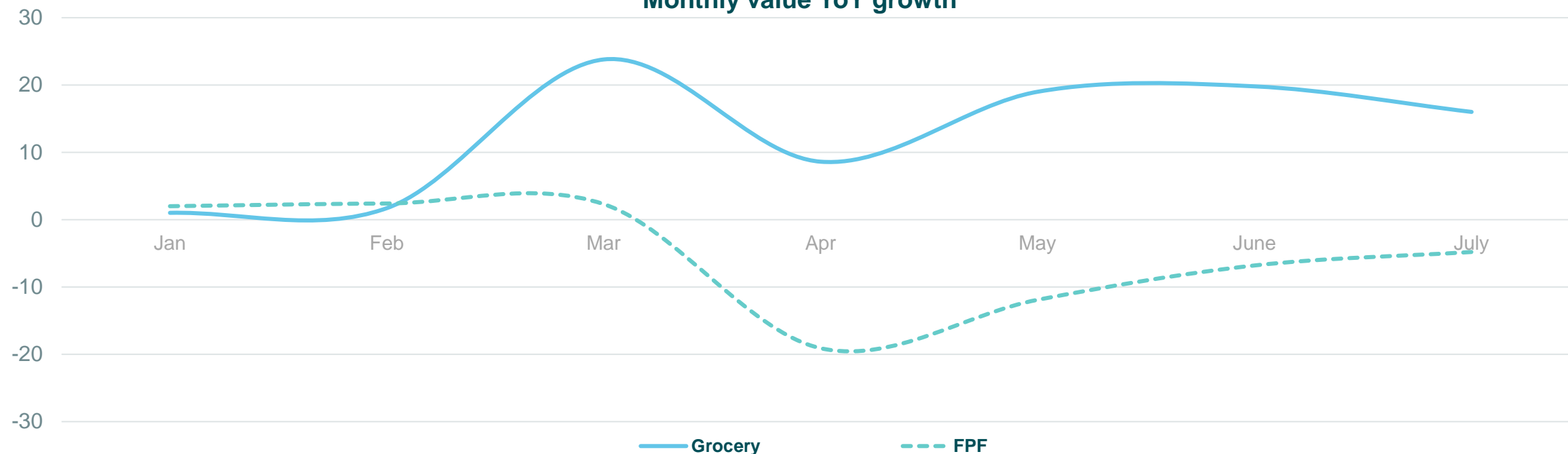
**COVID IN UK  
PREPARE FOR LOCKDOWN**

**LIFE IN LOCKDOWN  
ADJUST & SETTLE**

**LOCKDOWN EASES  
SLOW RETURN**



Monthly value YoY growth

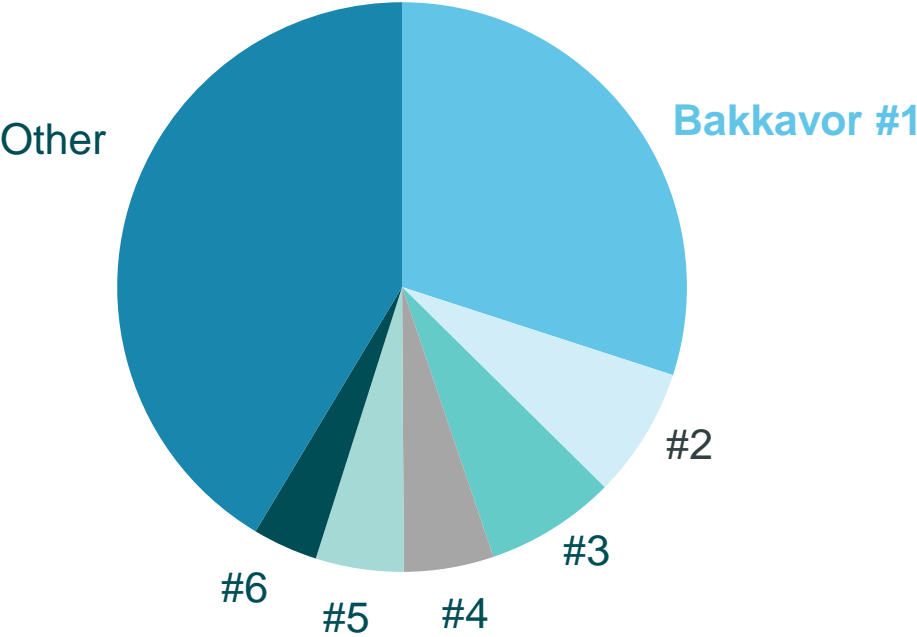


Source: Grocery, Kantar; FPF, Bakkavor market database

# Maintained our #1 position in the UK

We remain the clear leader in the UK FPF market, gaining overall market share in the period, working closely with customers to minimise disruption

FPF market share by supplier



Meals  
BV #1



Pizza & Bread  
BV #1



Desserts  
BV #1



Salads  
BV #1

# UK: Meals

---



Strong start to the year benefitting from recent new business, but sales heavily impacted in early April

Gained market share, with our Italian and Indian ranges performing particularly well

Vegetable accompaniments and healthy meals suffered as consumers used their time at home to return to cooking from scratch

Broader recovery in category as lockdown measures ease and consumers spend less time at home



# UK: Pizza & Bread, Desserts

---

## Pizza & Bread



Trading has been strong through the period, as consumers turned to convenient and familiar options during difficult times

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

## Desserts



Resilient trading throughout lockdown as consumers looked for an easy and convenient 'lockdown treat'

# UK: Salads

---



With many people working from home, the demand for 'Food to Go' products such as wraps and salad-based meals has significantly impacted overall category performance

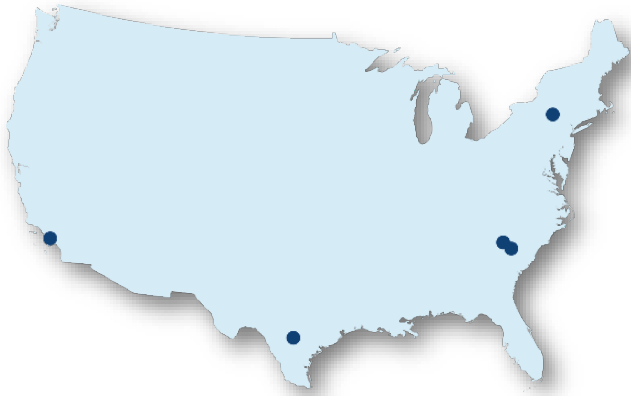
Recent warmer weather and the easing of lockdown restrictions has delivered some improvements but remains volatile

Business losses have resulted in the closure of a salads site at Spalding and a consultation process at Alresford

# USA: operations focused on minimising disruption

---

Volatile market due to COVID-19 and lockdown restrictions



Responded to COVID-19 outbreak by prioritising the safety and wellbeing of our colleagues and successfully minimised the financial disruption to our business by:

- Reviewing product ranges with customers to react to short-term shifts in consumer habits
- Downsizing the overhead structure
- Delaying the development of hummus production until next year
- Temporarily closing our bakery in Charlotte



# USA: Recent investments

---

Strong growth in our new sites in Texas, California and Charlotte. Both meals sites are profitable and helping offset lower volumes across our other USA sites



**CHARLOTTE  
BAKERY**



**TEXAS  
MEALS**



**CALIFORNIA  
MEALS**

# China: operations focused on cost control measures

---

Profit impact for 2020 due to COVID-19 at lower end of initial £6-£10m estimate



Majority of customers impacted as foodservice businesses were forced to close. Many have reopened but we remain cautious.

Site closures did not impact customers as we maintained service levels by transferring production to our remaining locations.

The following cost control measures were put in place:

- Temporary salary cuts
- Recruitment freezes
- Streamlined operating structure in Hong Kong

# Outlook

---



Steady improvement in trading across the business in June has been maintained into the second half of the year.

We are a robust business with a proven ability to withstand major operational challenges.

Continue to be cautious as we look ahead due to COVID-19 and Brexit uncertainties.





# Financial Review

Peter Gates, CFO

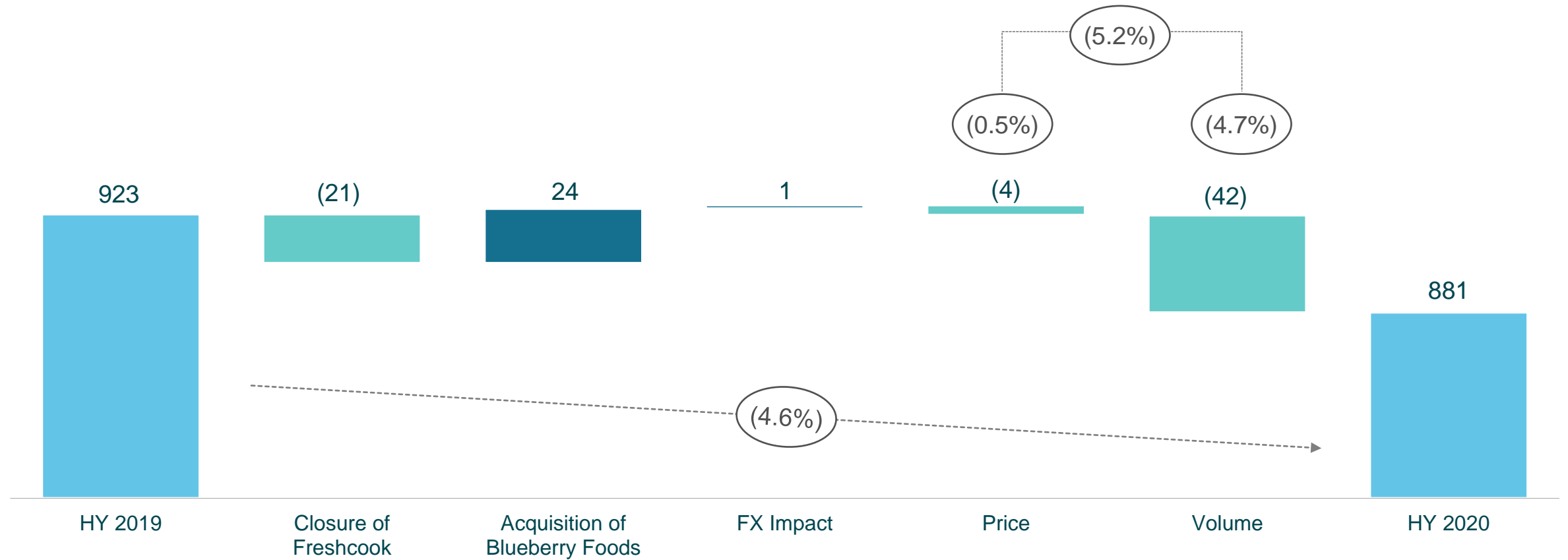
# Financial Overview

£m	HY 2020	HY 2019	
Revenue	880.5	923.0	(4.6%)
Revenue: Like-for-like	852.4	899.2	(5.2%)
Adjusted operating profit	28.7	42.4	(32.3%)
Adjusted operating profit margin	3.3%	4.6%	(130bps)
Operating profit	13.7	29.3	(53.2%)
Operating profit margin	1.6%	3.2%	(160bps)
Basic EPS	0.9p	3.0p	(2.1p)
Adjusted EPS	2.6p	4.9p	(2.3p)
Interim dividend per share	0p	2p	(2p)
Free cash flow	(3.3)	15.0	(18.3)
Leverage ratio	2.6x	2.4x	(0.2x)

Note: Alternative performance measures are used as a guide to underlying performance throughout this presentation, with definitions and calculations set out in Note 20 to the Company's Announcement of 8 September 2020.

# Revenue Bridge

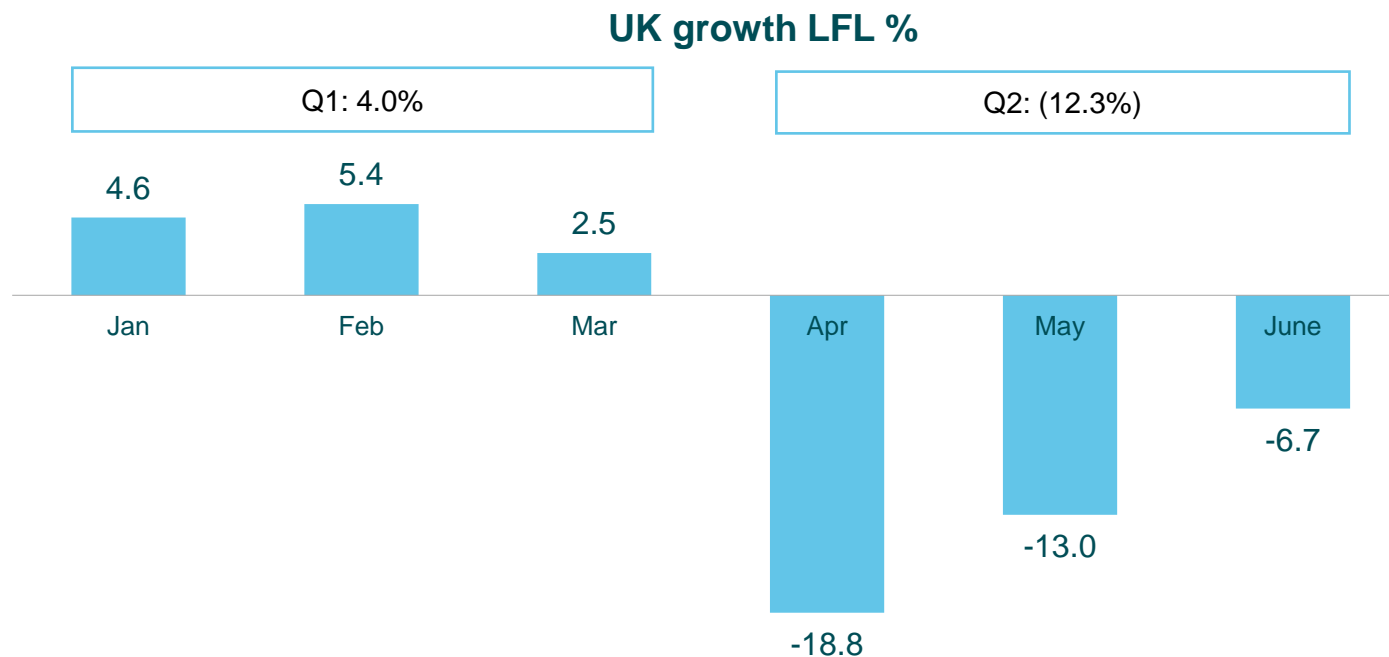
£m





# UK Revenue

£m	HY 2020	HY 2019	
Revenue	780.4	813.5	(4.1%)
Revenue: Like-for-like	754.0	789.7	(4.5%)



- Strong start to the year driven by recent new meals and dessert business
- Significant downturn following Covid-19 outbreak in March with gradual recovery thereafter
- Salads category remains heavily impacted with lower demand for 'Food to Go'
- Q3 continues improving trend with revenue down c.5%



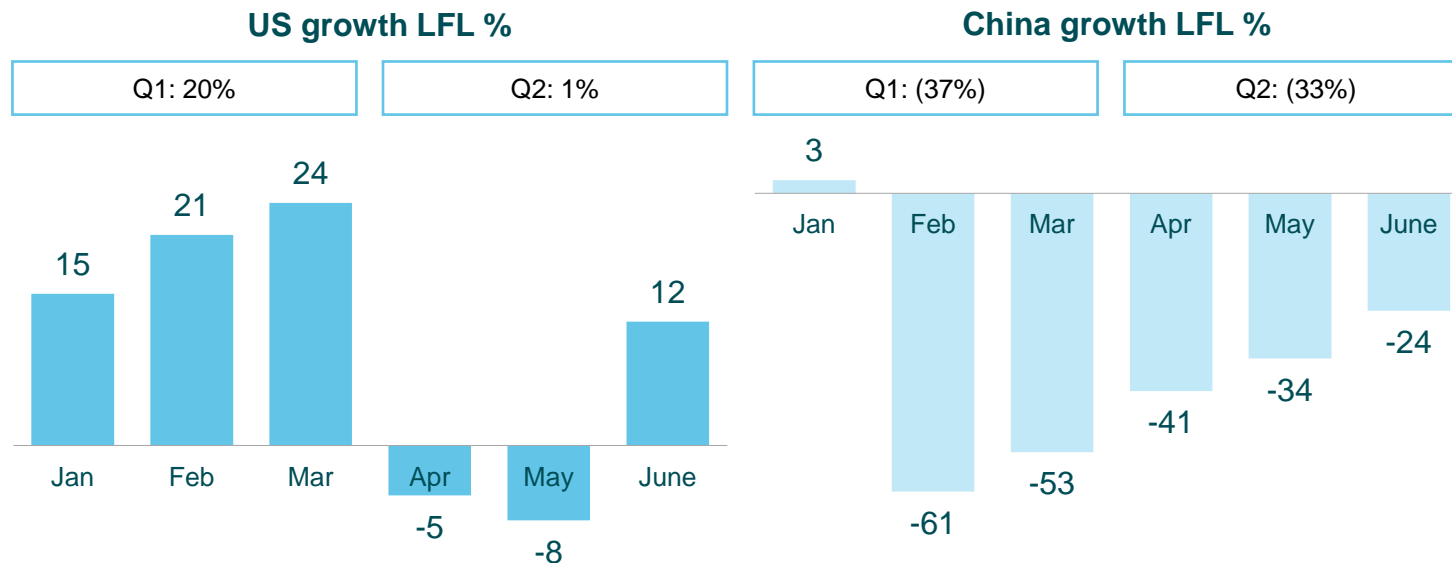
# UK Performance

£m	HY 2020	HY 2019	
Revenue	780.4	813.5	(4.1%)
Revenue: Like-for-like	754.0	789.7	(4.5%)
Adjusted operating profit	41.0	51.3	(20.1%)
Adjusted operating profit margin	5.3%	6.3%	(100bps)
Exceptional items	(15.0)	(11.5)	-
Operating profit	26.0	39.8	(34.7%)
Operating profit margin	3.3%	4.9%	(160bps)

- Impact of lower volumes in Q2 partly offset by cost savings and support from Job Retention Scheme
- Operating profit impacted by restructuring activity and other costs incurred in response to Covid-19
- H2 margins expected to be progressive as we benefit from actions taken in H1

# International Revenue

£m	HY 2020	HY 2019	
Revenue	100.1	109.5	(8.6%)
US	67.6	59.5	13.6%
China	32.5	50.0	(35.0%)
Revenue: Like-for-like	98.4	109.5	(10.1%)



- Strong start to the year in the US, particularly at new sites, followed by softer trading in Q2
- China business heavily impacted as Foodservice sector has been slow to recover
- Encouraging trading in Q3 with US up 6% and China now down 17% but both markets still volatile

# International Performance

£m	HY 2020	HY 2019	
Revenue	100.1	109.5	(8.6%)
<i>US</i>	67.6	59.5	13.6%
<i>China</i>	32.5	50.0	(35.0%)
Revenue: Like-for-like	98.4	109.5	(10.1%)
Adjusted operating loss	(12.3)	(8.9)	(38.2%)
Adjusted operating loss margin	(12.3%)	(8.1%)	(420bps)
Exceptional items	-	(1.6)	-
Operating loss	(12.3)	(10.5)	(17.1%)
Operating loss margin	(12.3%)	(9.6%)	(270bps)

- Combination of operational changes last year and good underlying volume growth at new sites delivered improved performance in the US despite Covid-19
- China profits significantly impacted but now expect this to be at the lower end of our initial estimates of £6m to £10m for 2020
- Restructuring activity and additional costs in both regions in response to pandemic



# Free Cash Flow

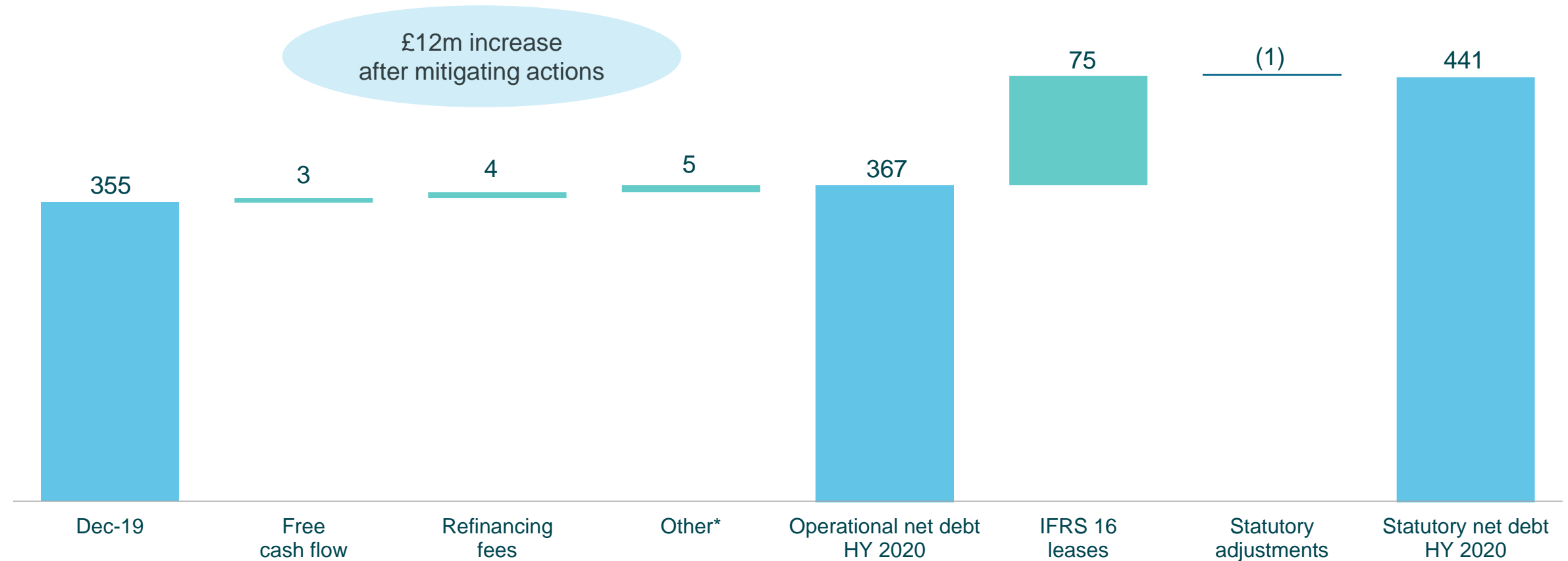
£m	HY 2020	HY 2019
Adjusted operating profit	28.7	42.4
Depreciation and other*	34.2	29.2
Working capital	(25.1)	(5.0)
Operating cash flow	37.8	66.6
Interest	(7.8)	(8.7)
Tax	(11.7)	(8.0)
Pensions	(0.6)	(1.4)
Core capex (net)	(21.0)	(33.5)
% of revenue	2.4%	3.6%
<i>UK</i>	(16.4)	(21.9)
<i>International</i>	(4.6)	(11.6)
Free cash flow	(3.3)	15.0

- 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 restricted as cash preserved and only essential spend allowed
- Free cash outflow limited following mitigating actions

\*Other includes amortisation, share scheme charges, profit/loss on disposal of property, plant and equipment and share of results of associates after tax

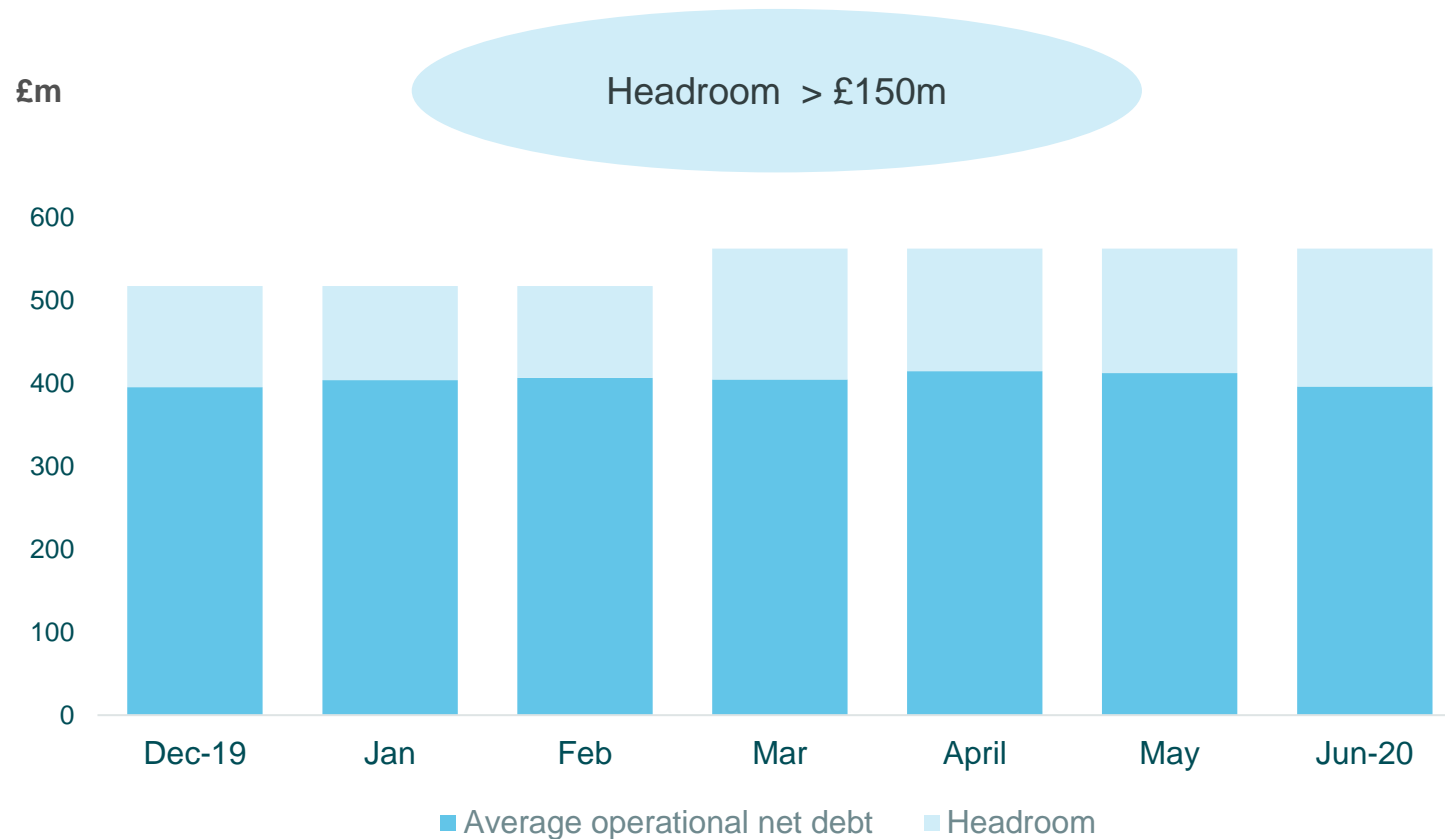
# Net Debt

£m



\*Other includes £5.5m of net lease movements, exceptional cash costs of £0.3m and £(0.7m) of foreign exchange movements

# Liquidity



£m	HY 2020
Cash and cash equivalents	(58.8)
Term loans	282.5
Revolving credit facility	125.0
Asset security facility	12.7
Bank overdraft	4.1
Finance leases	1.9
<b>Operational net debt</b>	<b>367.4</b>



# Balance Sheet and Ratios

£m	HY 2020	FY 2019
Goodwill and intangibles	657	654
Non-current assets	598	603
Current assets	178	196
Operational net debt	(367)	(355)
Other liabilities	(468)	(524)
Net assets	598	574
Leverage ratio	2.6x	2.3x
Underlying effective tax rate	19.0%	16.8%

- Reduction in non-current assets due to lower capital spend
- Trade receivables and payables impacted by lower sales volumes
- Leverage increased despite minimal increase in debt
- Effective tax rate increased as UK tax rates held at 19%





Q&A





# Appendix

# Earnings per share

£m	HY 2020	HY 2019
Basic earnings	5.4	17.2
Exceptional items	16.7	13.1
Change in fair value of derivatives	(5.1)	0.9
Tax on the above items	(2.1)	(2.6)
Adjusted earnings	14.9	28.6
Weighted average number of Ordinary shares 000's	579,426	579,426
Basic earnings per share	0.9p	3.0p
Adjusted basic earnings per share	2.6p	4.9p



# Other financial information

## Tax

£m	Profit before tax	Tax charge	Profit after tax	Effective tax rate
Statutory profit	6.8	(1.4)	5.4	20.6%
Exceptional items	16.7	(3.1)	13.6	
Change in fair value of derivatives	(5.1)	1.0	(4.1)	
Statutory profit before one off items	18.4	(3.5)	14.9	19.0%

## IFRS 16 earnings impact

£m	HY 2020	HY 2019
Operating lease charge	6.7	6.4
Depreciation	(5.7)	(6.1)
Operating profit	1.0	0.3
Finance costs	(1.3)	(1.4)
Foreign exchange movements	(0.8)	-
Profit before tax	(1.1)	(1.1)
Tax	0.1	0.2
Profit after tax	(1.0)	(0.9)

## Pensions

- UK DB scheme closed to future accrual in March 2011
- Investment assets of c.£290m
- Surplus of £20.0m on IAS 19 basis (Dec 2019: surplus £9.7m)
- Cash contributions of £22.5m over 8 years to 31 March 2024
- Next valuation at 31 March 2019 ongoing

