

Bakkavor Group plc

Proven business model delivers a solid performance

Bakkavor Group plc ("Bakkavor", "the Group" or "the Company"), the leading provider of fresh prepared food in the UK, today announces its half year unaudited results for the 26-week period ended 27 June 2020.

FINANCIAL HIGHLIGHTS

- Reduction in Group revenue limited to 4.6% at £880.5m and steady recovery since April into H2
- Group like-for-like revenue¹ down 5.2% to £852.4m
 - Solid UK trading in extremely challenging market, with 4.5% decrease to £754.0m
 - International revenues down 10.1% to £98.4m, reflecting early impact of COVID-19 in China, offset by encouraging growth in the USA
- Adjusted operating profit¹ down 32.3% to £28.7m
- Basic earnings per share of 0.9p and Adjusted earnings per share of 2.6p
- Operational net debt¹ increased by 3.0% to £367.4m, with leverage of 2.6x
- Successful planned refinancing of core debt facilities in Q1 and significant liquidity available
- Dividend policy under regular review and no interim payable

OPERATIONAL HIGHLIGHTS

- Strong start to the year in UK and US until the COVID-19 outbreak
- Continued to prioritise safety and wellbeing of all colleagues through enhanced H&S and hygiene protocols
- Rapidly adapted business operations in response to short-term changes in demand
- Decisive mitigating actions taken to lower cost base and preserve cash, including strategic restructurings in all regions
- Working closely with customers in all markets to drive growth back into categories

£ million (unless otherwise stated)	H1 2020	H1 2019	Change
Group revenue	880.5	923.0	(4.6%)
Like-for-like revenue ¹	852.4	899.2	(5.2%)
Adjusted operating profit ¹	28.7	42.4	(32.3%)
Adjusted operating profit margin ¹	3.3%	4.6%	(130bps)
Operating profit	13.7	29.3	(53.2%)
Profit before tax	6.8	19.5	(65.1%)
Basic EPS	0.9p	3.0p	(2.1p)
Adjusted EPS ¹	2.6p	4.9p	(2.3p)
Free cash flow ¹	(3.3)	15.0	(18.3)
Operational net debt ¹	367.4	356.6	10.8
Interim dividend per share	0p	2p	(2p)

1. Alternative performance measures are referred to as 'like-for-like', 'adjusted', 'underlying' and are applied consistently throughout this document. These are defined in full and reconciled to the reported statutory measures in Note 20.

OUTLOOK

It is encouraging that the steady recovery in trading seen across the business in June has been maintained into the second half of the year.

The macroeconomic uncertainty caused by COVID-19, combined with limited clarity as to the terms and implications of the UK's exit from the EU, means that we have to be cautious as we look ahead to the rest of this year and into 2021. However, our performance in the first half of the year has proven our ability to withstand major operational challenges and gives us confidence in the quality of our business model and strength of our customer partnerships.

We continue to be a robust business with market leading positions in each of the categories in which we operate and, as such, we are well-placed to capitalise on the long-term trend for fresh, healthy and convenient food.

AGUST GUDMUNDSSON, CEO, SAID:

"The first half of this year has been extremely challenging, but I am pleased to report that the Group has produced a solid performance given the COVID-19 issues the business has faced. The scale and strength of our operations, coupled with our ability to react at speed, has proved a clear advantage to our customers during this period.

"But more than this, our performance is testament to the hard work and commitment of everyone at Bakkavor. In difficult circumstances, we have worked tirelessly to minimise disruption and continue to deliver for our customers. We are fortunate to have such dedicated colleagues and their health, safety and wellbeing continues to be our foremost priority. I am hugely grateful for their support.

"We have taken many difficult yet necessary decisions this year to protect the long-term success of our business. Whilst there will be further challenges ahead, we remain a robust, balanced and well capitalised Group and the steps we have already taken to protect our business, combined with the recent improvement in trading, gives us confidence for the future."

PRESENTATION

We will be presenting to analysts via a webcast at 10.00 am, 8 September 2020, through the Investors section of the Group's website at <https://bakkavor.eventcdn.net/2020h1/register/>. The presentation can also be accessed via a replay service shortly after the presentation has concluded.

ENQUIRIES

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About Bakkavor

Bakkavor is the leading provider of fresh prepared food ("FPF") in the UK, with a growing international presence in the United States and China. The Group is the number one by market share in the UK in the four FPF product categories of meals, pizza & bread, salads and desserts, providing high-quality, fresh, healthy and convenient food. Its customers include some of the UK's leading grocery retailers, including Tesco, Marks & Spencer, Sainsbury's and Waitrose. The Group's International segment operates in the US and China. As these FPF markets continue to grow, Bakkavor seeks to leverage its UK expertise in order to build its presence in these territories. Bakkavor was founded in 1986 and has its headquarters in London. The Group has over 20,000 employees and operates 25 factories in the UK, 5 in the US and 9 in China.

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Disclaimer – forward-looking statements

This half year statement, 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.

GROUP OVERVIEW

Bakkavor is the leading provider in the UK fresh prepared food (FPF) market, with a growing international presence in the US and China. Our customers include every major UK grocery retailer and some of the world's best-known food brands.

Our people

We could not do what we do without the commitment of our people to deliver great-tasting fresh prepared food. This year, following the COVID-19 outbreak, our business like many others has faced major challenges, but our colleagues have shown remarkable fortitude and spirit in response to the difficulties they have faced. They have continued to show total commitment, support one another, and help out in their local communities. They are 'Food Heroes' and we cannot thank them enough for their exceptional performance during one of the toughest periods in living memory.

The health, safety and wellbeing of our colleagues has always been our foremost priority, and this has remained the case during the COVID-19 pandemic. As a leading food manufacturer with over 30 year's experience, our well-established controls for managing both people and food safety within our operations were already industry-leading. As the potential scale of the pandemic became clear, we acted quickly to introduce additional checks and processes. In line with government and public health guidelines, we introduced new social distancing measures across our sites, and made sure that all colleagues who could work from home were able to do so. We also brought in restricted visitor access, screens and visors and temperature screening, a rigorous return to work procedure, more frequent cleaning regimes and additional handwashing protocols. As lockdown restrictions eased, and government guidance changed, we have continued to adapt these controls appropriately, ensuring the health and safety of all 20,000 of our colleagues across the Group.

Trading performance

COVID-19 has had a significant impact on our overall performance during this period. Our business in China was severely impacted towards the end of January, and our UK and US businesses, which started the year very well, experienced a sharp reduction in sales volumes in the last week of March and into April. This situation improved into May and June as volumes in all three regions started to stabilise and show early signs of recovery. However, markets remain volatile and consumer habits continue to adjust.

Group revenue for the half year was down 4.6%, and like-for-like revenue¹ was down 5.2% compared to the same period last year. Adjusted operating profit¹ was impacted by lower sales volume in the period and fell 32.3% to £28.7 million. We have continued to protect our profitability through the first six months, and because of the range of mitigating actions taken, the Adjusted operating profit margin impact was limited to a reduction of 130 bps. Cash remained in clear focus during the period. While we made a substantial cut in capital expenditure to £21.0 million and focused on essential maintenance projects, a softer trading performance and a small working capital outflow means that free cash flow¹ was inevitably impacted, resulting in a net outflow of £3.3 million.

Group financial summary

£ million	H1 2020	H1 2019	Change
Group revenue	880.5	923.0	(4.6%)
Like-for-like revenue ¹	852.4	899.2	(5.2%)
Adjusted operating profit ¹	28.7	42.4	(32.3%)
Adjusted operating profit margin ¹	3.3%	4.6%	(130bps)
Operating profit	13.7	29.3	(53.2%)
Operating profit margin	1.6%	3.2%	(160bps)

1. Alternative performance measures are referred to as 'like-for-like', 'adjusted', 'underlying' and are applied consistently throughout this document. These are defined in full and reconciled to the reported statutory measures in Note 20.

Financial stability

In April, the Group completed a planned refinancing of its core financing arrangements, extending them until 2024. Operational net debt¹ at the end of June 2020 was £367.4 million (December 2019: £354.8 million) due to a small cash outflow in the period and we continue to operate with significant headroom against our current facilities of £537.5 million. We therefore have not seen any requirement to access government-supported debt funding. We also believe that the Group will continue to operate comfortably within its existing financial covenants.

Corporate Responsibility

Despite the tough external environment, we have continued our long-term commitment to sustainability and progressing our Corporate Responsibility (CR) agenda across the Group. The beginning of the year saw the formal launch of 'Trusted Partner', our new Group-wide CR strategy and associated commitments to Responsible Sourcing, Sustainability & Innovation and Engagement & Wellbeing. We have also formally joined the UK Plastics Pact and, working closely with our customers, are well on track to deliver against its commitments. By way of example, more than four tonnes of plastic have been eliminated simply by no longer providing cutlery in salad pots, and plans are already in place to remove 200 million more items.

Board changes

As announced recently, Todd Krasnow will be standing down from his role as Independent Non-executive Director and Chair of the Nomination Committee in October 2020. Todd has made a significant contribution to Bakkavor over the past three years and we thank him for his counsel following the Company's Initial Public Offering in November 2017.

We were delighted to welcome Umran Beba to the Board of Bakkavor on 1 September 2020 as an Independent Non-executive Director and as a member of the Remuneration and Nomination Committees. Umran is currently a partner at August Leadership, and prior to this she worked at PepsiCo Inc, the global food and beverage company for 25 years, retiring in May 2020. Her experience of running food and beverage operations in numerous regions, including Turkey, the Middle East, Asia Pacific and the US, combined with her more recent global role in the area of workforce diversity and employee engagement, will further strengthen the diverse mix of skills and experience on the Board.

In addition, Einar Gustafsson, Managing Director of Bakkavor Asia, stood down from his role on the Management Board and left the business in June 2020. Following this, Agust Gudmundsson assumed responsibility for Bakkavor Asia, working closely alongside the strong local management team.

Dividend

As a result of the ongoing uncertainty from the COVID-19 pandemic, and to ensure we maintain an appropriate level of liquidity headroom throughout this period, the Board is not declaring an interim dividend for 2020. The Board is however mindful of the importance of income to shareholders and as performance improves and visibility increases, it will keep future dividends under close review and make a further announcement early next year.

BUSINESS REVIEW

United Kingdom

The UK is Bakkavor's largest market, representing around 90% of Group revenue. We have successfully leveraged our scale, expertise and relationships with key customers to build on our market leading positions in each of the four categories in which we operate – meals, pizza & bread, salads and desserts – and increased our overall share of the total FPF market.

UK Financial summary

£ million	H1 2020	H1 2019	Change
Revenue	780.4	813.5	(4.1%)
Like-for-like revenue ¹	754.0	789.7	(4.5%)
Adjusted operating profit ¹	41.0	51.3	(20.1%)
Adjusted operating profit margin ¹	5.3%	6.3%	(100bps)
Operating profit	26.0	39.8	(34.7%)
Operating profit margin	3.3%	4.9%	(160bps)

1. Alternative performance measures are referred to as 'like-for-like', 'adjusted', 'underlying' and are applied consistently throughout this document. These are defined in full and reconciled to the reported statutory measures in Note 20.

Trading performance

Although we experienced a strong start to the year, benefitting from recent new business in the meals and desserts categories our sales were heavily impacted in early April as the Covid-19 outbreak spread. Throughout the second quarter, demand across our categories fell sharply as consumers cut back on the number of store visits they made, reverting to 'one big shop', and consequently switched away from short shelf-life chilled products. In the latter part of that quarter we saw an improving sales trend, with like-for-like revenue¹ down 6.7% in June compared to nearly 19% in April, such that overall revenues for the period totalled £780.4 million. This improvement was principally driven by a return to more frequent shopping as lockdown measures began to ease. Despite increased stability and further signs of recovery, we currently still expect trading for the second half to remain subdued.

The impact on our business of lower volumes and associated inefficiencies, together with an increase in necessary one-off costs, resulted in a reduction in Adjusted operating profit for the period of 20.1% to £41.0 million.

Supporting our customers

Faced with such a volatile trading environment, we had to take quick and decisive action. Working alongside our customers, we agreed to postpone certain new product launches and simplify existing ranges to help ensure continuity of supply at a time of considerable uncertainty and volatile demand. Our service levels and quality of products have remained at industry-leading levels and reaffirmed the strength of our underlying processes throughout our sites. We believe the crisis has brought us closer to our customers, and we are now working hard with them to reinvigorate our categories and drive a return to growth.

Category review

Although lockdown measures had a noticeable impact on sales in our meals category, we gained market share and extended our market leadership, with our Italian and Indian ranges performing particularly well. Vegetable accompaniments and healthy meal ranges suffered as consumers used their increased time at home to return to cooking from scratch. More recently, however, we have seen a broader recovery in the category as lockdowns began to ease.

Trading in our pizza & bread category has been strong through the period, as consumers turned to convenient and familiar options during difficult times. Attractive pizza meal-deals proved to be especially popular with shoppers and also benefitted sales of desserts and dips. Our desserts category proved to be more resilient

than we had initially anticipated as consumers continued to shop for sweet treats and desserts during the lockdown.

With many people working from home, the demand for 'Food to Go' products reduced considerably, and consequently we have seen a significant decline in our salads businesses. This category is highly seasonal and in recent weeks we have seen an improvement helped by the warmer weather and the easing of lockdown restrictions. Whilst we still see significant long-term opportunities within this category, as always, we remain focused on protecting our margins and continue to review our capacity and cost base accordingly.

Strategic and operational actions

The crisis this year has prompted us to take a number of difficult but necessary decisions regarding capacity across our sites. This has impacted both operational and central functions and, wherever possible, we have supported impacted colleagues by making use of the Job Retention Scheme (Furlough). During the early stages of lockdown, we temporarily closed a factory on our Bo'ness site to realign our capacity with a rapid drop in demand for 'Food to go' products. As the market has started to recover, this factory has now reopened.

We have recently concluded a consultation to close a salads site in Spalding and entered into a period of consultation to close our site in Alresford; in both cases this is due to our resignation of business due to low margins. In addition, the pandemic has prompted us to identify new and more efficient ways of working with our customers, and this has led to the restructuring of several office-based functions.

Brexit

We continue to progress our plans in relation to the UK's exit from the EU at the end of 2020. Given likely changes to the immigration rules, the steps we have taken to help our European colleagues achieve settled status, coupled with ongoing volatility in the UK jobs market means that we are now more optimistic about managing our labour requirements in the future. We remain confident that our scale and strong relationships with our global supply base leave us well-placed to deal with any unexpected changes next year, particularly given the performance of our network throughout the challenges of this year. Nonetheless we continue to work on our scenario planning, taking into account current government guidance on potential tariffs and changes to customs processes.

People

The importance of providing food to the nation meant the UK Government included our colleagues in the list of critical 'key workers'. We immediately implemented a range of enhanced protocols throughout the business to protect and reassure all who work for us. Detailed risk assessments have been carried out across all of our sites based on evolving guidance and we have liaised closely with government agencies (HSE, PHE, DEFRA) to ensure we continually develop and adapt our response to this crisis. We have worked very closely with PHE in response to regional spikes and we have chosen to test our workforce in Leicester and Newark, with around 95% of colleagues participating in the voluntary testing programme. We have been complimented by various regulatory bodies on the health and safety protocols we have in place.

More generally, we launched a Wellbeing Toolkit to support all our colleagues, which offers updated support and advice on physical, emotional and financial health and through this we have continued to promote our Employee Assistance Programme. We also launched our Food Heroes 'thank you' campaign in recognition of the incredible commitment shown by colleagues both at work and in their communities.

International

£ million	H1 2020	H1 2019	Change
Revenue	100.1	109.5	(8.6%)
Like-for-like revenue ¹	98.4	109.5	(10.1%)
Adjusted operating loss ¹	(12.3)	(8.9)	(38.2%)
Adjusted operating loss margin ¹	(12.3%)	(8.1%)	(420bps)
Operating loss	(12.3)	(10.5)	(17.1%)
Operating loss margin	(12.3%)	(9.6%)	(270bps)

1. Alternative performance measures are referred to as 'like-for-like', 'adjusted', 'underlying' and are applied consistently throughout this document. These are defined in full and reconciled to the reported statutory measures in Note 20.

Our International business is focused on the two largest food markets in the world, the US and China. During the period, both businesses were significantly impacted by the onset of COVID-19, with like-for-like revenue¹ down 10.1% to £98.4 million and as a result we reported an operating loss of £12.3 million. Both businesses managed well within a tough environment and in recent weeks have experienced a gradual improvement in trading as restrictions have eased. Despite the events of this year, we retain our long-term confidence in the potential for both markets.

United States

Our US business began the year strongly, benefitting from the substantial operational changes implemented in 2019, and the increased demand for our fresh prepared meals was very encouraging. We had an aggressive launch pipeline and significant new product development activity for our customers. However, from the end of March the COVID-19 outbreak meant our focus turned to more immediate actions. We prioritised the safety and wellbeing of our colleagues, introducing strict social distancing, enhanced hygiene measures and temperature checking across all our sites, and we are closely monitoring any further changes in infection rates across the country.

While a short-term shift in consumer habits away from fresh products towards the frozen and ambient aisles impacted demand, our individual sites responded and adapted well. Working with our customers, we acted quickly to review our products and adjust our capacity, focusing on ensuring operational excellence and financial delivery including downsizing our overhead structure. In addition, we have delayed the development of our new process for hummus production until next year and we temporarily closed our bakery in Charlotte which has now reopened. Taking these prompt decisions helped to minimise disruption and mitigate the financial impact on the business. Despite the challenges of the second quarter, revenue in the six months was still up 13.6% year on year.

Following recent major investments, our new meals sites in Texas and California both delivered strong top line growth in the first half and are now profitable ahead of schedule. Whilst we are expecting further revenue growth in the second half, we anticipate this will be at a slower rate as the market remains volatile, COVID-19 continues to have a residual impact on underlying sales volumes and we annualise against the significant uplift in sales at our Texas site.

China

Our business in China was the first part of the Group to be affected by COVID-19. From the end of January, we saw a significant reduction in demand as large parts of the economy remained closed for several months. This inevitably impacted revenues in the period which were 35% down on the prior year. Unlike the rest of our business, the majority of our customers in China are foodservice operators, who were heavily impacted during the lockdown period. Our sales in the retail channels held up well, but whilst still growing, this represents a relatively small proportion of our business.

Production at all nine sites was impacted, especially during February when it became necessary to temporarily close a number of them. However, this did not impact our customers, as we maintained service levels by transferring production across our remaining locations, including our new site at Haimen.

Given the challenging nature of the operating environment, we also took a number of necessary actions to control costs. As in other parts of the Group, these included temporary salary cuts and recruitment freezes and in Hong Kong we have streamlined our operating structure.

The external trading environment has gradually improved in the second quarter of the year as restrictions on movements have lifted and this trend has continued. Although we are encouraged by this, and the fact our foodservice customers have now largely reopened their businesses, we remain cautious as the economic pressures of the previous months have dampened consumer confidence. Our volumes are still well below normal levels and are not expected to return to the prior year level until early in 2021. However, despite this, as a result of the mitigating actions already implemented, we expect the Adjusted EBITDA¹ impact for 2020 to be at the lower end of our initial estimates we gave in February 2020 of £6-10 million.

FINANCIAL REVIEW

Revenue

Reported revenue decreased by £42.5 million, or 4.6%, from £923.0 million in H1 2019 to £880.5 million in 2020.

Like-for-like revenue¹ was down 5.2%, from £899.2 million in H1 2019 to £852.4 million in H1 2020. This reduction was due to the impact of COVID-19 on sales volumes more than offsetting underlying growth across the business.

UK

In the UK segment, reported revenue decreased by 4.1%, or £33.1 million, from £813.5 million in H1 2019 to £780.4 million in H1 2020.

Like-for-like revenue¹, which excludes Freshcook that was closed in April 2019 and Blueberry Foods that was acquired in June 2019, decreased by 4.5%, from £789.7 million in H1 2019 to £754.0 million in H1 2020. Freshcook contributed revenues of £21.3 million in 2019 for the period up to its closure. Blueberry Foods contributed £2.1 million to reported revenue in the period from acquisition to the end of H1 2019 and £26.4 million in H1 2020.

After a good start to the year, following the significant business win for our meals category in September 2019, the COVID-19 outbreak saw revenues drop by 19% in April compared to the same period in the prior year. Since then, volumes have stabilised with revenues in June down by 6.7% year on year, and signs of improved trading across our meals, pizza & bread, and desserts categories. Our salads category, however, and particularly our 'Food to go' products continue to be impacted, with significantly lower volumes year on year.

International

In the International segment, reported revenue decreased by £9.4 million, or 8.6%, to £100.1 million in H1 2020 from £109.5 million in the prior year. The weakening of Sterling in the period helped to increase reported revenue in H1 2020 by £1.7 million.

Like-for-like revenue¹, which is at constant currency, decreased by 10.1%, from £109.5 million in H1 2019 to £98.4 million in H1 2020. The decrease was due to the impact of COVID-19 on the revenues in China from the end of January and in the US from the end of March. In both regions revenues have steadily recovered since the initial outbreaks, with the US benefitting from increasing volumes at both of its new sites in Texas and California following the launch of a number of new products. The recovery in China has been slower than initially expected and revenues remain significantly down in June year on year.

Exceptional Items

Included within Other administrative costs and Finance Costs are exceptional items which are adjusted for when determining the Group's APMs as management consider that when determining the underlying performance of the business these items should be disclosed separately by virtue of their nature or amount. Exceptional items comprise the following:

£ million	H1 2020	H1 2019
Disruption	-	2.9
Restructuring and impairment	15.0	10.2
Accelerated amortisation of refinancing fees	1.7	-
	16.7	13.1

¹Alternative performance measures are referred to as 'like-for-like', 'adjusted', 'underlying' and are applied consistently throughout this document. These are defined in full and reconciled to the reported statutory measures in Note 20.

H1 2020

The Group incurred £16.7 million of costs presented as exceptional items in H1 2020 of which £3.0 million related to restructuring costs, with a further £8.0 million impairment charge in respect of tangible fixed assets as a result of the planned closure of a salads factory in Spalding. The Group also incurred a £4.0 million asset impairment charge in respect of the proposed closure of our salads site at Alresford as the relevant assets are no longer expected to have any future value to the Group. In addition, the Group incurred £1.7 million of accelerated amortisation of refinancing fees following the Group's refinancing of its core debt facilities on 18 March 2020.

H1 2019

The Group incurred £13.1 million of costs in the prior period of which £2.9 million related to disruption costs; £1.6 million related to repurposing our existing factory in California for ready meal manufacturing; and £1.3 million related to the UK business preparing for the launch of significant new products later in Q3 2019. In addition, the Group incurred £10.2 million of restructuring and impairment costs in the UK. Of this, £7.7 million related to the closure of a meals business in Lincolnshire comprising cash closure costs of £4.2 million and plant and equipment asset impairments of £3.5 million. The remaining £2.5 million was for redundancy costs following changes to our commercial and marketing structure.

Operating profit

Operating profit decreased by £15.6 million, or 53.2%, from £29.3 million in H1 2019 to £13.7 million in H1 2020 with margins decreasing by 160 basis points to 1.6%. In the UK, operating profit has decreased from £39.8 million in H1 2019 to £26.0 million in H1 2020. For the International business, the operating loss has increased from £10.5 million in H1 2019 to £12.3 million in H1 2020. The decreases in both regions are primarily due to the impact of lower revenues across the business and additional costs incurred following the COVID-19 outbreak. Operating profit has also been impacted by an increase in the depreciation charge following recent capital investments. The Group has also incurred significant costs in the period as the business responds to the COVID-19 outbreak, with enhanced health and safety and hygiene protocols and strategic restructuring in all regions, and has also increased its legal provisions based on potential payments that may be required. These costs have been largely offset by overhead reductions across the Group, including structural changes, and funding under the Job Retention Scheme. In addition, operating profit includes a net credit of £3.1 million (H1 2019: £5.5 million) arising from the reassessment of the need for certain commercial accruals and the requirement for provisions under the Group's short-term bonus scheme.

Adjusted operating profit¹

Adjusted operating profit¹, which excludes exceptional items, was £28.7 million for H1 2020, a decrease of 32.3% from £42.4 million in H1 2019. Adjusted operating profit¹ margin decreased by 130 basis points to 3.3% in H1 2020. In the UK, Adjusted operating profit has decreased from £51.3 million in H1 2019 to £41.0 million in H1 2020. For the International business, the Adjusted operating loss¹ has increased from £8.9 million in H1 2019 to £12.3 million in H1 2020.

Finance costs

Finance costs increased by £2.7 million, or 29.7%, from £9.1 million in H1 2019 to £11.8 million in H1 2020. The costs for H1 2020 include £1.7 million for the accelerated amortisation of refinancing fees following the Group's refinancing of its core debt facilities during the period. The remaining £1.0 million increase is due to an increase in borrowing costs from higher average debt levels in the period. The Group's cost of debt remains at circa 3.5% per annum.

Tax

The Group tax charge for the period decreased by £0.9 million, from £2.3 million in H1 2019 to £1.4 million in H1 2020. The £1.4 million charge represents an effective tax rate of 20.6% on profit before tax of £6.8 million. The Group annual tax rate for 2020 is forecast to be 21.0% of profit before tax. Excluding exceptional items and the change in fair value of derivative financial instruments, the underlying effective tax rate was 19.0% and exceeds the 14.6% underlying rate for the corresponding period last year. The main reason for this increase was that the UK statutory tax rate was originally due to reduce from the current 19.0% to 17.0% with effect from 2020. This meant that UK deferred tax liabilities that were previously provided for at 17.0%, being the rate at which timing differences were expected to reverse. However, the UK statutory rate is now being held at 19.0% which has resulted in an increase in deferred tax liabilities.

Earnings per share

Basic earnings per share has decreased from 3.0 pence for H1 2019 to 0.9 pence in H1 2020, reflecting the impact of COVID-19 on trading in the period and an increase in depreciation following capital investment in the prior year.

Adjusted earnings per share¹, which is calculated before exceptional items and the change in fair value of derivative financial instruments has decreased from 4.9 pence for H1 2019 to 2.6 pence in H1 2020. The weighted average number of shares in issue during both H1 2019 and H1 2020 was 579,425,585.

Cash Flow

Net cash from operating activities, which is calculated before capital expenditure but after payments for exceptional items, decreased by £29.4 million from £42.5 million in H1 2019 to £13.1 million in H1 2020. This was largely due to the impact of a year on year working capital increase of £21.0 million arising from the impact of lower revenues on the Group's negative working capital cycle. In addition, tax paid has increased by £3.7 million following changes to UK legislation that now require the estimated tax due for a financial year to be paid within that period. The Group's interest paid has also increased by £3.4 million due to £4.2 million of refinancing fees in the period.

Net cash used in investing activities decreased by £39.7 million in the period from £60.6 million in H1 2019 to £20.9 million in H1 2020. This was primarily due to a £23.4 million decrease in capital expenditure as the Group delayed further investments to mitigate against the impact of the COVID-19 pandemic. H1 2019 also included the purchase of Blueberry Foods for £17.4 million.

Free cash flow¹ for H1 2020, which is the key measure the Directors use to manage cash flow in the business, was a £3.3 million outflow, £18.3 million lower than H1 2019. This was principally due to a £20.1 million increase in year on year working capital outflows to £25.1 million due to the reduction in trading in the period and an increase of £3.7 million in tax paid as set out above. This was partly offset by expenditure on core capital (excluding development projects) being £13.7 million lower than H1 2019, as the Group lowered its capital investment plan in response to the pandemic.

Capital, Debt and Leverage

On 18 March 2020, the Group completed a refinancing of its core debt facilities amounting to £410 million through a new term loan and Revolving Credit Facility totalling £455 million. The new facilities are due to mature in March 2024, with an option to extend the tenure by a further two years subject to lender approval. In addition to the free cash outflow in the period the Group incurred £4.2 million in refinancing fees and paid £0.3 million in respect of exceptional items. Overall, this has resulted in an increase of £12.6 million in operational net debt¹ from the year end to £367.4 million. Leverage (the ratio of operational net debt to adjusted EBITDA) was 2.6 times at June 2020.

The Group continues to target a medium-term range of 1.5 – 2.0 times. The Group's liquidity position remains strong with comfortable headroom against all financial covenants.

Pensions

Under the IAS 19 valuation principles that are required to be used for accounting purposes, the Group recognised a surplus of £20.0 million for the UK defined benefit scheme as at 27 June 2020 (28 December 2019: surplus of £9.7 million). The increase in the surplus is mainly due to an increase in the value of assets. The Group and the Trustee agreed in April 2017 the triennial valuation of the UK defined benefit pension scheme as at 31 March 2016. This resulted in a funding shortfall which continues to be paid over an agreed eight-year recovery period ending on 31 March 2024. The recovery contributions over that period amount to £22.5 million, with £2.5 million payable for the year ending 31 March 2021. Discussions with the Trustee regarding the next triennial valuation as at 31 March 2019 are ongoing.

Principal Risks and Uncertainties

Details of the Principal risks and uncertainties facing the Group are set out on pages 58 to 65 of the 2019 Annual Report and Accounts, published on 6 May 2020. These risks include, but are not limited to, Food safety and integrity, Raw material and input cost inflation, Reliance on a small number of key customers, Labour availability and cost, IT systems and cyber risk, Health and safety, Recruitment and retention of key employees, Strategic growth and change programmes, Treasury and pensions and Brexit disruption. We also summarised the risks to the business from COVID-19, including the potential operational and financial impacts and the specific mitigating actions available. There have been no changes to the level of risks faced by the business other than as set out below.

COVID-19

As the pandemic has developed across the world and regulatory guidance has evolved, our operational procedures have been adapted and updated regularly to ensure that we stay in line with the latest guidance. As a food manufacturer, we already have stringent hygiene and health and safety standards embedded throughout our business. In addition, we have continued to implement regular risk assessments across all our sites and have put appropriate action plans in place to prioritise the health and wellbeing of all our employees.

The Group continues to operate with significant headroom against available debt facilities that currently amount to £537.5 million and has therefore not seen any requirement to access government supported debt funding in relation to the impact of COVID-19. We believe that the Group will continue to operate comfortably within its existing financial covenants.

Brexit

The Group's Brexit committee continually monitors developments regarding the terms of the UK's exit from the EU at the end of 2020. Based on current government guidelines we believe there is heightened risk of a no deal exit, and consequently the introduction of tariffs that would likely increase the raw material cost base of our UK business. If this were to arise, we would work closely with our customers to manage this risk.

Condensed consolidated income statement

		26 weeks ended 27 June 2020 (Unaudited)			26 weeks ended 29 June 2019 (Unaudited)		
£ million	Notes	Underlying activities	Exceptional items (note 4)	Total	Underlying activities	Exceptional items (note 4)	Total
Continuing operations							
Revenue	3	880.5	-	880.5	923.0	-	923.0
Cost of sales		(628.6)	-	(628.6)	(678.0)	(1.1)	(679.1)
Gross profit		251.9	-	251.9	245.0	(1.1)	243.9
Distribution costs		(35.5)	-	(35.5)	(36.8)	-	(36.8)
Other administrative costs		(187.7)	(15.0)	(202.7)	(166.2)	(12.0)	(178.2)
Share of results of associates after tax		-	-	-	0.4	-	0.4
Operating profit/(loss)		28.7	(15.0)	13.7	42.4	(13.1)	29.3
Finance costs	5	(10.1)	(1.7)	(11.8)	(9.1)	-	(9.1)
Other gains and (losses)	6	4.9	-	4.9	(0.7)	-	(0.7)
Profit/(loss) before tax		23.5	(16.7)	6.8	32.6	(13.1)	19.5
Tax		(4.5)	3.1	(1.4)	(5.2)	2.9	(2.3)
Profit/(loss) for the period attributable to equity holders of the parent company		19.0	(13.6)	5.4	27.4	(10.2)	17.2
Earnings per share							
Basic	7			0.9p			3.0p
Diluted	7			0.9p			3.0p

Condensed consolidated statement of comprehensive income

£ million	26 weeks ended 27 June 2020 (Unaudited)	26 weeks ended 29 June 2019 (Unaudited)
Profit for the period	5.4	17.2
Other comprehensive income/(expense)		
Items that may be reclassified to the income statement:		
Exchange differences on translation of foreign operations	10.6	(0.1)
Loss on cash flow hedges	(0.4)	-
Tax relating to these items	0.1	-
Items that will not be reclassified to the income statement:		
Actuarial gain on defined benefit pension schemes	9.6	8.3
Tax relating to these items	(1.8)	(1.4)
Total other comprehensive income net of tax	18.1	6.8
Total comprehensive income	23.5	24.0

Condensed consolidated statement of financial position

£ million	Notes	27 June 2020 (Unaudited)	28 December 2019 (Audited)
Non-current assets			
Goodwill	9	654.1	651.2
Other intangible assets		2.6	2.7
Property, plant and equipment	10	536.0	553.7
Interests in associates and other investments		13.2	12.6
Deferred tax asset		28.9	27.2
Retirement benefit asset		20.0	9.7
		1,254.8	1,257.1
Current assets			
Inventories	11	57.1	64.4
Trade and other receivables	12	112.4	131.7
Current tax assets		6.2	-
Cash and cash equivalents	14	58.8	25.9
Derivative financial instruments		2.5	-
		237.0	222.0
Total assets		1,491.8	1,479.1
Current liabilities			
Trade and other payables	13	(333.8)	(390.4)
Current tax liabilities		-	(3.9)
Borrowings	14	(44.8)	(48.5)
Provisions		(16.3)	(5.9)
Derivative financial instruments		-	(3.3)
		(394.9)	(452.0)
Non-current liabilities			
Trade and other payables	13	-	(0.6)
Borrowings	14	(454.7)	(409.8)
Provisions		(12.9)	(14.4)
Derivative financial instruments		(0.4)	(0.2)
Deferred tax liabilities		(30.9)	(28.5)
		(498.9)	(453.5)
Total liabilities		(893.8)	(905.5)
Net assets		598.0	573.6
Equity			
Share capital	16	11.6	11.6
Merger reserve		(130.9)	(130.9)
Hedging reserve		(0.3)	-
Translation reserve		37.6	27.0
Retained earnings		680.0	665.9
Total equity		598.0	573.6

Condensed consolidated statement of changes in equity

£ million	Share capital	Merger reserve	Hedging reserve	Translation reserve	Retained earnings	Total
Balance at 30 December 2018 (Audited)	11.6	(130.9)	-	33.8	654.9	569.4
Profit for the period	-	-	-	-	17.2	17.2
Other comprehensive (expense)/income for the period	-	-	-	(0.1)	6.9	6.8
Total comprehensive (expense)/income for the period	-	-	-	(0.1)	24.1	24.0
Dividends paid (Note 8)	-	-	-	-	(23.2)	(23.2)
Credit for share-based payments	-	-	-	-	1.2	1.2
Balance at 29 June 2019 (Unaudited)	11.6	(130.9)	-	33.7	657.0	571.4
Balance at 29 December 2019 (Audited)	11.6	(130.9)	-	27.0	665.9	573.6
Profit for the period	-	-	-	-	5.4	5.4
Other comprehensive income for the period	-	-	(0.3)	10.6	7.8	18.1
Total comprehensive income for the period	-	-	(0.3)	10.6	13.2	23.5
Credit for share-based payments	-	-	-	-	0.9	0.9
Balance at 27 June 2020 (Unaudited)	11.6	(130.9)	(0.3)	37.6	680.0	598.0

Condensed consolidated statement of cash flows

£ million	Notes	26 weeks ended 27 June 2020 (Unaudited)	26 weeks ended 29 June 2019 (Unaudited)
Net cash generated from operating activities	17	13.1	42.5
Investing activities			
Dividends received from associates		0.1	-
Purchases of property, plant and equipment		(21.0)	(44.4)
Proceeds on disposal of property, plant and equipment		-	1.2
Acquisition of subsidiary		-	(17.4)
Net cash used in investing activities		(20.9)	(60.6)
Financing activities			
Dividends paid	8	-	(23.2)
Increase in borrowings		375.9	63.6
Repayment of borrowings		(330.0)	-
Payment of lease liabilities		(6.0)	(6.4)
Net cash generated from financing activities		39.9	34.0
Net increase in cash and cash equivalents		32.1	15.9
Cash and cash equivalents at beginning of period		25.9	12.4
Effect of foreign exchange rate changes		0.8	0.1
Cash and cash equivalents at end of period		58.8	28.4

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. General Information

The information for the 26 weeks ended 27 June 2020 and 26 weeks ended 29 June 2019 is unaudited and does not constitute statutory accounts within the meaning of s435 (1) and (2) of the Companies Act 2006. These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency rules of the Financial Conduct Authority. The condensed consolidated statement of financial position as at 28 December 2019 has been derived from the consolidated statement of financial position included in the Group's financial statements for the 52 weeks ended 28 December 2019, a copy of which has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include any reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

This financial information does not include all of the information and disclosure required in the annual consolidated financial statements and should be read in conjunction with the Bakkavor Group plc (the "Group") annual financial statements for the 52 weeks ended 28 December 2019, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Controlling parties

Two of the Company's Directors, Agust Gudmundsson and Lydur Gudmundsson, hold shares in the Company through their beneficial ownership of Carrion Enterprises Limited and Umbriel Ventures Limited. On 23 May 2019, Carrion Enterprises Limited and Umbriel Ventures Limited each sold 3,229,625 ordinary shares to Lixaner Co Limited, a company owned and controlled by Sigurdur Valtysson, who runs the family office for Agust and Lydur Gudmundsson. Following the transaction, Lixaner Co Limited holds 6,459,250 ordinary shares (representing 1.11% of the issued share capital of the company) and Carrion Enterprises Limited and Umbriel Ventures Limited each hold 142,103,505 ordinary shares (representing 24.52% of the issued share capital of the Company).

Given the close relationship between the parties, Sigurdur Valtysson is to be considered as acting in concert with Agust and Lydur Gudmundsson for the purposes of the definition in the Takeover Code and the parties are controlling shareholders of the Company. The aggregate shareholding in the Company of Carrion Enterprises Limited and Umbriel Ventures Limited and their concert party group following the sale of shares to Lixaner Co Limited remained unchanged at 290,666,260 ordinary shares (representing 50.16% of the issued shares capital of the Company).

Principal activities and seasonality

The principal activities of the Group comprise the preparation and marketing of fresh prepared foods and the marketing and distribution of fresh produce. These activities are undertaken in the UK, US and China and products are primarily sold through high street supermarkets. The Group's cash flows are affected by seasonal variations. Sales of fresh prepared food have historically tended to be marginally higher during the summer months and in the weeks leading up to Christmas. The Group generally has higher gross profit margins during the summer months because the Group is able to source locally produced raw materials during that period, which reduces costs.

2. Significant accounting policies

Basis of accounting

The financial information has been prepared on the historical cost basis, except for the revaluation of financial instruments and defined benefit pension scheme assets and liabilities (which are stated at fair value or actuarial valuation).

Accounting policies

The accounting policies adopted are consistent with those of the previous financial statements except as described below:

In May 2020, the Group fixed the interest on a £100 million of borrowings through the purchase of interest rate swaps that mature in March 2024. These interest rate swaps have been designated as hedges and for which hedge accounting is sought and were documented as such at their inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how hedge effectiveness will be measured throughout their duration. These hedges have been designated as cash flow hedges and are expected at inception to be highly effective in offsetting changes in the cash flows of hedged items.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised within equity in the hedging reserve, with the ineffective portion being reported in the profit or loss. When a highly probable forecast transaction results in the recognition of a non-financial asset or liability, the cumulative gain or loss is removed from the hedging reserve in equity and included in the initial measurement of the non-financial asset or liability. Otherwise, the associated gains and losses that had previously been recognised within equity in the hedging reserve are transferred to the profit or loss as the cash flows of the hedged item impact the profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised within equity in the hedging reserve is kept in the hedging reserve until the forecast transaction occurs. If a hedged transaction is no longer anticipated to occur, the net cumulative gain or loss recognised within equity in the hedging reserve is transferred immediately to the profit or loss.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to the expected total annual profit or loss.

There have been no changes in the period to the Group's critical accounting judgements and key sources of estimation uncertainty as disclosed in the Group's annual financial statements for the 52 weeks ended 28 December 2019.

Going concern

The Directors, in their detailed consideration of going concern, have reviewed the Group's future revenue projections and cash requirements, which they believe are based on prudent interpretations of market data and past experience. The Directors have also considered the Group's level of available liquidity under its financing facilities which were renewed on 18 March 2020 for a four-year period. The Directors have carried out a robust assessment of the potential implications from both the current COVID-19 outbreak and the terms of the UK's exit from the European Union at the end of 2020. This has included updated scenario planning on the implications of a second wave of COVID-19 and the potential for further lockdown restrictions which may impact consumer demand for the Group's products. The Group has also modelled the potential impact of the introduction of tariffs by the UK government on the cost of goods imported into the UK from the EU from the start of 2021 and the effect this may have on sales volumes if retail pricing increases. Having taken these factors into account, under either scenario, the Directors consider that adequate headroom is available based on the forecasted cash requirements of the business. At the date of this report, the Group has complied in all respects with the terms of its borrowing agreements, including its financial covenants, and forecasts to continue to do so in the future.

Consequently, the Directors consider that the Group has adequate resources to meet its liabilities as they fall due for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

3. Segment information

The chief operating decision-maker has been defined as the Management Board headed by the Chief Executive Officer. They review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the segments based on these reports.

As at the statement of financial position date, the Group is organised as follows:

- UK: The preparation and marketing of fresh prepared foods and fresh produce for distribution in the UK.
- International: The preparation and marketing of fresh prepared foods and fresh produce in the US and China.

The Group manages the performance of its businesses through the use of 'Adjusted operating profit' as defined in Note 20.

The following table provides an analysis of the Group's segment information for the period 29 December 2019 to 27 June 2020:

£ million	UK	International	Total
Revenue	780.4	100.1	880.5
Adjusted EBITDA (Note 20)	68.1	(5.2)	62.9
Depreciation	(25.8)	(6.6)	(32.4)
Amortisation	(0.1)	(0.2)	(0.3)
Share scheme charges	(0.9)	-	(0.9)
Loss on disposal of property, plant and equipment	(0.3)	(0.3)	(0.6)
Adjusted operating profit/(loss) (Note 20)	41.0	(12.3)	28.7
Exceptional items (Note 4)	(15.0)	-	(15.0)
Operating profit/(loss)	26.0	(12.3)	13.7
Finance costs			(11.8)
Other gains and (losses)			4.9
Profit before tax			6.8
Tax			(1.4)
Profit for the period			5.4

3. Segment information (continued)

The following table provides an analysis of the Group's segment information for the period from 30 December 2018 to 29 June 2019:

£ million	UK	International	Total
Revenue	813.5	109.5	923.0
Adjusted EBITDA as previously reported (Note 20)	70.6	2.9	73.5
Restatement (Note 20)	5.1	(7.0)	(1.9)
Adjusted EBITDA restated (Note 20)	75.7	(4.1)	71.6
Depreciation	(23.9)	(4.9)	(28.8)
Amortisation	-	(0.2)	(0.2)
Share scheme charges	(1.2)	-	(1.2)
Profit on disposal of property, plant and equipment	0.7	(0.1)	0.6
Share of results of associates after tax	-	0.4	0.4
Adjusted operating profit/(loss) (Note 20)	51.3	(8.9)	42.4
Exceptional items (Note 4)	(11.5)	(1.6)	(13.1)
Operating profit	39.8	(10.5)	29.3
Finance costs			(9.1)
Other gains and (losses)			(0.7)
Profit before tax			19.5
Tax			(2.3)
Profit for the period			17.2

Major customers

For the 26 weeks ended 27 June 2020, the Group's four largest customers accounted for 77.4% (26 weeks ended 29 June 2019: 75.7%) of total revenue from continuing operations. The Group does not enter into long-term contracts with its retail customers. Each of these four customers' accounts for a significant amount of the Group's revenue and are all in the UK segment. The percentage of Group revenue from these customers is as follows:

	26 weeks ended 27 June 2020	26 weeks ended 29 June 2019
Customer A	37.0%	30.2%
Customer B	19.6%	23.9%
Customer C	11.2%	10.9%
Customer D	9.6%	10.7%

All of the Group's revenue is from the sale of goods.

3. Segment information (continued)

Revenue by geographical region

The Group derives revenue in the following geographical regions:

£ million	26 weeks ended 27 June 2020	26 weeks ended 29 June 2019
UK	780.4	813.5
US	67.6	59.5
China	32.5	50.0
Group revenue	880.5	923.0

4. Exceptional items

The Group's financial performance is analysed in two ways; underlying performance (which does not include exceptional items) and exceptional items that are material and not expected to reoccur. The Directors consider that the underlying activities results better represent the ongoing operations and key metrics of the Group.

Exceptional items includes items that are non-recurring, significant in nature and are important to users in understanding the business, including restructuring costs, disruption costs, pre-commissioning and start-up costs for new manufacturing facilities, impairment of assets, disposals of subsidiaries and associates and fair value adjustments:

£ million	26 weeks ended 27 June 2020	26 weeks ended 29 June 2019
Disruption	-	2.9
Restructuring and impairment	15.0	10.2
Operating profit	15.0	13.1
Finance costs (Note 5)	1.7	-
Total before tax	16.7	13.1
Tax on exceptional items	(3.1)	(2.9)
Total after tax	13.6	10.2

H1 2020

The Group incurred £16.7 million of costs presented as exceptional items in H1 2020 of which £3.0 million related to restructuring costs, with a further £8.0 million impairment charge in respect of tangible fixed assets as a result of the planned closure of a salads factory in Spalding. The Group also incurred a £4.0 million asset impairment charge in respect of the proposed closure of our salads site at Alresford as the relevant assets are no longer expected to have any future value to the Group. In addition, the Group incurred £1.7 million of accelerated amortisation of refinancing fees following the Group's refinancing of its core debt facilities on 18 March 2020.

H1 2019

The Group incurred £13.1 million of costs in the prior period of which £2.9 million related to disruption costs; £1.6 million as our existing factory in California was repurposed for ready meal manufacturing and £1.3 million in the UK as the business prepared for the launch of significant new products later in Q3 2019. In addition, the Group incurred £10.2 million of restructuring and impairment costs in the UK. Of this, £7.7 million related to the closure of a Meals business in Lincolnshire comprising cash closure costs of £4.2 million and plant and equipment asset impairments of £3.5 million. The remaining £2.5 million was for redundancy costs following changes to our commercial and marketing structure.

5. Finance costs

£ million	26 weeks ended 27 June 2020	26 weeks ended 29 June 2019
Interest on borrowings	10.3	8.0
Interest on lease liabilities	1.4	1.5
Unwind of discount on provisions	0.1	0.1
	11.8	9.6
Less: amounts included in the cost of qualifying assets	-	(0.5)
	11.8	9.1

The interest on borrowings figure includes £1.7 million (2019: £nil) of accelerated amortisation of refinancing fees relating to the Group's refinancing of its core debt facilities on 18 March 2020. This amount has been classed as an exceptional item in the condensed consolidated income statement.

Borrowing costs included in the cost of qualifying assets in the 26 weeks ended 29 June 2019 arose on the general borrowing pool and were calculated by applying a capitalisation rate of 3.0% to expenditure on such assets. There were no borrowing costs included in the cost of qualifying assets in the current period.

6. Other gains and (losses)

£ million	26 weeks ended 27 June 2020	26 weeks ended 29 June 2019
Foreign exchange (losses)/gains	(0.2)	0.2
Change in fair value of derivative financial instruments	5.1	(0.9)
	4.9	(0.7)

7. Earnings per share

The calculation of earnings per Ordinary share is based on earnings after tax and the weighted average number of Ordinary shares in issue during the period.

For diluted earnings per share, the weighted average number of Ordinary shares in issue is adjusted to assume conversion of all potentially dilutive Ordinary shares.

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings

£ million	26 weeks ended 27 June 2020	26 weeks ended 29 June 2019
Profit attributable to equity shareholders of the Company	5.4	17.2

Number of shares

'000	26 weeks ended 27 June 2020	26 weeks ended 29 June 2019
Weighted average number of Ordinary shares	579,426	579,426
Effect of potentially dilutive Ordinary shares	3,575	3,260
Weighted average number of Ordinary shares for diluted earnings per share	583,001	582,686

	26 weeks ended 27 June 2020	26 weeks ended 29 June 2019
Basic earnings per share	0.9p	3.0p
Diluted earnings per share	0.9p	3.0p

8. Dividends

At the AGM on 23 May 2019 a final dividend of 4 pence per share to each of the Ordinary shareholders for the period ended 29 December 2018 was approved. The total amount of £23,177,023 was paid on 29 May 2019.

On 10 September 2019, the Company declared an interim dividend for the period ended 28 December 2019 of 2 pence per share to each of the Ordinary shareholders totalling £11,588,512. This interim dividend was paid to Ordinary shareholders on 11 October 2019.

At the AGM on 12 June 2020 the Board declared that no final dividend would be paid for the period ended 28 December 2019.

9. Goodwill

£ million	
At 30 December 2018	650.2
Recognised on acquisition of a subsidiary	2.9
Exchange rate difference during the period	(0.1)
At 29 June 2019	653.0
At 29 December 2019	651.2
Exchange rate difference during the period	2.9
At 27 June 2020	654.1

10. Property, plant and equipment

£ million	
At 30 December 2018	507.1
Additions	50.2
Acquisition of subsidiary	17.6
Disposals	(0.6)
Depreciation charge for the period	(28.8)
Impairment	(3.5)
At 29 June 2019	542.0
At 29 December 2019	553.7
Additions	20.2
Disposals	(0.3)
Depreciation charge for the period	(32.4)
Impairment	(12.0)
Exchange rate difference during the period	6.8
At 27 June 2020	536.0

There were no additions in the 26 weeks ended 27 June 2020 (2019: £9.7 million) in respect of development projects.

11. Inventories

£ million	27 June 2020	28 December 2019
Raw materials and packaging	49.2	55.5
Work-in-progress	1.9	2.2
Finished goods	6.0	6.7
	57.1	64.4

12. Trade and other receivables

£ million	27 June 2020	28 December 2019
Amounts receivable from trade customers	83.0	107.3
Expected credit loss	(1.7)	(1.6)
Net amounts receivable from trade customers	81.3	105.7
Other receivables	13.0	15.4
Prepayments	18.1	10.6
Trade and other receivables due within one year	112.4	131.7

During the period, the Group has continued to operate trade receivable factoring arrangements. These are non-recourse arrangements and therefore amounts are de-recognised from trade receivables. At 27 June 2020 £111 million was drawn under factoring facilities, a decrease of £23 million compared to 28 December 2019 representing cash collected before it was contractually due from the customer.

As at 27 June 2020, the Group's amounts receivable from trade customers includes £34.0 million (28 December 2019: £49.4 million) which could be factored under the non-recourse trade receivable factoring arrangement.

13. Trade and other payables

£ million	27 June 2020	28 December 2019
Trade payables	203.8	244.4
Other taxation	1.0	2.4
Other payables	22.4	23.9
Accruals and deferred income	106.6	120.3
	333.8	391.0
Less amounts due after one year:		
Accruals and deferred income	-	(0.6)
	-	(0.6)
Trade and other payables due within one year	333.8	390.4

During the prior period, the Group set up an arrangement to provide financing for the Group's suppliers. This is a voluntary programme that potentially gives suppliers earlier access to cash. At 27 June 2020, trade payables amounting to £21.5 million (28 December 2019: £18.7 million) were subject to these arrangements. These balances are classified as trade payables, and the related payments as cash flows from operating activities, since the original obligation to the supplier remains and has not been replaced with a new obligation to the bank.

14. Net debt

£ million	27 June 2020	28 December 2019
Cash and cash equivalents	58.8	25.9
Borrowings	(33.6)	(36.7)
Lease liabilities	(11.2)	(11.8)
Total debt due within one year	(44.8)	(48.5)
Borrowings	(389.3)	(340.5)
Lease liabilities	(65.4)	(69.3)
Total debt due after one year	(454.7)	(409.8)
Group net debt	(440.7)	(432.4)

Group net debt is the sum of cash and cash equivalents, prepaid fees to be amortised over the term of outstanding borrowings, outstanding borrowings, interest accrued on borrowings and lease liabilities.

On 18 March 2020, the Group completed a refinancing of its core debt facilities amounting to £410 million through a new term loan and Revolving Credit Facility totalling £455 million. The new facilities are due to mature in March 2024, with an option to extend the tenure by a further two years subject to lender approval.

In May 2020, the Group fixed the interest on a £100 million of borrowings through the purchase of interest rate swaps that mature in March 2024.

15. Financial Instruments

The categories of financial instruments are as follows:

£ million	27 June 2020	28 December 2019
Financial assets		
Fair value through profit and loss:		
Trade receivables	34.0	49.4
Derivative financial instruments	2.5	-
Loans and receivables at amortised cost:		
Trade receivables	47.3	56.3
Other receivables	13.0	15.4
Cash and cash equivalents	58.8	25.9
	155.6	147.0

£ million	27 June 2020	28 December 2019
Financial liabilities		
Fair value through other comprehensive income:		
Derivative financial instruments	0.4	3.5
Other financial liabilities at amortised cost:		
Trade payables	203.8	244.4
Other payables	22.4	23.9
Accruals	105.6	118.9
Borrowings	422.9	377.2
Lease liabilities	76.6	81.1
	831.7	849.0

Trade receivables have been determined as level 2 under IFRS 7 *Financial Instruments: Disclosures*. The fair value of loans and receivables approximates to their carrying values due to the short-term nature of the receivables. The fair values for the derivative financial instruments have been determined as level 2 under IFRS 7 *Financial Instruments: Disclosures*. Quoted prices are not available for the derivative financial instruments and so valuation models are used to estimate fair value. The models calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves and currency rates.

The fair value of other financial liabilities at amortised cost approximates to their carrying value. The trade and other payables approximate to their fair value due to the short-term nature of the payables. The lease liabilities fair value approximates to the carrying value based on discounted future cash flows.

16. Share capital and share premium

Issued share capital as at 27 June 2020 amounted to £11.6 million (579,425,585 Ordinary shares of £0.02 each) (28 December 2019: £11.6 million (579,425,585 Ordinary shares of £0.02 each)).

17. Notes to the condensed consolidated statement of cash flows

£ million	26 weeks ended 27 June 2020	26 weeks ended 29 June 2019
Operating profit	13.7	29.3
Adjustments for:		
Share of results of associates after tax	-	(0.4)
Depreciation of property, plant and equipment	32.4	28.8
Amortisation of intangible assets	0.3	0.2
Loss/(profit) on disposal of property, plant and equipment	0.6	(0.6)
Impairment of assets	12.0	3.5
Share scheme charges	0.9	1.2
Net retirement benefits charge less contributions	(0.6)	(1.4)
Operating cash flows before movements in working capital	59.3	60.6
Decrease in inventories	7.3	4.7
Decrease in receivables	18.9	9.2
Decrease in payables	(57.4)	(15.0)
Increase/(decrease) in provisions	8.8	(0.3)
Cash generated by operations	36.9	59.2
Income taxes paid	(11.7)	(8.0)
Interest paid	(12.1)	(8.7)
Net cash generated from operating activities	13.1	42.5

18. Contingent liabilities

The Group is currently subject to a National Living Wage enquiry, which has been ongoing since July 2017. The Directors have assessed and provided for the potential liability that may arise from the enquiry.

19. Events after the statement of financial position date

In August we concluded a consultation to close a¹ salads site in Spalding and also entered into a period of consultation to close our site in Alresford. The relevant assets for these sites were impaired as of 27 June 2020 and an impairment charge of £12 million has been included within operating profit for the 6 months ended 27 June 2020.

20. Alternative performance measures

The Group uses various non-IFRS financial measures to evaluate growth trends, assess operational performance and monitor cash performance. The Directors consider that these measures enable investors to understand the ongoing operations of the business. They are used by management to monitor financial performance as it is considered to aid comparability of the financial performance of the Group from year to year.

Change in alternative performance measures

Some of the Group's key metrics have been restated for the 26 weeks ended 29 June 2019, to include start-up losses for new sites and the impact of IFRS 16, which were both excluded in 2019, and to exclude the change in the fair value of derivative financial instruments. The changes have been made to simplify the reporting of alternative performance measures and improve comparability of year on year metrics. This has impacted Adjusted EBITDA, Adjusted operating profit, Adjusted profit before tax, free cash flow and Adjusted earnings and hence Adjusted basic and diluted earnings per share. The following table provides details of the changes:

£ million	Adjusted EBITDA	Adjusted operating profit	Adjusted profit before Tax	Adjusted earnings	Free cash flow
As previously reported	73.5	50.7	40.9	34.4	17.6
Start-up losses for new sites	(8.3)	(8.3)	(8.3)	(8.3)	(8.3)
IFRS 16 impact	6.4	-	-	-	5.7
Change in fair value of derivative financial instruments	-	-	0.9	0.9	-
Tax on the above items	-	-	-	1.6	-
As restated	71.6	42.4	33.5	28.6	15.0

The impact of the reduction in Adjusted earnings of £5.8 million is to reduce Adjusted basic and diluted earnings per share from 5.9p to 4.9p for the 26 weeks ended 29 June 2019.

20. Alternative performance measures (continued)

Like-for-like (LFL) revenue

The Group defines LFL revenue as revenue from continuing operations adjusted for the revenue generated from businesses closed or sold in the current and prior year, revenue generated from businesses acquired in the current and prior period and the effect of foreign currency movements. The Directors believe LFL revenue is a key metric of the Group's revenue growth trend, as it allows for a more meaningful comparison of trends from period to period.

The following table provides the information used to calculate LFL revenue for the Group.

£ million	26 weeks ended 27 June 2020	26 weeks ended 29 June 2019	% change
Statutory revenue	880.5	923.0	(4.6%)
Revenue from acquisitions	(26.4)	(2.1)	
Revenue from closed businesses	-	(21.7)	
Effect of currency movements	(1.7)	-	
Like-for-like revenue	852.4	899.2	(5.2%)

The following table provides the information used to calculate LFL revenue for the UK segment.

£ million	26 weeks ended 27 June 2020	26 weeks ended 29 June 2019	% change
Statutory revenue	780.4	813.5	(4.1%)
Revenue from acquisitions	(26.4)	(2.1)	
Revenue from closed businesses	-	(21.7)	
Like-for-like revenue	754.0	789.7	(4.5%)

The following table provides the information used to calculate LFL revenue for the International segment.

£ million	26 weeks ended 27 June 2020	26 weeks ended 29 June 2019	% change
Statutory revenue	100.1	109.5	(8.6%)
Effect of currency movements	(1.7)	-	
Like-for-like revenue	98.4	109.5	(10.1%)

20. Alternative performance measures (continued)

Adjusted EBITDA and Adjusted operating profit

The Group manages the performance of its businesses through the use of 'Adjusted EBITDA' and 'Adjusted operating profit', as these measures exclude the impact of items that hinder comparison of profitability year-on-year. EBITDA is generally defined as operating profit/(loss) before depreciation and amortisation. In calculating Adjusted EBITDA and Adjusted operating profit, we exclude restructuring costs, asset impairments, and those additional charges or credits that are considered significant or one-off in nature. In addition, for Adjusted EBITDA we exclude the share of results of associates after tax and share scheme charges, as this is a non-cash amount. Adjusted operating profit margin is used as an additional profit measure that assesses profitability relative to the revenues generated by the relevant segment. It is calculated by dividing the Adjusted operating profit by the statutory revenue for the relevant segment.

The following table provides a reconciliation from the Group's Operating profit to Adjusted EBITDA.

£ million	26 weeks ended 27 June 2020	26 weeks ended 29 June 2019
Operating profit	13.7	29.3
Depreciation	32.4	28.8
Amortisation	0.3	0.2
EBITDA	46.4	58.3
Exceptional items (Note 4)	15.0	13.1
Share scheme charges	0.9	1.2
Loss/(profit) on disposal of property, plant and equipment	0.6	(0.6)
Share of results of associates after tax	-	(0.4)
Adjusted EBITDA	62.9	71.6
Less IFRS 16 impact	(6.7)	(6.4)
Adjusted EBITDA pre IFRS 16¹	56.2	65.2

¹ Excludes the impact of IFRS 16 as the Group's bank facility agreement definition of Adjusted EBITDA excludes the impact of this standard

Operating profit

The following table provides a reconciliation from Operating profit to Adjusted operating profit.

£ million	26 weeks ended 27 June 2020	26 weeks ended 29 June 2019
Operating profit	13.7	29.3
Exceptional items (Note 4)	15.0	13.1
Adjusted operating profit	28.7	42.4

Adjusted EBITDA and Adjusting Operating Profit by segment are reconciled to Operating Profit in Note 3.

20. Alternative performance measures (continued)

Operational net debt and leverage

Operational net debt excludes the impact of non-cash items on the Group's net debt. The Directors use this measure, as it reflects actual net borrowings at the relevant reporting date and is most comparable with the Group's free cash flow and aligns with the definition of net debt in the Group's bank facility agreements which exclude the impact of IFRS 16. The following table provides a reconciliation from the Group's net debt to the Group's operational net debt.

£ million	27 June 2020	28 December 2019
Group net debt	(440.7)	(432.4)
Unamortised fees	(4.7)	(2.8)
Interest accrual	3.2	1.6
Lease liabilities recognised under IFRS 16	74.8	78.8
Group operational net debt	(367.4)	(354.8)
Adjusted EBITDA (last 12 months pre IFRS 16 and including covenant adjustments)	143.1	156.1
Leverage (Operational net debt/Adjusted EBITDA pre IFRS 16 and including covenant adjustments)	2.6	2.3

Free cash flow

The Group defines free cash flow as the amount of cash generated by the Group after meeting all of its obligations for interest, tax and pensions, and after purchases of property, plant and equipment (excluding development projects), but before payments of refinancing fees and other exceptional or significant non-recurring cash flows. Free cash flow has benefitted from non-recourse factoring of receivables as set out in Note 12 and the extension of payment terms for certain suppliers as described in Note 13. The Directors view free cash flow as a key liquidity measure, and the purpose of presenting free cash flow is to indicate the underlying cash available to pay dividends, repay debt or make further investments in the Group. The following table provides a reconciliation from net cash generated from operating activities to free cash flow.

£ million	26 weeks ended 27 June 2020	26 weeks ended 29 June 2019
Net cash generated from operating activities	13.1	42.5
Dividends received from associates	0.1	-
Purchases of property, plant and equipment	(21.0)	(44.4)
Purchases of property, plant and equipment relating to development projects (Note 10)	-	9.7
Proceeds on disposal of property, plant and equipment	-	1.2
Cash impact of exceptional items	0.3	6.0
Refinancing fees	4.2	-
Free cash flow	(3.3)	15.0

20. Alternative performance measures (continued)

Adjusted earnings per share

The Group calculates Adjusted basic earnings per Ordinary share by dividing Adjusted earnings by the weighted average number of Ordinary shares in issue during the year. Adjusted earnings is calculated as profit attributable to equity holders of the Company adjusted to exclude exceptional items as presented in the condensed consolidated income statement and the change in value of derivative financial instruments. The Directors use this measure as it tracks the underlying profitability of the Group and enables comparison with the Group's peer companies. The following table reconciles profit attributable to equity shareholders of the Company to Adjusted earnings.

£ million	26 weeks ended 27 June 2020	26 weeks ended 29 June 2019
Profit attributable to equity shareholders of the Company	5.4	17.2
Exceptional items (Note 4)	16.7	13.1
Change in fair value of derivative financial instruments	(5.1)	0.9
Tax on the above items	(2.1)	(2.6)
Adjusted earnings	14.9	28.6
Add back: Tax on adjusted profit before tax	3.5	4.9
Adjusted profit before tax	18.4	33.5
Effective tax rate on underlying activities (Tax on Adjusted profit before tax/Adjusted profit before tax)	19.0%	14.6%
Number 000's		
Weighted average number of Ordinary shares	579,426	579,426
Effect of dilutive Ordinary shares	3,575	3,260
Weighted average number of Ordinary shares for diluted earnings per share	583,001	582,686
Adjusted basic earnings per share	2.6p	4.9p
Adjusted diluted earnings per share	2.6p	4.9p

Statement of Directors' responsibilities

The Directors confirm that to the best of their knowledge the condensed set of financial statements has been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting and includes a fair review of the information required by the Disclosure Guidance and Transparency Rule ("DTR") 4.2.7R (an indication of important events during the first six months and a description of the principal risks and uncertainties for the remaining six months of the year) and by DTR 4.2.8R (a disclosure of related party transactions and changes therein).

The Board of Directors that served during the six months ended 27 June 2020, and their respective responsibilities, can be found on pages 70 and 71 of the 2019 Annual Report & Accounts.

This responsibility statement has been approved by the Directors of the Company ("the Group Board") and signed on its behalf on 7 September 2020 by:

Agust Gudmundsson
CEO

Peter Gates
CFO

Independent review report to Bakkavor Group plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Bakkavor Group plc's condensed consolidated interim financial statements (the "interim financial statements") in the half-yearly financial report of Bakkavor Group plc for the 26-week period ended 27 June 2020. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the Condensed consolidated statement of financial position as at 27 June 2020;
- the Condensed consolidated income statement and Condensed consolidated statement of comprehensive income for the period then ended;
- the Condensed consolidated statement of cash flows for the period then ended;
- the Condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the half-yearly financial report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the Directors

The half-yearly financial report, including the interim financial statements, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants, Leeds

7 September 2020