



# HALF YEAR RESULTS

For the 26 weeks ended 29 June 2019

10 September 2019



# 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

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Welcome

Financial Review – Peter Gates, CFO

Operational Review – Agust Gudmundsson, CEO

Q&A





**WELCOME**



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# FINANCIAL REVIEW

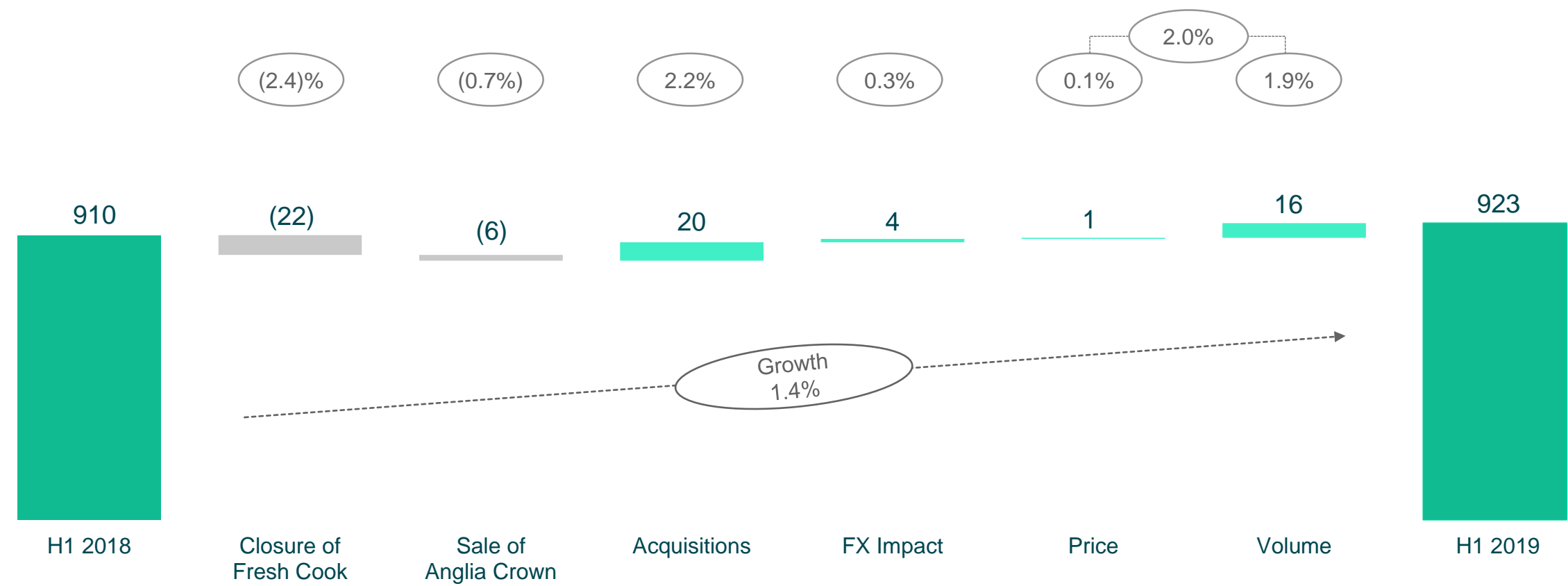
PETER GATES, CFO



# FINANCIAL OVERVIEW

£m	HY 2019	HY 2018	
Revenue	923.0	909.9	1.4%
Revenue: Like-for-like	877.9	860.9	2.0%
Adjusted EBITDA pre IFRS 16	73.5	78.6	(6.5%)
Adjusted EBITDA margin pre IFRS 16	8.0%	8.6%	(60bps)
Operating profit	29.3	54.1	(45.8%)
Operating profit margin	3.2%	5.9%	(270bps)
Basic EPS	3.0p	7.0p	(4.0p)
Adjusted EPS	5.9p	7.4p	(1.5p)
Interim dividend per share – proposed	2.0p	2.0p	-
Free cash flow	17.6	32.4	(14.8)
Leverage pre IFRS 16	2.4x	1.8x	0.6x

# REVENUE BRIDGE



# UK PERFORMANCE

£m	HY 2019	HY 2018	
Revenue	813.5	816.1	(0.3%)
Revenue: Like-for-like	772.2	767.1	0.7%
Adjusted EBITDA pre IFRS 16	70.6	74.5	(5.2%)
Adjusted EBITDA margin pre IFRS 16	8.7%	9.1%	(40bps)
Operating profit	39.8	55.6	(28.4%)
Operating profit margin	4.9%	6.8%	(190bps)

- Modest underlying volume growth in a very challenging trading environment
- Acquisitions delivering good performance
- Short term profit impact from closure of meals business
- Labour costs continue to rise and impact margins
- Guidance for 2019 – low revenue growth to continue



# INTERNATIONAL PERFORMANCE

£m	HY 2019	HY 2018	
Revenue	109.5	93.8	16.7%
Revenue: Like-for-like	105.7	93.8	12.7%
Adjusted EBITDA pre IFRS 16	2.9	4.1	(29.3%)
Adjusted EBITDA margin pre IFRS 16	2.6%	4.4%	(180bps)
Operating loss	(10.5)	(1.5)	-
Operating loss margin	(9.6%)	(1.6%)	(800bps)

- Good underlying volume growth with benefits from new sites in both regions
- Reported revenue boosted by the relative weakness of sterling
- US operational changes improving EBITDA margin from H2 2018
- As expected, start-up losses from new sites resulting in overall operating loss
- Guidance for 2019 – mid teens revenue growth to continue

# EXCEPTIONAL AND ADJUSTING ITEMS

£m	HY 2019	HY 2018
Start-up costs for new sites	-	3.2
Disruption costs	2.9	-
Restructuring and impairment costs	10.2	-
Exceptional	13.1	3.2
Start-up losses for new sites	8.3	-
Total	21.4	3.2

- Disruption costs in UK as business prepares for launch of significant new products in H2, and in US as site enables ready meals production
- Closure costs of £7.7m for meals business, including £3.5m fixed asset impairments
- Redundancy costs of £2.5m following UK commercial and marketing restructure
- Losses of £8.3m incurred by new sites in first period of trading
- Guidance for 2019 – c. £30m



# FREE CASH FLOW

£m	HY 2019	HY 2018
Adjusted EBITDA pre IFRS 16	73.5	78.6
Working capital	(5.7)	(12.5)
Operating cash flow	67.8	66.1
Interest	(7.3)	(3.7)
Tax	(8.0)	(5.8)
Pensions	(1.4)	(1.7)
Core capex (net)	(33.5)	(22.5)
Free cash flow	17.6	32.4

- Working capital outflow largely due to closure of meals business
- Interest higher due to phasing and increase in average borrowings
- Net core capex 3.6% of revenue
- Free cash flow generation lower due to planned capital investment
- Guidance for 2019 – working capital broadly neutral

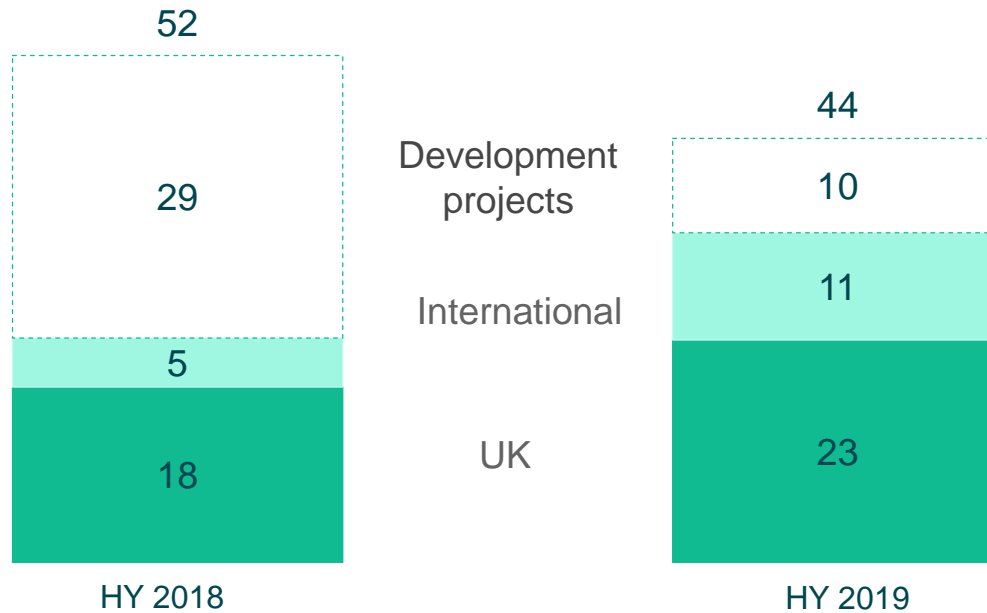
# CAPITAL INVESTMENT

Core capex as  
% of revenue

2.5%

3.6%

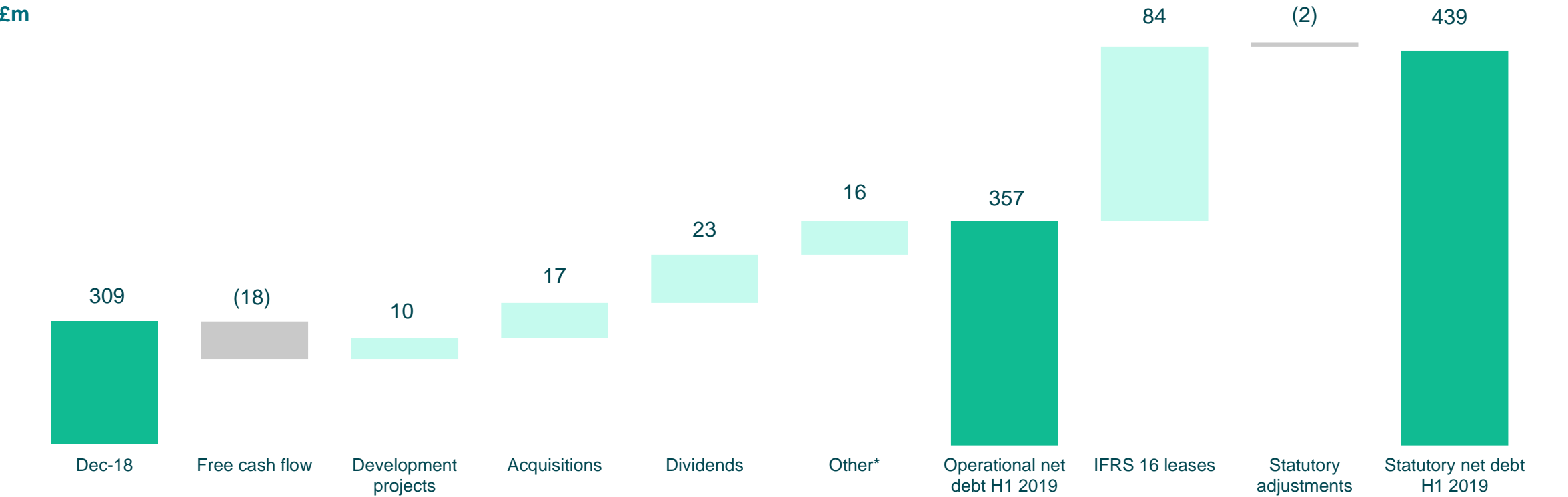
£m



- Capital investment plan for 2019 on track, with focus on:
  - Projects to support business gains
  - Process improvement projects
  - Spend on regulatory changes
- Final phase of development project at Newark expected to complete Q3 2019
- Guidance for 2019 – core capex 4% of revenue plus final £15m for development projects



# NET DEBT



13 \*Other includes exceptional cash costs of £14.3m, and £0.3m of new and acquired finance leases

# IFRS 16 – IMPACT ON H1

£m	Increase/(decrease)
<b>Income statement</b>	
Operating lease charge	6.4
Depreciation	(6.1)
Operating profit	0.3
Finance costs	(1.4)
Profit before tax	(1.1)
Tax	0.2
Profit after tax	(0.9)
<b>Balance sheet</b>	
Total assets	80.5
Total liabilities	(81.4)
Net assets	(0.9)

- Transition date 30 December 2018 and comparatives not restated
- Operating profit increase due to reallocation of interest element of operating lease charge to finance costs
- Profit before tax decreases due to holding a relatively new lease portfolio - finance costs are therefore higher in the early years of the lease
- Impact on tax charge minimal
- Basic EPS decrease of 0.1p
- Leverage ratio increase of 0.3x



# BALANCE SHEET AND RATIOS

£m	HY 2019	FY 2018
Goodwill and intangibles	656	653
Non-current assets	586	460
Current assets	199	207
Operational net debt	(357)	(309)
IFRS 16 lease liabilities	(84)	-
Other liabilities	(429)	(442)
<b>Net assets</b>	<b>571</b>	<b>569</b>
Leverage ratio pre IFRS 16	2.4x	2.0x
Underlying effective tax rate	15.9%	14.9%

- Increase in non-current assets mainly due to capital investments and recognition of right of use (lease) assets
- Leverage increased as expected following investments
- Guidance for 2019:
  - Leverage marginally above medium-term target of 1.5 – 2.0x
  - Effective tax rate 15 – 16%

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# OPERATIONAL REVIEW

AGUST GUDMUNDSSON, CEO



# A CHALLENGING MARKET BACKDROP

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Retailers



Consumer  
Confidence



Brexit



Labour costs and  
availability



# CONFIDENT IN GROUP STRATEGY

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## Leveraging #1 position in the UK

- Strengthening partnerships with key customers
- Exploiting insight, innovation and breadth of capabilities
- Ongoing capital investment programme



## Accelerating growth in international markets

- Established in US and China for more than 10 years
- Developing our customer partnership model
- Investing to capitalise on high growth markets



## Improving operational efficiency

- Productivity investments across the Group
- Focused on driving efficiencies
- A culture of continuous improvement



# UK: MARKET LEADERSHIP AND BALANCED PORTFOLIO

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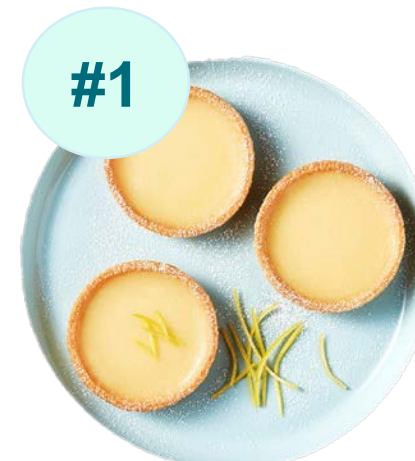
**Meals**



**Salads**



**Pizza & Bread**



**Desserts**

Share of UK revenue



# UK: MEALS CATEGORY BUSINESS GAIN ON TRACK

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Over 150 new products launched in H2

Delivering through a refocused multi-site model

Agreed business plan and customer dedicated to long-term partnership



# UK: DESSERTS STRATEGIC PROGRESS

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Newark desserts facility investment on track

Haydens Bakery performing well and delivering synergy benefits

Blueberry Foods acquisition in June strengthens position and increases scale and breadth of offer



# UK: PROTECTING PROFITABILITY

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Closed loss-making site to protect profitability

Redeployed over 360 employees

Site available for future capacity





# USA: ENCOURAGING PERFORMANCE

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Carson site disrupted by ready meals programme reset

Dedicated Texas site progressing slowly

New Charlotte bakery started limited production of artisan breads

Transferring UK expertise to US sites to build knowledge



# CHINA: STRONG GROWTH CONTINUES

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Expanding strong 'Food to Go' offer

Investments in Shanghai, Taicang and Chengdu delivering increased volumes

Seeing the benefit of in-house supply of bakery products

Favourable Chinese market dynamics and high consumer interest and demand



# INVESTING FOR THE FUTURE

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Post IPO  
proceeds:  
£100m  
investment



**NEWARK**



**SHANGHAI**



**TEXAS**



**CHARLOTTE**

Profit drivers of  
the future

Additional strategic investments made since IPO  
including, Taicang, Chengdu and China  
Hydroponics sites, plus two UK desserts  
acquisitions



# PEOPLE

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Focused on attracting and retaining a skilled workforce

Implemented a centralised HR shared services model

Continue to invest in employee facilities





# OUTLOOK

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Despite a subdued start to the second half, we currently expect an uplift in performance, boosted in the UK by the impact of new business and an easing of raw material inflation.

Our international business is making further progress and therefore we remain confident in delivering full-year Group performance broadly in line with 2018.

Looking ahead, we believe that our strategy, combined with our scale and expertise, leaves us well placed to capitalise on future growth opportunities.

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Q&A





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## APPENDIX





# EARNINGS PER SHARE

£m	HY 2019	HY 2018
Basic earnings	17.2	40.5
Exceptional items	13.1	3.2
Start-up losses for new sites	8.3	-
Tax on the above items	(4.2)	(0.6)
Adjusted earnings	34.4	43.1
Weighted average number of Ordinary shares 000's	579,426	579,426
Basic earnings per share	3.0p	7.0p
Adjusted earnings per share	5.9p	7.4p

# OTHER FINANCIAL INFORMATION

## Tax

£m	Profit before tax	Tax charge	Profit after tax	Effective tax rate
Statutory	19.5	(2.3)	17.2	11.8%
Exceptional items	13.1	(2.9)	10.2	
Start-up losses for new sites	8.3	(1.3)	7.0	
Adjusted	40.9	(6.5)	34.4	15.9%

## Pensions

UK DB scheme closed to future accrual in March 2011

Investment assets of c.£268m

Cash contributions of £22.5m over 8 years to 31 March 2024

Next valuation 31 March 2019

# IFRS 16 – IMPLEMENTATION

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- Standard adopted early with transition date of 30 December 2018
- Operating leases now brought on to the Balance Sheet
  - ~ Right of Use asset equals the Lease liability adjusted for previous IAS 17 adjustments
  - ~ Lease liability is the discounted minimum lease payments at the transition date
- The Group has used the modified retrospective, asset equals liability transition approach
  - ~ No impact to previously reported equity
  - ~ No restatement of the previous reported period
  - ~ Transition impact confined to 2019
- On transition the discount rate is the Group cost of debt adjusted for the geographic location of the lease
- More than 170 operating lease contracts have been individually reviewed resulting in a Right of Use asset and Lease liability of £80.2 m being recognised on the transition date

# IFRS 16 – EARNINGS IMPACT

HY 2019 £m	Pre IFRS 16	IFRS 16 adjs	As reported
Revenue	923.0	-	923.0
Cost of sales	(679.1)	-	(679.1)
Gross profit	243.9	-	243.9
Distribution costs	(36.8)	-	(36.8)
Other administrative costs	(178.5)	0.3	(178.2)
Share of results of associates	0.4	-	0.4
Operating profit	29.0	0.3	29.3
Finance costs	(7.7)	(1.4)	(9.1)
Other gains and (losses)	(0.7)	-	(0.7)
Profit/(loss) before tax	20.6	(1.1)	19.5
Tax	(2.5)	0.2	(2.3)
Profit for the period	18.1	(0.9)	17.2
Basic earnings per share	3.1p	(0.1p)	3.0p

- Operating profit increases due to reallocation of interest element of operating lease charge to finance costs
- Profit before tax decreases due to holding a relatively new lease portfolio - finance costs are therefore higher in the early years of the lease
- Impact on tax charge minimal
- Basic EPS decreases by 0.1p



# IFRS 16 – BALANCE SHEET IMPACT

HY 2019 £m	Pre IFRS 16	IFRS 16 adjs	As reported
Property, plant and equipment	460.8	81.2	542.0
Trade and other receivables	139.7	(0.7)	139.0
All other assets	788.4	-	788.4
<b>Total assets</b>	<b>1,388.9</b>	<b>80.5</b>	<b>1,469.4</b>
Trade and other payables	(387.1)	1.1	(386.0)
Current tax liabilities	(4.0)	0.2	(3.8)
Borrowings	(383.1)	(84.0)	(467.1)
Provisions	(17.5)	1.3	(16.2)
All other liabilities	(24.9)	-	(24.9)
<b>Total liabilities</b>	<b>(816.6)</b>	<b>(81.4)</b>	<b>(898.0)</b>
<b>Net assets</b>	<b>572.3</b>	<b>(0.9)</b>	<b>571.4</b>

- Lease liabilities increase by £84m at end of HY 2019
- Leverage ratio increase of 0.3x following implementation
- No change to financing covenant calculations

# IFRS 16 – CASH FLOW IMPACT

HY 2019 £m	Pre IFRS 16	IFRS 16 adjs	As reported
Operating profit	29.0	0.3	29.3
Depreciation	22.7	6.1	28.8
Other operating cash flows	2.5	-	2.5
Working capital	(2.1)	0.7	(1.4)
Cash generated by operations	52.1	7.1	59.2
Income taxes paid	(8.0)	-	(8.0)
Interest paid	(7.3)	(1.4)	(8.7)
Cash generated from operating activities	36.8	5.7	42.5
Cash used in investing activities	(60.6)	-	(60.6)
Payment of lease liabilities	(0.7)	(5.7)	(6.4)
Other financing activities	40.4	-	40.4
Net increase in cash	15.9	-	15.9

- Cash outflow reclassification of £5.7m for HY 2019 from operating activities to financing
- No change to cash position