

## Business Model

Our vision is to be a leading speciality bakery group, producing a broad range of high-quality products targeted at growing channels and market niches, and which deliver growth and differentiation for our customers while fulfilling the needs of end consumers.

### The Resources we Employ

#### Financial Capital

The Company is AIM-listed giving it the potential to access institutional funding. The Group also benefits from bank support for strategic investment and acquisitions.

- 3 banks supporting total facilities up to €90.0 million.
- Scottish and Welsh businesses benefit from local government initiatives to promote investment and employment opportunities.
- Low leverage with net debt to EBITDA of 1.4x.

#### Intellectual Capital

- Extensive speciality bakery product know-how, category insight and understanding.
- Extensive customer relationships in both the retail and foodservice sectors in the UK and in France. The acquisition of Ultrapharm delivers new customer relationships throughout Europe.
- Known brand in foodservice in the UK.
- Licence arrangements with brand owners in the UK and in Europe.

#### Manufacturing Capital

- Plant and machinery well invested and maintained, with flexibility to cover niche to mainstream products.
- The Group owns all major sites, with available space for new production or consolidation of facilities.
- Common Group IT ERP platform.

#### Human Capital

- Talent management programme to attract and develop graduates and other employees.
- Structured learning programmes and performance development review process.

#### Relationship Capital

- Long-term relationships with key partners, suppliers and customers.

#### Social and Natural Capital

- Signed up to Fairtrade, sustainable sourcing for ingredients.
- Food safety and technical standards are maintained to the highest level.
- Health and Safety (H&S) is a top priority for the Group, with a largely uniform H&S system across the business units and the drive forward of the 'Home Safe Every Day' strategy.

### Operating Principles in Action



#### Operating Excellence

- Sustained strategy to invest in the capability and capacity of our manufacturing assets:
  - Automated single serve cake bar packing, improving capability and cost effectiveness.
  - New gluten-free factory in Poland with modern travelling ovens improving capacity and efficiency.
  - New IT platform across all sites now complete.
- Group engineering forum standardising processes and practices improving plant performance and reliability.
- Group Process Blueprint leading to specific product design framework and improved efficiency and quality work continues.
- Group bakery efficiency programme being worked up.
- Operational supply chain forum set up and objectives set.



#### Sustainable Approach

- Most Finsbury sites are sending zero waste to landfill already. All are on target to achieve this by 2020.
- All sites have a nominated energy champion responsible for identifying and reducing consumption. Heat recovery projects are underway at several sites, and all lighting will be converted to LED by 2020. The asset investment strategy includes a focus on energy consumption.
- All sites are involved in reducing and eliminating single-use plastics. With good progress already, we are targeting a 50% reduction by 2020.
- A programme of plastic packaging reduction has started across the Group. Where plastic cannot be removed or reduced the aim is to ensure it is all recyclable.



#### Quality and Innovations

- Extensive insight capabilities mean new product development is in line with market trends.
- Over 60 employees are engaged in developing new products.
- Leading organic bakery in the UK.
- Manufacturing Process Blueprint embraces the production of high-quality premium product.
- All sites hold BRC A-grade or above for food safety standards.
- The Health agenda is embedded into the development process, with over 98% of products achieving 2017 FSA salt targets. Good progress made across all categories in reducing sugar in line with PHE targets, and further research underway to achieve their 2020 objectives.
- Acquisition of Ultrapharm gives us scale in Free From.

## Business Model



### Cost Effectiveness

- Centralised Group buying focused on high-quality and cost effective ingredients and efficiency of scale in the procurement of indirect items (e.g. personal protective equipment).
- Operational excellence initiatives focused on achieving lowest-cost-producer status in areas where we have niche strength e.g. artisan breads or round sharing cake.
- Our capital investment is focused on capability and cost reduction.



### Growth with Our Partners

- Our scale and diversity of products across UK bakery means the relationship with grocery retail customers is a partnership.
- Our business with discounters is growing in line with their growth within UK grocery.
- Our channel diversification into foodservice, our Kara foodservice brand, and our broad frozen foodservice range of products sees us as the leading foodservice partner to the industry growing at 5% in the year.
- We are growing with partners in the UK and across the rest of Europe in both bread and cakes.
- Our Lightbody Europe subsidiary in France and the Ultrapharm business in Poland gives a growing presence in Europe.



### People Who Care

- A health and safety risk management team with their mantra of 'Home Safe Every Day' is, supported by resource and a common Group-wide strategy and programme.
- Values of teamwork, honesty, ownership, respect and communication:
  - New Workplace by Facebook communication tool to facilitate communication between all employees.
- A people strategy for all employees, embracing courses in basic English, an engineering apprenticeship programme, a graduate recruitment programme and leadership development programmes.
- Biennial employee survey to obtain our employees' views.

## Creating Value

### Value for Shareholders

Using our Operating Principles achieves effectively our Purpose and Strategy, creating long-term shareholder value through share price growth and attractive dividends. Despite our achievements, the share price reduced from 117.5p at 30 June 2018 to 67.0p a year later. Over the year the dividend increased from 3.3p per share to 3.5p per share, a 6% increase. The ratio of enterprise value (EV) to adjusted EBITDA is 4.8x. Adjusted Group EBITDA is £25.5 million, consistent with the level achieved in 2018.

### Bread and Cakes for Customers and Consumers

We define ourselves as a speciality bakery group. Everything we do is with a view to achieving baking brilliance. We are predominantly a 'retailer brand' manufacturer, but target our product development at 'wowing' consumers, in line with emerging trends and shopping evolution. We constantly innovate and refresh our hot cross buns, artisan breads, celebration cakes, sharing cakes, Christmas yule logs, and our Kara range of foodservice bakery products. We are rapidly expanding our range of gluten-free products in both bread and morning goods and cake.

We measure success by the closeness of our long-term relationships with our retail and foodservice partners, by our growing presence in the discounter and convenience channel, and by the growth in our foodservice business, where we are one of the leading suppliers in bakery.

Our products reach a broader base of consumers through a strategy to diversify across all UK channels and European markets. Our customer base is broad, and having no single dependency lowers risk and creates value.

### Employment and Development Opportunities for Individuals and Communities

People are important to our business. We have over 3,000 employees, ranging from unskilled, through semi-skilled, to management. Opportunities exist within all our bakeries for training and development programmes and talent management initiatives. We recognise potential and develop skills, facilitating personal development and advancement. Our 'People Who Care' Operating Principle, and initiatives that support it, reflects the importance of people to our business.

### Tax Paid

Finsbury generates substantial tax for the country. Our employees pay tax on their earnings and the Company pays national insurance on those earnings. The Company pays Corporation Tax with an effective tax rate of circa 24.2% (French corporation tax rates 33% to 31 December 2018 reducing to 31% from 1 January 2019), as well as paying indirect taxes such as packaging, apprenticeship levies and in areas such as energy where there are significant government imposed renewable taxes. Our French and Polish-based subsidiaries pay similar taxes in their respective jurisdictions.