

Chief Executive's Report



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The Board is pleased to report its full year results, which show strong sales momentum which has continued into the new financial year.

The Group has grown sales year on year, driven by organic growth, the Ultrapharm acquisition and previously communicated new business wins, despite the challenging retail environment and unprecedented input cost inflation we have experienced over the period.

This robust performance has been delivered with a continuous focus on innovation using our extensive knowledge of our markets and what our end consumers want.

The relentless investment and efficiency focus of recent years has enabled us to navigate this market environment successfully. As we come out of our intense investment phase, with capital expenditure of £11.0 million in the period, the Group will continue to benefit from the investments made for years to come. The true measure of success is that we have once again achieved underlying growth ahead of our market and have demonstrated the growth available from premium, healthy and authentic on-trend innovation.

Illustrating this, following the launch of our own Free From brand in Europe last year, Wiso, we have also launched Free From cakes in addition to the comprehensive Free From bread and morning goods ranges. These products capitalise on the fact that making the choice to avoid gluten or embrace veganism are growing lifestyle and health choice across North America, Europe and UK.

The Group's diversification by channel has truly delivered in the period with our 'out-of-home eating' foodservice market, where we supply pub and restaurant chains, fast-food outlets and contract caterers, being a particularly strong performer. As consumer habits change it is vital that our product offering remains on trend and relevant to our end customers, illustrated by the success of our vegan brioche-style buns.

We continue to have a broad portfolio of licensed brands that are complementary to our retailer own label business and foodservice range. This offering is vital in meeting consumer trends and expectations with our portfolio evolving all the time. The second half of the year has been particularly active with the big blockbuster movie releases of Toy Story 4 and the latest Avengers and Spiderman instalments, which have all broken cinematic records and have their own cake range. We also continued to keep our core evergreen product portfolio licenses fresh with a relaunch of our Batman, Minions, Pokemon, Paw Patrol, Peppa Pig, Trolls and Me to You cakes.

Artisan breads, which may be hand-crafted, require long fermentation, baking in stone ovens, and a skilled team, continues to grow strongly. As such, we are looking to invest in further capacity to capitalise on this growing trend, going forward.

Innovation and Craftsmanship

Key components of our strategy are creating innovative, high-quality bakery products that anticipate and deliver on key market trends, ensuring customer and consumer needs are at the heart of our decision making. We always strive to be front and centre of these trends and this is driven by our deep knowledge of the markets we serve combined with the skill and experience of our employees. An example of this is the successful launch of a new range of cake bars for on the go consumption which drove our investment in automated individually wrapped cake bar capacity, and the launch of our vegan brioche style bun into foodservice, which is approved by The Vegan Society. We are constantly listening, monitoring, and testing to make sure that we're on top of trends as they emerge.

Be it foodservice, licensed brands or retailer owned brands – evolving consumer trends such as indulgence, health and wellbeing, or adapting single serve product formats for convenient out-of-home eating occasions have played a large part in driving the growth in our core division, enabling the Group to perform ahead of the wider market.

Illustrating this ability to deliver innovative, on trend and high quality products, the Group was delighted to be recognised at the Food Manufacturer Excellence Awards, winning the Bakery Manufacturer Company of the Year. Meanwhile, a number of our products were placed in the winner's category at the Quality Food Awards.

Sitting at the heart of the Group is our ability to innovate and craft products that our customers want to purchase.

Maximising the Benefits of the Group's Structure

Throughout the last couple of years, a core part of our strategy has been to ensure that all our businesses acknowledge and embrace the key strengths of the Group, whilst benefitting from common approaches. Our newly introduced IT platform has been implemented to support common business processes and further efficiency improvement, and we have also developed our Group-wide people strategy. Now that both of these have been rolled out across the Group, we are starting to see the benefits that this approach is expected to deliver.

We are building a Group-wide Process Blueprint which is standardising processes and practices to improve plant performance and reliability, which of course delivers improved efficiency and quality. We know that there are still aspects that we can further improve and we are in the process of setting up a Group Bakery Efficiency Programme and an Operational Supply Chain Forum, which will continue to drive improvements in quality and consistency, plus further reduce production waste.

All of the initiatives mentioned above are examples of our Operating Principles in action. The Finsbury Operating Principles effectively help to achieve our Purpose and Strategy, creating long-term shareholder value through share price growth and attractive dividends.

We know that the benefits of utilising our Group structure and expertise will help us to be the leading speciality group that we strive to be.

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Strength in Collaboration

We are seeing encouraging results from our people strategy throughout the Group. The positive momentum is illustrated by a number of internal promotions into senior roles over the last year. These promotions demonstrate the benefits of this programme, as well as our commitment to growing our people with the business. Employee engagement and communication has been significantly improved with the introduction of Workplace, a collaboration platform, across the Group in the first half. The use of this platform has enabled colleagues to collaborate more effectively across teams, projects, sites and accelerate functional best practice transfer as well as create instant communication opportunities and increase transparency.

I would like to thank all of our employees for the way in which they have embraced and engaged with all the initiatives that we have introduced over the last few years. They have responded brilliantly, and we're very grateful for that. We believe that by working together, we become stronger as a Group.

Broadening our Group through Acquisition

In September 2018 we acquired a specialist Free From bakery, Ultrapharm. As with all acquisitions, we completed a comprehensive multi-function assessment, utilising expert resource from across the Group as well as the existing management team, against Group standards and best practice before creating a prioritised integration action plan. Additional expert resources from across the Group have complemented management to implement the year one plan which is now largely complete as expected.

In addition, we have invested in new capacity, with a new bakery in Poland, alongside additional resources and skills to deliver a stronger platform for anticipated future growth.

Whilst we remain committed to future acquisition-led growth as part of our strategy, as always, we are focused on driving organic growth and efficiency within the current Group structure. With any further acquisitions we would be looking to introduce new product, customer or channel diversification, or accelerate market consolidation in our main product areas.

Outlook

We are confident that the strong second half performance will continue into the year ahead, as the core business continues to perform well with strong quarter one growth to date, outperforming Finsbury's respective markets.

We have made a number of significant investments across the Group that have stood us in good stead throughout what has been a more difficult period. With the Group now in its strongest position in recent years and having completed a period of intense investments including the IT platform roll out and the new Free From bakery in Poland, we are expecting to significantly reduce our capital spend going forward as we focus on driving further efficiencies from the new systems and processes and utilise our additional capacity.

Whilst the wider macroeconomic and political environment remains challenging in the UK, our drive for innovation, outperformance of foodservice and our entry in the Free From market provides a strong footing to continue to drive organic growth. Our Group-wide drive for efficiency and productivity coupled with the skill of our people provides Finsbury with a backbone to achieve further growth.

By maintaining a longer-term strategic approach, given an uncertain consumer and inflationary cost environment outlook, we are confident that we will continue to build a strong, lean, scale competitor and consolidator.



John Duffy
Chief Executive Officer
13 September 2019