Financial Review

Group revenue for the 52-week period to 27 June 2020 is £306.3 million, 2.8% lower than last year.

Following a strong first-half performance, which saw Group revenues grow 4.7% to £159.4 million, performance in the second half was impacted by the outbreak of the Covid-19 pandemic, with sales down 9.8% to £146.9 million.

20% of Group revenue is within foodservice/out-of-home eating which was largely shut down in response to the pandemic. The reduction in sales to the foodservice/out-of-home eating, starting 23 March, is the primary driver behind the reduction in second-half Group revenue. Monthly sales since 23 March have improved from being 24% down in April to 15% down in June against the prior year. This reflects the beginning of a recovery in foodservice/out-of-home eating but also reflect growing volumes in our Retail business as consumers adjust to a changed environment. Adjusted operating profit at £14.9 million is down 11.3% on last year. Adjusted operating profit margins are 4.9% (2019: 5.3%), a consequence of Covid-19.

Impairment and Other Significant and Non-recurring Items

At the year end we identified a non-cash impairment of goodwill in Ultrapharm of £7.5 million a consequence of forecasted future earnings that do not support the carrying value. In addition, strategic reorganisation costs on the back of the pandemic of £1.3 million, a value write down in unused bakery assets in Cardiff of £1.2 million and pre-pandemic commissioning costs of our new bakery in Poland of £0.3 million, have all been classified as significant and non-recurring. Items identified as significant and non-recurring have been excluded from operating profit in the table below to better reflect the ongoing trading position. Adjusted operating profit is deemed to provide a clearer presentation of the trading performance and sustainable cash generation of the Group.

Dividend

The Company announced the cancellation of the interim dividend on 29 March 2020. The Company has decided not to pay a dividend for the 52 weeks to 27 June 2020, given the uncertainty of Covid-19, as well as the additional risks that will be faced in the case of a no-deal Brexit.

The tables below show what the Directors consider to be the trading performance of the Group. The adjusted measures eliminate the impact of significant and non-recurring items and other accounting items that are not deemed to reflect the continuing performance of the Group.

52 week period ended 27 June 2020

	Operating performance £000	Significant non-recurring impairment Note 4 £000	Significant non-recurring other items Note 4 £000	Defined benefit pension scheme £000	Fair value of interest rate swaps/foreign exchange contracts £000	Discounting of deferred consideration £000	As per Consolidated Statement of Comprehensive Income £000
Revenue	306,348	-	-	-	-	-	306,348
Cost of sales	(210,881)	-	-	-	-	-	(210,881)
Gross profit	95,467	-	-	-	-	-	95,467
Other costs excluding depreciation & amortisation	(69,219)	(8,737)	(1,594)	200	(73)	-	(79,423)
EBITDA	26,248	(8,737)	(1,594)	200	(73)	-	16,044
Depreciation & amortisation	(11,309)	-	-	-	-	-	(11,309)
Operating profit	14,939	(8,737)	(1,594)	200	(73)	-	4,735
Finance income	61	-	-	-	-	-	61
Finance costs	(1,272)	-	-	(256)	(386)	(14)	(1,928)
Profit before tax	13,728	(8,737)	(1,594)	(56)	(459)	(14)	2,868
Taxation	(3,398)	235	303	11	87	1	(2,761)
Profit for the year	**10,330**	**(8,502)**	**(1,291)**	**(45)**	**(372)**	**(13)**	**107**

*Refer to Note 4 for further details on significant non-recurring items.

52 week period ended 29 June 2019

	Operating performance £000	Significant non-recurring items £000	Defined benefit pension scheme £000	Fair value of interest rate swaps/foreign exchange contracts £000	Discounting of deferred consideration £000	As per Consolidated Statement of Comprehensive Income £000
Revenue	315,281	-	-	-	-	315,281
Cost of sales	(219,849)	-	-	-	-	(219,849)
Gross profit	95,432	-	-	-	-	95,432
Other costs excluding depreciation & amortisation	(69,905)	(1,200)	(162)	(178)	-	(71,445)
EBITDA	25,527	(1,200)	(162)	(178)	-	23,987
Depreciation & amortisation	(8,694)	-	-	-	-	(8,694)
Operating profit	16,833	(1,200)	(162)	(178)	-	15,293
Finance income	77	-	-	-	-	77
Finance costs	(991)	-	(282)	(382)	-	(1,794)
Profit before tax	15,919	(1,200)	(444)	(560)	(139)	13,576
Taxation	(3,605)	128	75	95	24	(3,283)
Profit for the year	**12,314**	**(1,072)**	**(369)**	**(465)**	**(115)**	**10,293**

Earnings Per Share (EPS)

EPS comparatives to the prior year can be distorted by significant non-recurring items and other items highlighted above. The Board is focused on growing adjusted diluted EPS which is calculated by eliminating the impact of the items highlighted above as well as amortisation of intangibles and incorporates the dilutive effect of share options. Adjusted diluted EPS is 7.7p (2019: 9.0p).

	52 week 2020	52 week 2019
Basic EPS	(0.6)p	7.3p
Adjusted basic EPS	7.9p	9.3p
Diluted** basic EPS	(0.6)p	7.0p
Adjusted* diluted EPS**	**7.7p**	**9.0p**

* Further details on adjustments can be found in Note 9.

** Diluted EPS takes basic EPS and incorporates the dilutive effect of share options.

Cash Flow

There was a decrease in our working capital of £1.0 million (2019: £5.6 million increase) in the financial year driven by the downturn in trading as a result of the pandemic. Corporation Tax payments made in the financial year totalled £1.8 million (2019: £2.0 million). The payments in the current and prior year took account of the research and development tax relief due to the Group, tax losses being utilised, and a higher tax rate charged on overseas profits. Capital expenditure in the year amounted to £4.7 million (2019: £11.0 million).

Debt and Bank Facilities

The Group's total net debt is £26.5 million (2019: £35.6 million), down £9.1 million from the prior year. Responding to the Covid-19 pandemic, the Board immediately took a number of cash and cost-conserving actions to ensure the business remained on a sound footing to deliver on its longer-term growth ambitions. These included:

- The freezing of all discretionary expenditure and capital investment;
- Careful management of cash resources; and
- The suspension of the interim dividend.

In addition to these measures, the Board and Executive team took a 30% salary reduction between April and June whilst other senior executives took a 20% reduction.

Throughout the year which includes the Covid-19 affected final 3 months the Group has remained profitable and has generated cash which has resulted in a reduction in net debt of £9.1 million. It has remained comfortably within its credit facility of £55.0 million. Furthermore, the Group has not looked to utilise any of the Government Loan schemes.

The Group recognises the inherent risk from interest rate rises, and uses interest rate swaps to mitigate these risks. The Group has two swaps, one for £20.0 million for five years from 3 July 2017 (fixed) at 0.455% and one for £5.0 million for three years from 28 March 2019 (fixed) at 1.002%. The total balance of swaps at 27 June 2020 is £25.0 million (2019: £25.0 million). The counterparty to these transactions is HSBC Bank Plc. The effective interest rate for the Group at the year end, taking account of the interest rate swap in place with base rate at 0.10% and LIBOR at 0.691%, was 2.2% (2019: base rate 0.500% and LIBOR 0.501% effective interest rate 2.0%.

Financial Covenants

The Board reviews the Group's cash flow forecasts and key covenants regularly, to ensure it has adequate facilities to cover its trading and banking requirements with an appropriate level of headroom. The forecasts are based on management's best estimates of future trading. As noted earlier, there has been no breach of covenants during the year and the Board does not expect any in the forecast periods.

Interest cover (based on adjusted earnings before interest, tax, depreciation and amortisation – EBITDA) for the 52 weeks to 27 June 2020 was 25.3 (2019: 28.0). Net bank debt to EBITDA (based on adjusted EBITDA) for the year to 27 June 2020 was 1.1 (2019: 1.4).

Taxation

The Group taxation charge for the year was £2.8 million (2019: £3.3 million). The effective rate of tax on profits before significant and non-recurring and other items is 24.8% (2019: 22.6%). You can find further details on the tax charge in Note 8 to the Group's Financial Statements.

Financial and Non-Financial Key Performance Indicators

We monitor a range of financial and non-financial KPIs at site level covering, amongst others, productivity, quality and health and safety.

The Group Board receives a regular overview of all KPIs. We discuss these KPIs in further detail on pages 26 and 27.

The Strategic Report was approved by the Board of Directors on 18 September 2020 and was signed on its behalf by:

Stephen Boyd
Director