

Chief Executive's Report

Better...

in adapting to change



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Chief Executive's Report/Continued

Finsbury has a strong track record of successfully navigating macroeconomic pressures, but the events of the past few months were entirely unprecedented and presented a new set of challenges. I am pleased with how the business has coped, really illustrating the strength of our Group and commitment of our teams. A crisis tells us a lot about ourselves, and I believe we have responded brilliantly.



25%

year-on-year reduction in waste delivering significant benefits across the whole Group.

Review of Performance

As previously reported, the first half was both a period of growth and of successful delivery against our strategic priorities, primarily driven by organic performance in UK Bakery as well as new business wins and the first full financial year contribution from our acquired Free From business, Ultrapharm.

Performance in the second half was reflective of continued momentum in January and February in line with market expectations, followed by significantly weaker trading as a result of the outbreak of Covid-19 at the end of March and the dramatic changes in demand the Group experienced thereafter.

The benefit of the Group's geographical, channel, customer and product diversification has been evident throughout the pandemic. Our European customers and bakeries experienced lockdown first and were able to share their learnings quickly across the Group.

Our largest channel, Retail, remained relatively resilient throughout, although it was impacted by rapid changes to shopping behaviours, which we are pleased to say we adapted to quickly. Helped in part by the warm weather, some areas of retail demand clearly benefited such as round cakes and buns and rolls, while foodservice and food to go were hardest hit. Celebration cake sales were dented but to a lesser extent than one might expect, with households keen to continue marking special occasions despite restrictions on celebrating with extended family and friends.

Our ability to adapt quickly to changing consumer needs is evident in the steady monthly sales improvements we have seen since March as our customers are now gradually moving back towards normalised ranges in line with the gradual relaxation of the nationwide lockdowns. Following the staggered re-opening of some customer sites our foodservice and food to go volumes have started to recover.

Response to Covid-19

We have detailed our response to the outbreak of the coronavirus in our previous updates but it is worth reiterating that from the outset, everything we have done has been within the parameters of, first and foremost, keeping our colleagues, suppliers and customers safe.

Early on, after ensuring our facilities were meeting government standards for social distancing and safe working, we were focused on meeting volatile and unforecastable swings in demand at a time where there was widespread concern about the availability of food stock across the UK.

Thanks to our colleagues, who have worked tirelessly and under difficult circumstances, the Group adapted quickly and effectively to the situation, and has continued to deliver.

At the same time, we knew that communities were in need, and I'm delighted we were able

to work with our customers to play a small part in the national effort against the virus by producing loaves to be included in food boxes for the shielding housebound, in conjunction with several of our major customers, as well as provide charitable food donations to NHS and key workers as well as local care homes.

Developing Group Scale Benefits

Covid-19 has demonstrated the importance of the investment and hard work that has been undertaken to create a cohesive Group that operates at scale. While the focus has been on strengthening the business for the long-term, there is no doubt the improvements and efficiencies we have already achieved have been valuable in coordinating an effective and agile crisis response.

This time last year, we rolled out six Group Operating Principles, a set of practical building blocks that establish best practice and how we want to consistently run our businesses. They are:

- **Operating Excellence** – we continually invest in our bakeries to improve our efficiency and customer satisfaction;
- **Sustainable Approach** – we optimise our use of energy resources and focus on reducing waste throughout our supply chain and in our bakeries;
- **Quality and Innovations** – our innovative, high-quality bakery products reflect changing customer need and anticipate key market trends;
- **Cost Effectiveness** – we maintain strict cost controls without compromising quality, streamlining our processes from sourcing to delivery;
- **Growth With Our Partners** – through long-term relationships with our customers and suppliers, and an understanding of their needs, we can all enjoy profitable growth; and
- **People Who Care** – we invest in our people, who take personal pride in their contribution to our success, and are strong advocates of our business and products.

I am pleased to report they are now a common framework used across Finsbury to translate our Group strategy into action. This is thanks in large part to the investment we have made in our IT infrastructure, making it easier to introduce Group-wide information which facilitates improved collaboration for improvement initiatives and leveraging scale benefits across the Group.

One of these initiatives within Operating Excellence is our Process Blueprint project which is now active in all Finsbury bakeries. The project is designed to establish, embed, and optimise knowledge of all our processes while encouraging collaboration and exchange of ideas to help us achieve our goal of making fantastic and consistently high-quality products in as efficient a manner as possible.

With the systems, resources and knowledge base we now have in the Group, our provision of management information is much improved, granting us greater optionality over, for example, buying materials and services on a Group basis rather than by site at a local level or optimising our Group-wide supply chain distribution efficiency and agility.

Until recently, we have been mainly focused on significant capital investment – whether that be in IT or physical capacity increases across our sites. Now, with that phase of our investment programme largely complete, our efforts have shifted to filling that capacity and further optimising our operations.

In isolation these are small examples but they are indicative of the direction of travel of the business and its evolution into a more progressive, expert organisation. A number of strategic initiatives have already been introduced and we continue to see further productivity and efficiency gains as a real long-term opportunity for us.

Investing in Our People

Within the People Who Care principle, we continued to make good progress against our People Strategy during the period with a focus on improving employee engagement. One example of this is the Group-wide sentiment survey we ran to gather feedback from staff regarding our handling of the coronavirus crisis, covering areas such as health and safety, demonstrating care, communication and leadership. The response was positive across all areas and sites, while also providing valuable insight to inform initiatives we are now actively engaging with local teams to action.

Communication is a key driver of engagement and this has been transformed by the rollout of Workplace by Facebook as our primary Group-wide communication tool. Workplace has been invaluable during the pandemic, enabling us to communicate and operate effectively remotely, whilst also enabling us to remain connected and drive business performance.

During the period, we continued to embed the Talent Management process, enabling us to identify, retain and develop existing talent, create a pipeline for future talent, and identify capability gaps aligned to the business strategy. We also ran our third graduate recruitment campaign, specifically targeted at bringing entry level finance talent into the business, and are continuing with the business-wide Engineering Apprenticeship Programme to address what we know to be a future national and industry shortfall in engineering talent.

Committed to Ensuring our Bakeries are Sustainable

We are committed to a sustainable approach throughout our supply chain and in our bakeries and have implemented sustainability metrics and goals embedded within all our business strategies.

One example of the tangible impact that this approach is having is our focus on waste reduction which, at one of our sites, has resulted in a 25% year-on-year reduction in waste but it is delivering significant benefits across the whole Group. We have engaged with specialist Group-wide providers in waste management to drive our zero waste to landfill target across all sites by the end of 2020 and are working to identify further opportunities to reduce waste at source.

As part of our work to reduce our energy consumption, we have successfully trialled localised energy monitoring which resulted in a 10% reduction of energy. This initiative is now being rolled out across the business with all key assets in all bakeries implementing localised energy monitoring to enable measurement of key energy reduction projects. Alongside this, we continue to drive conversion to LED lighting across all of the individual group bakeries, with around 60% of the total already completed.

Whilst almost all our plastic packaging is recyclable with almost 80% of it being readily recyclable in the UK, we are working to ensure all plastics are recyclable.

Continued Product Innovation to Meet Consumer Needs

Notwithstanding the demand shifts in recent months, key trends of health and wellbeing, and ethical and environmental choices remain a driving force with consumers.

Responding to consumer demand has always put us at the forefront in our categories and our teams have launched a number of innovative and appealing lines in the period. These include plant-based, vegan-friendly whole cakes and celebration cakes, launched with the BOSH! brand. Having identified nut free as an important concern for shoppers hosting family and party occasions in particular, we have invested significantly in our Celebration Cake bakery in Hamilton over the last year to turn it into a fully nut-free site, a first in the cake industry. We have since launched a range of character licensed based products, all clearly marked with our unique Nut Free logo on pack. The range includes some of our most popular licenses including Disney's Frozen, Spiderman, Harry Potter, Batman and Peppa Pig.

We are committed to growing our licensed brand portfolio and had several successes on that front in the period. We were able to tap into the fast-growing gaming market through signing partnerships with Xbox, Mario and Nerf, and our long-standing relationship with Mars went from strength to strength, with the Galaxy Ripple becoming our bestselling celebration cake in the period further to its launch in April 2019.

Innovation remains at the core of what we do across all our licenses. Our desire to provide consumers with on-trend, exciting and delicious new products drives us and enables us to maintain our market leading position.

In Artisan bread, we continued on our strategic growth journey, with increasing expertise reinforcing our market leadership position. During the period, we carefully invested in additional capacity and state of the art production equipment, driving efficiencies and quality improvements and adding a further 50% capacity. With world-class production facilities now in place and a strong innovation pipeline, we anticipate further success in this on-trend growth sector moving forwards.

Current Trading and Outlook

Against a macro-economic backdrop that continues to be defined by high levels of uncertainty, encouragingly, sales continued to improve month-on-month in the first two months of the new financial year. As the recent tightening of restrictions designed to curtail the spread of the virus have demonstrated, though, it remains difficult to forecast potential bumps in the road and the impact they may have. The trajectory of sales in our foodservice business in particular is sensitive to this type of policy change. While it is hard to say when levels of demand will return to normal in this division – or what normal looks like longer-term – we continue to carefully manage our resources and operations to meet demand levels in an appropriate and sustainable way. Given the ongoing market uncertainty we are unable to provide guidance at this time.

Looking ahead, we will continue to monitor and respond to the pandemic as it evolves, working more closely with our customers and global brand partners than ever before to ensure we anticipate changing demand patterns and manufacture products and ranges that meet changing consumer needs. We have delivered a robust performance in the circumstances to date, and are confident that with the comprehensive optimisation of the business that has taken place in the past few years and the extensive operational improvements that have been introduced and accelerated as a result of the pandemic, we are well-positioned to continue to successfully navigate the challenges we face.

We remain focused on becoming the leading speciality bakery group and, notwithstanding coronavirus-related disruption, we have continued to make good progress towards that goal. There will inevitably be further obstacles to overcome as the pandemic plays out and with Brexit approaching, but there is a sense of cautious optimism in the business, and we are confident that by continuing to manage the business in a disciplined and pragmatic way, we will emerge a stronger, more streamlined and efficient organisation, capable of delivering sustainable growth and healthy returns for shareholders.



John Duffy
Chief Executive Officer
18 September 2020