H1 FY24 Results

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H1 FY24 Results

Operator: Welcome to the Greencore H1 Full Year 2024 Results Presentation. I will now hand over to CEO, Dalton Phillips.

Dalton Philips: Good morning, and thank you for joining us today for our FY24 half-year results.

Before we get going, I wanted to say a big thank you to our outgoing interim CFO, Jonathan Solesbury, and to welcome our new CFO, Catherine Gubbins. Jonathan has done a terrific job since he joined us last summer. His calm-headed and focused support has been a huge asset to our business. We will miss Jonathan, and we wish him the very best for the future.

Jonathan has also done a super job helping Catherine onboard since she joined us earlier this year, and Catherine's had a busy few months of induction, and we're absolutely delighted to have you on board, Catherine. You're already making a very positive impact to our business.

Right, so back to today. I'll start with a brief summary of our performance before handing over to Catherine for an analysis of the financials, and then I'll return for the strategic and operating update. This should take about 30 minutes; after which we'd love to have your questions.

So, turning to page five in the executive summary, we've had a strong start to the year and have accelerated progress on restoring the Group to historic absolute levels of profitability and returns. Some key highlights from the half year.

Firstly, we've delivered an adjusted operating profit of £28.3 million, which is a 140% increase year-on-year. Secondly, our like-for-like volume growth was 0.5% positive compared to last year, demonstrating continued outperformance against the market. We also had like-for-like revenue growth of 4.1%. Thirdly, we've delivered against our cost, operational and commercial efficiency programmes. Fourthly, we've continued to optimise and apply a returns lens across our sites and categories.

Fifthly, we have a strong balance sheet which provides headroom for wider capital allocation options, with £50 million going back to shareholders over the next 12 months. And finally, as a result of the above, we currently expect FY24 adjusted operating profit to be in the range of £86-88 million, which is ahead of current market expectations.

So, in summary, I'm pleased to say that we've had a good strong start to the financial year.

Let me now hand you over to Catherine.

Catherine Gubbins: Thanks, Dalton. Good morning to everyone, and thank you for joining us in the room and on the call today in what is my first results presentation as Greencore CFO, I wanted to spend the first few minutes of my section today giving you a flavour of my first impressions and also a sense of what my immediate priorities as CFO will be.

So, as Dalton said, I joined Greencore on the 6th February, and I spent my first few months undertaking a thorough induction programme, some photographic evidence of which as shown here. This included visiting all of our 16 manufacturing sites, our distribution site in Tamworth, and indeed spending some time with some of our larger customers. While I obviously had a really good understanding of what the Group did, you really can't beat an experience like that to meet senior teams at site, understand what each site does and walk the floor to get a feeling for our products, infrastructure and processes.

Like many industries, the Group has had a challenging few years, is coming out of the other side of that now, and has really benefited from the development of a clear strategy and some positive momentum. Dalton and the team have done a really great job at distilling a clear near-term vision and strategy, and my time in the business so far has validated three key focus areas for me going forward.

As a leadership team, we are all aligned in returning to healthy and sustainable levels of profitability; and for me, there is a requirement to continue to drive efficiencies across our business and fundamentally reassess our ways of working to improve our returns.

A key part of my role going forward from here is also going to be to drive a focus on managing and right-sizing our cost base. However, delivering on this efficiency agenda is going to require investment in systems and processes, after a lack of focus here for a number of years. The Group operates on five ERPs, which results in a lack of integration and poor data quality that is hindering how we operate. Work started last year to mobilise a programme to address this, and we will take you through some more detail on this later.

Dalton will provide a bit more colour on Horizon 3, but when I think about the medium term, I would be keen to ensure we have a strong and efficient platform to support the Group's growth potential by optimising our cost base and ensuring our systems and our processes are fit-for-purpose. Cash conversion is obviously going to be a key focus for me, and I will be working to ensure our balance sheet is optimised, and we are being clear on how we are increasing value and returns for shareholders.

There's quite a lot of detail to cover over the next few slides, but I will first reflect on our key financial metrics on slide eight. So, as Dalton has referenced, we have delivered a very strong performance year-on-year from an adjusted operating profit perspective, with an increase of 140% to £28.3 million.

It is also worth noting that the equivalent period in 2023 included an additional circa £1 million in relation to the Trilby Trading business. Therefore, the underlying year-on-year growth is closer to circa 165%.

If you look at revenue, you can see our like-for-like revenue has improved by 4.1%, with our actual reported revenue having declined by 6.4% for the six-month period. We will look at that in more detail shortly.

The adjusted earnings per share increased 2.3 pence to 2.8 pence from 2023, driven by the increase in operating profit partially offset by an increase in financing costs and a reduction in exceptional costs.

We had a free cash outflow in the half as expected, which totalled 26.5 million, with our improvement in EBITDA offset by a higher working capital outflow, higher maintenance capital expenditure and an increase in financing and tax cost year-on-year. There was really good progress in deleveraging with leverage down to 1.4x versus 1.9x at the equivalent period end in 2023 and this brings us within the Group's target range of 1.0-1.5x.

Finally, return on invested capital at 10.2% has increased 270 basis points from last year. Although we are pleased with the continued progression, we are still below our historical levels of ROIC and the rebuilding of profitability and returns remains a key focus.

Just moving on then to slide nine, some further detail on the income statement. Some of the figures on this slide are repeated from the previous key metrics slide, so I'll just focus on the highlighted metrics.

The increase in adjusted operating profit against the reduction in reported revenue has led to an operating profit margin of 3.3% compared to 1.3% in 2023. This was a result of continued focus on driving operational efficiency, commercial initiatives and continued tight cost control. We recognise that there is still more work to do in these areas, and we are still below historical levels for the Group. So, as I have said, this is going to be an ongoing area of focus.

Moving further down the income statement, adjusted profit before tax increased to £16.9 million from £3.4 million, and you can see we have an exceptional charge after tax of £1.3 million for the period, which relates to the systems and process-based transformation programme that I referred to earlier. We have treated this element of the project as an exceptional cost.

Moving on then to slide ten, I'm going to take you through a little bit more detail on the breakdown of our revenue performance.

Overall, our reported revenue for the six-month period has declined 6.4%, impacted by the disposal of the Trilby Trading business, which accounts for 4.6% of the decline. The rest of the decline was driven by proactive contract resignations in 2023, net of new business wins, and this accounts for a further 5.9% decline year-on-year. Offsetting against these declines was a life-for-like increase in volumes and mix year-on-year, which drove a 1.2% increase in revenue and a 2.9% increase due to inflation recovery and pricing impacts with our like-for-like revenue growth year-on-year at 4.1%.

Moving on to slide 11, we've just set out the key components of the increase in adjusted operating profit, which, as noted, has increased 140% year-on-year to £28.3 million. I've already referenced the like-for-like revenue increases which have impacted this result, and we also continue to work hard to recover inflation in the period through engagement with our customers, in addition to annualising the impact of the inflation lag that the Group experienced early in '23, which was recovered during the balance of 2023.

Dalton will go through some detail on how we continue to leverage efficiencies across our operations, but this has also helped to drive a further improvement in our adjusted operating profit number. As I mentioned earlier, we disposed of Trilby Trading and proactively realigned a number of our other contracts during the course of 2023, so they obviously also had an impact.

I will now turn our focus to the free cash flow movements for the half, set out on slide 12. As you can see, there has been an overall cash outflow of £26.5 million for the period, which represents a cash conversion of 36.7%.

Working capital saw a seasonal outflow of £43.2 million with cash conversion over negative 40 days, and we expect to see this unwind favourably in H2, as is usual. Maintenance capital expenditure at £10.1 million is up £2.3 million from a relatively low base in the equivalent period in 2023. We have exceptional cash flows of £2.9 million which were related to fees for the disposal of Trilby, and for the sale of investment properties we held in Carlow and Mallow, in addition to an exceptional cash outlay related to the work done so far on our technology transformation programme. The other slide items, as you can see, were broadly in line with expectations, resulting in an overall free cash outflow of £26.5 million.

So just moving on then to slide 13. Our balance sheet position remains strong with our leverage, as measured under finance agreements, at 1.4x versus 1.9x for the same period in full-year '23, and this provides us with headroom for wider capital allocation options. Net debt, excluding lease liabilities at the end of the period was £198 million and our balance sheet strength is also reflected in cash and undrawn facilities, which stood at £246 million at the end of the half and our weighted average maturity of debt of four years. This is following the completion of our new five-year £350 million sustainability-linked revolving credit facility, which provides significant financial flexibility for us for the future.

We also made significant progress on our UK defined benefit pension funding plans following the latest triennial valuation and a new funding plan agreed with the scheme's trustees. The scheme is now expected to be in a fully funded position by September 2025, at which point annual funding of £9.8 million to that scheme from the Group will cease. This will obviously support enhanced cash conversion for the Group going forward.

I'm going to move to slide 14, which sets out some detail on our capital allocation plans. So the Group recently completed its commitment of a £50 million value return to shareholders over two years with the conclusion of the final portion of a £15 million buyback during February 2024. And today we want to outline the update to our capital allocation plan.

The Group's ambition is to deploy capital to balance long-term growth and shareholder returns through operating profit growth, generating strong free cash flow and following a disciplined investment and capital allocation approach. In the medium term, our current target leverage remains at 1.0-1.5x. We will prioritise organic investment through capital expenditure, followed by selective M&A to support our sustainable growth agenda with a return then of up to 50% of excess cash to shareholders, either through dividends or share buybacks.

We are announcing a further value return to shareholders of £50 million pounds over 12 months. This is going to be initially in the form of a share buyback of £30 million, which is commencing today, and the Board have also indicated the intention to declare a dividend in respect of full-year 2024. The Board will obviously continue to evaluate the level and method of shareholder returns through the lens of share buyback and/or dividends, and we will look to provide an update on our plans at the full-year '24 results announcement. I also just wanted to highlight the inclusion of full-year '24 technical guidance within the appendix of the pack.

But that pretty much concludes my section, and I suppose in summary, in my first few months as CFO, I am excited by the future potential of the business and the outstanding opportunity that I have to help shape it. So it has been really great to join the business at a time of such fantastic financial results.

So I'm happy to take questions after this, but I'm going to hand back to Dalton for the moment. Thank you.

Dalton Philips: Thanks, Catherine.

So now turning to the strategic and operating update on page 16, at our full-year results in November, I spoke about the three horizon framework, which has guided our post-pandemic recovery and subsequent growth. We stabilised the business and achieved Horizon 1 last year with an operating profit of £76 million.

Our focus now is firmly on Horizon 2, as we rebuild our profitability and returns. There are four key areas that we've been focusing on: optimising our portfolio, commercial excellence, operational excellence and lastly, transforming our processes and technology landscape. Progress in each of these areas has underpinned our performance.

Finally, Horizon 3, which I'll come back to later, is our framework for thinking about longer-term growth, which we're kicking off in parallel with Horizon 2. Let me now focus on Horizon 2 and dig deeper into these four areas.

So, turning to page 17, and the first of those focus areas in Horizon 2 is our portfolio optimization strategy. Previously we would have spoken about food to go and other convenience of our two core categories. We now review our portfolio in nine categories, which you'll see on the left-hand side of this page. Each category now has a multifunctional team working on the execution of a specific portfolio strategy.

These strategies are guided by a returns lens, as every area of our business now has the clear target to meet its cost of capital. I won't talk through what we're doing in each of these nine areas, but I did want to spend a moment giving a couple of examples which bring colour to the sort of interventions we're making. Some are small, others large, and in the aggregate, they all make a material improvement to our business.

Firstly, for example, in salads, we're continuing to grow with existing and new customers and to support our growth plans, we've exited a low-margin subcategory. This gives us flexibility to sell this capacity for higher-margin volume with a modest capital investment. A second example is in our direct-to-store distribution business, where we're now onboarding additional in-year volume with a new very large customer. In parallel, we continue to execute on plans to further grow with our existing customer base.

A third example would be ready meals, where we've signed a material new and accretive long-term contract with a key customer and are getting ready to launch that volume in our Kiveton meal site in Q4.

The fourth example is in soups and stores. Last month, we announced the closure of our Kiveton soup site and the consolidation of all soup volume into our Bristol site, which we forecast will drive a run-rate EBITDA benefit of £1.8 million for the Group.

The message I'd like to leave you from this slide is that these types of proactive interventions across our sites and categories have improved returns already in the year, and we will continue to execute against each of these cat strats for the remainder of the year.

Turning to page 18 and moving into the second focus area, commercial. We've developed an excellence programme in each component of our commercial engine, which has enabled us to really improve how we run it. There are four parts to this.

Firstly, insight. We're really trying to get even closer to the market and have stepped up our investment in this area, be that people, data or research. The bottom line is you can't be too close to the consumer and to ensure we're seeing the outputs of this work, each and every week at our P&L and trade meeting, we deep dive into individual category share trends for the week, the month and the quarter.

Secondly, planning, with a robust product launch process with approximately 120 people dedicated specifically to this area. The output of this investment allows us to deliver continuous quality upgrades, be that brand-new NPD like the kitchen deli range for Sainsbury's or EPD, the 'E' being existing product development like M&S's max two-day shelf-life sandwiches, Tesco's recently launched al forno lasagne, or Morrison's April Cafe relaunch. To put this into context, we reformulate over 600 products every year.

Thirdly, sell. I now feel we've a very robust – we have very robust commercial relationships with our key customers, which have strengthened in the last 18 months. Our partnerships are settled, stable and growing. Our focus is to consciously back customers who want to invest and win in the market. This means backing the sales team when it's right to step away from poor-performing contracts in order to invest capacity into higher-margin businesses.

And finally the buy side. We've got a really high level of procurement expertise and are proactively going deeper into the supply chain, in many cases putting boots on the ground, be it here in the UK or much further afield in different continents. In parallel, we continue to leverage our new 'should cost' model with our supplier partners to ensure paying the right price for our raw materials.

Excellence across the commercial process has underpinned our performance in three areas. Firstly, volume. We've successfully launched 184 new products in the first half of the year, which has driven our market outperformance. Secondly, cost, we further streamlined our portfolio, removing 169 SKUs that weren't performing for us. As a result, we've driven efficiency by selling 3% more volume per SKU versus six months ago, reducing complexity and driving efficiencies. And thirdly, price and mix. We've driven 4.1% revenue growth compared to 0.5% volume growth in H1, which demonstrates our effective approach to pricing and mix management. We've also ensured that we're putting resources in the right places, for example, the premium sandwich market, which is small but has experienced 90% growth year-on-year.

This focused approach to commercial excellence has put us in a strong position relative to the market, which you can see on slide 19. We've continued to outperform the market. The overall grocery market in volume terms declined by 0.7% in the half, representing some improvement on previous periods, but still with the backdrop of a challenging inflationary environment.

We outperformed the market by 110 basis points, with 0.4% volume growth over the same period. And in our key categories, the story was similar with sandwiches and ready meals, both significantly outperforming the market. These categories together represent approximately half of our total revenue. This market outperformance was enabled by that commercial process I mentioned on the previous slide, in particular, a focused approach to innovation and continuous quality upgrades and reformulations through our EPD process.

Now, turning to operational excellence on page 20. We've improved our performance with a 4% increase in units per direct labour hour compared to last year. This essentially means that our people are 4% more productive during their time at work, which is a real step on for the business. This is – this improvement is underpinned by a clear operational excellence programme with five key pillars. We implement this programme through what we call the lighthouse factory model. Essentially, individual sites are piloting improvement programmes to drive quick wins, which we then deploy as best practise learnings right across the network.

On page 21, you will see that we've made strong progress against each of the five pillars. For example, in manufacturing and supply chain, we've reduced organisational losses, which is a technical measure of downtime on the lines, by 11 percentage points in our pilot plant in Warrington. This has been achieved through a new planning and scheduling programme, which allows us to run all products on all lines. This reduction in losses from 20% to 9% brings the site in line with best-in-class performance and has improved OEE, a measure of capacity utilisation, from 40% to 45% and will be rolling out this process to additional plans in the coming months.

In automation, we're further ramping up our focus, moving on from automating cutting of wraps and sandwiches with ultrasonic knives, or decanting sauce jars from pallets into more complex and higher-returning areas. Going forward, we have identified three focused areas: assembly robotics, partnering with the University of Essex; materials automation and warehouse automation.

In network optimisation, I've mentioned the consolidation of soup volume into our Bristol plant. We've made improvements on site to ensure that the transferred volume into that plant will be produced more efficiently, with an 18% reduction in direct labour cost per unit. Beyond this, we will continue to look at all areas of our network planning, where there is now greater focus on moving products between plants to ensure we're maximising efficiency.

In labour optimisation, we've achieved a 6% indirect labour reduction by identifying areas of spend through a detailed cost review. An example of this sort of saving is the hygiene cost savings at our Bow facility, which we've achieved whilst maintaining our high standards of cleanliness. We've streamlined tasks undertaken to reduce labour required to complete daily cleaning – to reduce daily cleaning by 25%. All savings have been achieved without any redundancy costs through vacancy rate and agency labour reduction.

And finally, in processes and systems, we've achieved a 7% material waste reduction in H1 through process improvements. For example, in new practises on how we defrost raw ingredients. This has delivered a total £3.3 million cost saving year-on-year, and we still have more to go after.

So, in summary, we're off to a good start on our operational excellence programme under the guidance of Lee, our COO, who's with us this morning. However, we recognise that there's still loads more to go after here.

Moving to page 22, and our technology and process transformation. Within the half, we've launched a programme to implement a consistent infrastructure for data, processes and technology. This will be underpinned by a common ERP onto which we'll layer specific business needs applications.

As part of this process, we've already moved from having seven different ERPs to five, with the clear goal of getting to a single ERP. In parallel, we've scoped and sized 41 IT-dependent business initiatives with concrete benefits across three areas: revenue growth, COGs, reduction and SG&A reduction. These benefits will be achieved through an investment of circa £6-7 million this year, which will enable us to achieve further operational efficiencies, in turn supporting our drive to rebuild our margin levels. This is a catch-up on years of underinvestment and the plan ensures we're utilising existing technologies and rolling them out incrementally rather than implementing a more riskier 'Big Bang' solution.

Now moving to page 23, and our Horizon 3 framework, which focuses on our longer-term growth potential. Horizon 2 and Horizon 3 were always intended to start in parallel. Whilst we rebuild our profitability and returns, we also need to plan for our longer-term growth trajectory, and therefore we've stood up a small, focused team to work on Horizon 3.

We're exploring both internal and external investment as part of Horizon 3. There's no big reveal today on this, but I did want to share some early thoughts with you on how we're structuring our thinking.

As you'll see on page 24, within Horizon 3, we've set down three guiding principles.

The first, strategic fit. Any expansion beyond our core must have a compelling strategic fit. Specifically, we will use expansion as a means to gain exposure to greater structural growth. But we will also ensure that we invest only where we have the right to win.

Secondly, financials. Any investment must have a compelling financial logic. So we'll be looking at synergies, margins and returns. And thirdly, sustainability. We will be biased towards investment which supports our sustainability goals, especially across the focus areas of energy, waste and water.

In terms of how we will apply these principles to future growth, in practice, we're looking across three areas.

Firstly, category expansion. There are opportunities to further consolidate in our existing categories, alongside potential to expand into adjacent and complementary, chilled, ambient or frozen categories. Secondly, channel expansion. There are opportunities to move into new channels and with new customers beyond our current core footprint of retail and convenience. Thirdly, our balance of private label versus brands. Our core is obviously private label. However, we do have a small brand of business today, with some 2% of our revenue coming from co-manufacturing and brand licencing. So we'll consider whether there is more to do here.

I hope this gives you a flavour of the kind of work that's ongoing in Horizon 3, which we will share with you in more detail later in the year.

Finally, let me turn to the outlook on page 26.

Firstly, our principal priority is returning the business back to prior levels of profit and returns, for which we're on an accelerated trajectory. Secondly, I'm encouraged by the strong progress made in Horizon 2. There's still a lot more to go after, but we have targeted plans in place and a team at full strength to deliver them. As a result, we currently expect FY24 adjusted operating profit to be in the range of £86-88 million, which is ahead of current market expectations. And finally, as you've seen. We've announced a £50 million shareholder return over the next 12 months, with initial tranche of £30 million via a share buyback starting today. And our intention is to commence a dividend at the end of the year.

And now, as I wrap up, I'd like to say that I believe we've got off to a good start for the year. We're pleased with how we're performing. There's a huge amount of interventions that have occurred right across the business, with many more to come. If I was to speak for the entire team, I think they'd say we've got the bit between our teeth with a focus plan ahead of us. All achievable, all doable, and very much within our control to land.

Finally, thanks for being here on a very busy morning. It's great to share more about the journey we're on. And I'll pause there, and we will now open it up to your thoughts and questions. Thank you.

Questions and Answers

Operator: Thank you.

Dalton Philips: Patrick?

Patrick Higgins (Goodbody): Thank you. Good morning. Patrick Higgins from Goodbody. A couple of questions, please, if you don't mind.

Just in terms of, I guess, the nine categories that you called out, the work you've done in terms of improving utilisation rate and returns across sites. I think you mentioned in the full-year that about 12% of your volume – at full-year '24 – '23 results, about 12% of your total volume was from plans that were loss-making. Where does that sit today? And the work you're doing with Kiveton and ready meals business, where will that fall to after that?

Second question is just on the shareholder returns. You know, £30 million buyback today. Should we assume the remaining £20 million is in dividends, or could we see another reload, I guess, of the – of the buyback after the current one completes? Thank you.

Dalton Philips: Great. Thanks, Patrick. Look, I'll take the first one, maybe you take the second one there, Catherine.

You're absolutely right, we said last year that 12% of our volume was coming from loss-making sites. With the interventions we put in place, that number's dropped significantly. I would expect us to be exiting this year at a run-rate of, sort of, five percentage. I mean, 5%, 6%. So we'll have cut it in half. And that's really the intervention that we've done in all those different categories, particularly soups, ready meals and look, the whole – all those nine cat strats, Patrick. Each category has a focus, and we've said, look, if you're not meeting your cost of capital, we're going to have to have very difficult conversations. So 12% down to sort of mid-single digits?

Catherine Gubbins: Yes. Look, just in relation to the shareholder return, look, we're delighted to be in a position to announce a £50 million return today over 12 months. You know, that compares to £50 million over 24 months previously. And obviously, you know, with the current trajectory of the business that we have the confidence to consider declaring a dividend for full-year '24.

I suppose, look, when we consider what the best way to return that value to shareholder was, I suppose we felt that a buyback was the most effective and impactful thing for us to do at this point in time. I think we're happy with the quantum of £30 million, and I suppose we're going to execute that £30 million over the next couple of months, and then we're going to see where we go after that. And so we're retaining flexibility. And I certainly wouldn't take it as an indication that the £20 million is going to be the quantum of dividends. I would say you could have a dividend and another buyback as part of that.

Dalton Philips: Okay?

Patrick Higgins: Yeah.

Gary Martin (Davy): Morning, all. Gary Martin here from Davy. Just a couple of quick ones from me.

Just starting off with the guide of £86-88 million. I guess if we go back in time just to the FY23 results, I think the initial split was supposed to be about 25-75 H1-H2 operating profit. But if we take the midpoint of the guide, I think we're closer to maybe 30-70. So I guess my first question is just what's kind of driving just that phasing of H1 to H2 profitability, and how does that give you confidence in the full-year outlook? That's just my first question.

Dalton Philips: Yes. Look, I'll say some thoughts on that.

We're seasonally weighted, as you know, Gary, second half is a material number for us. Feeling confident about it? April was a difficult April, I think, for all the market. May weather-wise has been very strong, and we've got off to a good start to our summer reset. I mean, you basically need people starting to shop differently. And May, it's sort of the retailers have expanded out in their categories. People are starting to get used to buying some of these products that are not typically buying. Salads would be a great example as people sort of start putting that into their repertoire.

So there's a lot to go after in the second half, but the volumes are materially up. If we do what we're doing operationally in terms of controlling that cost base, keeping the service level where it needs to be, and in terms of our commercial side driving the product innovation, I think it's well within our grasp to have a strong second half.

If you compare what we need to do this second half versus what we did in 2019, that's sort of comparable numbers. So I think it's whilst you might be forecasting slightly less than last year, it's still a very solid number.

Do you want to –

Catherine Gubbins: Yes. Look, I suppose I don't have the historical context around the split to the same extent that the team would have, but I think what we're seeing is that last year was kind of an unusual kind of pretty unique year. To be honest, I think that 30-70 split is probably what we're happy with at this point in time.

And absolutely, there's good momentum, but I think we probably had some headwinds that are out there as well that we just need to be cognisant of. So I think we're fairly confident at this point.

Gary Martin: Sounds good. And then just maybe for the second one, just on return investor capital, I mean, it's at double-digit level now, which is very promising. But I guess maybe just it'd be helpful to maybe get a reminder of what you envisage, the kind of cost of capital is within the company and just also how you expect that return on invested capital to kind of progress on a go-forward basis through either rationalisation or revitalization of assets and facilities. Thanks.

Catherine Gubbins: Yeah. Look, I'm not going to get into the specifics around the cost of capital or where we ultimately see the return on invested capital ending up, but I think if you think about a lot of the content that Dalton had in his presentation today, all of that focus, which has been very rigorous over the past 12 months, looking at each of our categories, each of our products, all of our contracts, drove a lot of that consideration around contracts that we walk away from, I think you really get a sense that there's a real laser focus on the underlying profitability of the business, you can see that in the kind of interest outside the increase in the ROIC that we've seen this period. And I think without getting into the specifics, we really are trying to drive that on a go-forward basis.

So I think, you know, I think we're confident that we have the visibility and the focus, and we're making the right decisions as we progress now to make sure that we're increasing profitability for the Group.

Damian McNeela (Deutsche Numis): Morning. Damien from Deutsche Bank. Just following on from Gary's question, perhaps asking a different way. Of the nine units, are all nine of them meeting their cost of capital at the minute?

Dalton Philips: No.

Damian McNeela: No. Can you tell us which ones aren't?

Dalton Philips: No.

Damian McNeela: Okay.

Dalton Philips: But look, I mean, there are clearly – we've got categories like soup, it's obviously been a challenge. Ready meals has been a challenge for because we'd proactively taken some capacity out. Sushi's been a challenge. So there are other categories, sandwiches is obviously knocking the lights out. But we try not to be too specific in it. But all of them, Damian, have a focused plan to get them back to meet their cost of capital.

Damian McNeela: And is it, do they all have a varying cost of capital, or do they all point to broadly than the same number?

Dalton Philips: It's actually, it's all pretty similar when you look at it. You know, there's not – you wouldn't – you'd be surprised when you look down, actually, it's all pretty – it's a pretty tight, narrow range. And in all of them, we've got a clear plan. Soups is an example where actually, no, didn't get where it needed to go. Intervention.

So we're trying to be pretty disciplined about it. I think Lee's done an amazing job bringing our general managers on the journey. So we're not like operating in some black box. Everybody knows what needs to be done. It's very ad hoc conversation-like. And I think actually that's made a real difference actually because people are like understanding what needs to be done.

Damian McNeela: Okay, thank you. Just in terms of the new ready meals business, can you quantify how big that is, please?

Dalton Philips: So it's with Aldi. They wouldn't appreciate us talking about the scale of it, but it's material. Kiveton is a site that has struggled in terms of its overall performance because it just hasn't had the capacity. You remember that we deliberately exited out of a contract with another large customer last year. Our capacity rate in Kiveton will go from sort of late 50% up to 95% under its current configuration.

Actually Kiveton, the way they've designed it, we could actually, at a later stage go again if we wanted to, but we'll be operating around about 95%, so feeling pretty good about that.

Damian McNeela: Okay, thank you. And then last one for me, just in kind of two parts, sort of like-for-like growth in food to go sort of solid 4.6%. Within that volume, mix was 2%. How much of that 2% is mix coming from premiumisation?

Dalton Philips: So premiumisation is small at the moment, but I would say, and if you look at the market, there's some green shoots there that the consumer, now as real wage growth starts to move ahead versus CPI, that people are starting to be a bit more adventurous. Now, premiumisation, you've seen that obviously in the – in the premium yield, for example, it's 3-4% of the total category. So it's very small, but growing like a rocket.

Damian McNeela: Yeah. And just kind of a longer term-one on volume expectations without Horizon 3, without thinking about things that are in Horizon 3, what's your expectation for sort of medium-term volume growth from food to go, do you think?

Dalton Philips: Look, there's the forecast out there are that food to go can be growing at 3% as a category out to '28. So that's quite bullish off where you see where we are now, Damian, which is essentially 0-1%. It's pretty anaemic. I think our focus has to be on what are the core categories that we're currently in, where we can double down, or what are complementary categories outside of our core that it makes strategic sense to be in where we think we've got a right to win where there is growth. There's not a huge amount of growth out there, full stop. And there are no real categories that are just knocking the lights out. I'm talking about material categories. So, we've got to feel our way through that. But longer-term, like, there's a huge amount in our Horizon 2. We see it like, there is so much if we just continue controllables, but we're going to have to go beyond that because Horizon 2 will only take us so far.

Damian McNeela: Okay, thank you. I'll give it to someone.

Andrew Ford (Peel Hunt): Thanks. Dalton and Catherine, it's Andrew Ford from Peel Hunt. Just a couple from me.

On the like-for-like volume growth, it's up year-on-year, but it looks to me flattish Q1-Q2. I might be – might be wrong, but just what's the trajectory you're expecting through Q3-Q4, which is the more important part? And also, if the capacity that you're freeing up by exiting some of these contracts, how much of that do you expect to come to reactivate, and how much do you expect to never return and look to dispose of some assets there? I'll stop with those two, please.

Catherine Gubbins: Yes, I suppose, look just on the volume, just from a Q1-Q2 perspective, I suppose, without getting into the specifics of Q1 and Q2, I think we would see the volume ticking up slightly for the rest of the year, but very slightly.

It has looked pretty anaemic for the first half, but we would see it closing out a little bit higher in the second half of the year.

Andrew Ford: Thank you.

Dalton Philips: I mean, we've got – what's interesting is we've got a difficult Q3. I'm talking about the industry and us specifically in terms of volume growth. April was neither here nor there. May is going to be good. I think June could be bad. Like, we had such an incredible June last year. So for the UK, June could be bad and July and August could be fantastic and – but I'm kind of learning now. I thought when I was in retailing on the other side that we stayed very close to the weather. I mean, at Greencore it's a whole different level. The weather really has such a material difference. So, but H2 is obviously going to be higher than H1

In terms of capacity, we've been pretty disciplined about taking the capacity out and then holding on to resell it at higher levels, Andrew. So all that's come out, the plan is to sell and some more. In fact, talking about the OEE, go back to Lee again, the improvement in OEE, you take something like a Selby plant. Well, we've been deliberate. We have said no to certain contracts. And now in ambient grocery it's more 12-month contracts. So we've been pretty deliberate. No, we've let stuff go. Actually, the volume has come down in Selby; and in parallel, Lee and the operational team have been increasing OEE. And you might say, well, that's sort of counterintuitive. But what we're doing here is we've – onto the commercial team, we said we'll back you, get rid of contracts that don't pay. Lee, drive up the OEE to increase capacity. We've done that. Now we're putting it right back on the operational.

Also on the commercial focus, you've got to sell that capacity. You've got to sell it higher than where we were operating before. So something like Selby, which is making materially more than it was making last year on quite significantly less volumes than last year, but with a route through now. But we've got to sell that volume.

Andrew Ford: Yeah. And just on those new contracts, if I can follow up, how – I think last time you spoke about increasing the amount of pass-through you had in contracts. How many – where are you now in terms of contracts with pass-through? How many of the new ones have pass-through, etc.?

Dalton Philips: Yeah. So the overall in aggregate number hasn't moved much, Andrew. So we've always said about 50%, and we like to keep it around 50% for obvious reasons. We've done a good job in terms of labour, but it's got a number of caveats. So our three largest contracts today have labour included, but it's only direct labour. So it's not indirect labour or management. And there are caveats around that.

I think as we've all learned from the challenges of the last couple of years, as we onboard new contracts, we just onboarded Costa, a totally new contract. We're having to be very creative and thoughtful around what's in and what's out. But there are pros and cons, as you know, to what you do put in.

Andrew Ford: Pretty helpful. Thank you.

Dalton Philips: Thanks, Andrew.

Darren Shirley (Shore Capital): Morning. Darren Shirley from Shore Capital. Just a question on CAPEX.

I see in the past you've reduced guidance for CAPEX from £50 million to £45 million to – or £40 million to £45 million. Is that a reappraisal plan since you came, or is it timing? And how should we look at CAPEX going forward?

Catherine Gubbins: I wouldn't say it's a reappraisal, to be honest. I think just some of the projects that we had planned just probably haven't progressed as quickly as we might have liked them to progress, to be honest.

It's just looking at where we are from now and when we look at the end of the year, we just know we're not going to get to that £50 million. So we're pushing on to kind of hit the revised number. So nothing strategic or no major decisions made around any spend.

Darren Shirley: So should we look for next year to go from £50 million to £60 million, or is this 50 the run-rate? Is it just a lag as we see it?

Catherine Gubbins: I say it's a lag. I'm not sure, not 100% sure it's going to have a significant knock-on impact into next year, to be honest.

Dalton Philips: I think what is very clear at the moment is the focus we're putting on robotics and automation. I think our ambition is pretty high there, Darren. We've got quite a lot of automation, as you know, in our business, but there's a lot of areas like inline wrap rolling or inline wrap packing that's fully manual. And this is where Lee's been really putting a lot of focus into what we can do.

So I'd like to see, in terms of our strategic CAPEX going forward, a material amount now going into robotics. And so I think you're going to see – I'd like to be coming to the end of this year and saying, actually on robotics, that's how much we're going to be spending because we need to.

Darren Shirley: Define what's material.

Dalton Philips: Say that again.

Darren Shirley: How much is material?

Dalton Philips: No, I mean within the envelope of what we're doing. But strategic CAPEX, traditionally for our business, might have been putting in new capacity. And I'm saying now, or Lee's saying, look, actually, if I can put in £10-20 million worth of strategic CAPEX within our overall envelope into automation, that could be material returns which previously, there might not have been with the national living wage where it was.

Darren Shirley: Thank you.

Dalton Philips: No, we're not about to blow it out. She'll kill me.

Clive Black (Shore Capital): Clive Black from Shore capital, Darren's younger brother. I guess you're not planning for a June England-Scotland Euro final, then?

Dalton Philips: Would be very nice. I mean, we got – if we had to weather, the Euros and the Olympics, it's hard when you're Irish, it's hard.

Clive Black: Northern Ireland, it's even harder.

A number of questions that are kind of linked. So, firstly, are all your nine operating streams core now, or are there areas where you would be open to them being non-core?

Secondly, in that respect, looking at Horizon 3, which I know is some way off, is there not enough in the chilled private label arena to fulfil Greencore's ambitions?

And lastly, in terms of margin, no need to lead you because you're not going to tell us rightly, but is there a level of operating margin where you think we give some back into proposition service and price, i.e., there's a lid to which you would like margin to go? Thank you.

Dalton Philips: Just on that third one there, Clive, on the margin, you're saying just expand a little bit more?

Clive Black: Well, let's say take, for example, a supermarket probably wouldn't want a 5% trading margin these days. So if they get to 4.5%, they're probably going to reinvest in price, share, service, labour, whatever, to sustain rather than to maximise the margin potential of the business in the short term.

Dalton Philips: Look, I'll share some thoughts, and Catherine, I'm sure you'll have some views on this. The nine categories they are core, and we're absolutely focused on all nine of them. But we've been very clear, as we were a year ago, a year and a half ago, that if categories weren't contributing at the level they should, we'd have to have difficult conversations.

So, Trilby, £100 million business making money, that was not core. The other nine, you could get into very philosophical questions about whether Yorkshire puddings is core to us or not. But it's a good category. We've got a good business there, we make money, we've got a good plan to increase our returns. So at the moment, we were very much they are core, and it's more around turning these businesses around. We used to make more money, and we make less money now. So for the moment, they are all absolutely core.

There's a lot of opportunity in the chill category. There's a lot of opportunity, but we have other businesses. As you know, we have a very strong ambient business. We have number one share in private label ambient sauces. So we don't want to discredit. We need to look at that area as well. But I think there's a lot in the chilled category, Clive, and there's certainly enough to go after. But there's some very good competitors in this space as well. And you have to really take your hat off to them. And we respect what they do. So dislodging some of them, not so easy, but that doesn't mean we're not up for it.

And then in terms of the margins?

Catherine Gubbins: Yes, it's not something, I think, certainly in my time here, we've given a lot of thought. So what's the max margin beyond which would be concerned to be? I suppose, my overall sense, and I'm not massively – I can't remember the number off the top of my head, but I think we're still behind where we were historically.

And, you know, I know you don't always want to be looking to the past as an indicator as to where and how you should be getting there, but I think we still feel we have more to go, to be honest. And look, you know, if all of our plans come to fruition and our margin really kicks on, I think we need to understand as a business what's driving that. And obviously from a commercial perspective, we need to be able to engage with our customers and explain to them where we now are and, you know, have those commercial conversations in that context if we end up in that place.

Dalton Philips: We've definitely invested margin into certain categories. And I can think of a specific product where we've just said, actually we're going to – we're going to swallow the cost because the quality needs to come up in that particular range. And we know that we will back ourselves even if our customer won't, that if we invest in the quality of that product, and I think, you know the one I'm talking about, eventually we get the flywheel going because there'll be better quality and off we go. And then we can have a more mature conversation with the customer.

Andrew Wade (Jefferies): Hi, Andy Wade from Jefferies.

First one, looking at the operating margin build in the first half, obviously pretty substantial. And there's a load of moving parts in terms of volumes, inflation, recovery, efficiencies, exit, lower-margin contracts and so on. Just be helpful if we could get a little bit more colour on, which with the bridging, which would have been big bits in there, bridging that £200 million? And probably more importantly, looking forward, what are going to be the significant drivers ahead on those?

And then the other one, just looking at the contract win on the ready meals, just sort of interested as to whether that's the sort of thing that falls into Horizon 3, or whether that's more Horizon 2 normal course of business and the extent to which there are more opportunities like that, and that will fill Horizon 3 without having to spread too much into new areas.

Dalton Philips: Andy, we see – I'll take the last one first and then, Catherine, you can help me on the margin rebuild. We see that very much as Horizon 2. We have existing assets in the ground, swept them harder, be prepared to walk away from a potential loss-making contract, reinvest into a growing customer who has ambitions in this space. Very much Horizon 2, for that.

In terms of the operating margin rebuild, I mean, the two big levers at the end of the day are commercial and ops. I mean, they are the big beasts, obviously. On the operational side, you've seen a whole series of different initiatives there in terms of direct losses or losses, OEE waste, labour planning. You know, there's a whole – and actually, you know, if you could see Lee's spreadsheet, it's – I mean, I don't know how many lines are on it now, but it's hundreds of lines because it's each plant, and each plant's got sort of 30 or 40 things. Many of the things are literally in the week, £35 on that line item, £40. I mean, it's just tonnes of this. And every so often Lee shows the spreadsheet every so often, just to remind us at the level of, I think you call it rats and mice that we have to go at, there's a lot operationally. And remember, this was a business that was five different business units. You bring it all together, you stick it underneath one COO, you bring in global best practises. There's a lot there.

And then on the commercial side, the big levers there really are around innovation because as you bring in those 184 new products, they accrete at about 50 basis points in terms of overall margin for all the stuff you're very familiar with. And then robust conversations with customers around we – you've seen our pricing up 4.1%. We have to be compensated for some of this.

Remember, we're way behind pre-pandemic levels of profitability. So we have those robust conversations. Then there's a lot of cost in the centre. We took, obviously, a lot of people out last year. We're very disciplined. Catherine, I've worked with Catherine before on this. I know how she works. It's pretty relentless, actually. So there's a bit there. But in terms of, do you want to give more flavour there?

Catherine Gubbins: Yeah, just on the margin rebuild. Look, I don't have a massive amount more to add to what you've said, other than, I suppose if you think about it, you need to take the factual things out of it.

I mean, there is Trilby and obviously the contracts that we walked away from while, you know, from our own perspective, they were suboptimal. They were obviously making a contribution. And then you've got the like-for-like revenue increase.

And then I think back to what Dalton has said. I mean, it literally is about the commercial negotiations, the pricing that we went after with customers, you know, inflation and also the commercial excellence. I mean, it's a bit simplistic, but I'd say whatever is left, you know, kind of half-and-half is probably for both, you know, commercial excellence and the operational efficiencies that we were driving, to be honest, broadly speaking.

Andrew Wade: Great stuff. Very helpful. Thanks.

Dalton Philips: I'm conscious that you all have to go to Cranswick, so I'm slightly concerned that we – do you want to call it? Are you okay?

Clive Black (Shore Capital): In fact, keep going, please. Sorry, can I just go back to CAPEX? Because you just highlighted there, you've got a spreadsheet with hundreds of lines on with opportunities to go up. Why are you not spending £75 million a CAPEX rather than £50 million per annum and accelerating that process?

Dalton Philips: Because the work needs to be done. The work needs to be done. So there's three areas where we're looking at.

We're looking at material assembly, assembly and dispatch. Those are sort of the three core operational process for prepping materials, putting it on and then dispatch. And there's just quite a lot of work going on there. We're not ready to press the button. I think in terms of ambition, Lee is there, but in terms of getting it past Catherine, we're not there.

Clive Black: So these are areas that can be optimised, but you haven't quite worked out how to do that yet.

Dalton Philips: We're working it out. We're working it out. But from the ambition of like inline roll wrapping, you've seen the lines, there is technology there. We're not sure it's fast enough that it can keep up with the line speed at the moment. Therefore, you've got to put more in. Then what's the knock-on for the adjacent line because suddenly, you're displacing people? So it's around that.

I think you're going to see more in the next couple of years versus us coming out in November and saying £75 million.

Catherine Gubbins: I think if you see our prioritisation waterfall, you know, around capital allocation, I mean, organic investment is top of the list there. Right? So, and look, we're very clear what we're trying to deliver across the organisation. From an efficiency perspective, if the right thing comes along, if it can be delivered in the business, it's the right cost, and we're satisfied it's going to deliver the appropriate level of return, then we will drive on and allocate the capital to that.

I think, as Dalton said, we're working through that at the moment. And certainly with regard to full-year '24, we're not – we're not in the space we're able to deliver to the £50 million that we've previously allocated. So I wouldn't read from one to the other, to be honest.

Darren Shirley (Shore Capital): And just follow-up from Clare's question on sort of a margin, sort of ceiling within the business.

Catherine Gubbins: Yeah.

Darren Shirley: Looking at it another way, for the – sort of, a return ceiling that you see in the business. You used to talk pre-COVID of, sort of, a mid-teens return. I mean, would you have line-of-sight how you get to it?

Dalton Philips: I think internally we've got a good sense of what this business can do, and we see a route through to that. We're not yet at a stage where we feel that we could share that externally. If we were to do a Capital Markets Day at the end of this year, would we be committing? I don't know. This time next year, I'd say we'll be very much committing. I mean, it's – we've just got to get comfortable with where we're at. We see internally the opportunity. We see Horizon 2 is huge.

Catherine, would you –

Catherine Gubbins: No.

Dalton Philips: Okay. Is there a call on the line?

Damian McNeela (Deutsche Numis): Can you take one more question?

Dalton Philips: Okay. Sorry, Damian?

Damian McNeela: Just following on from what Darren was saying, on asking on CAPEX, it sort of, if there is a spreadsheet, as long as we're led to believe. What's the sort of a three-year cumulative CAPEX number that we can expect?

Dalton Philips: Sorry, Lee's spread.

Damian McNeela: I know it's savings, and it's slightly different, but clearly the business has been analysed in great extent. Now you've got CAPEX programmes across three areas.

Dalton Philips: Yeah.

Damian McNeela: Sort of, what sort of numbers in CAPEX can we expect?

Dalton Philips: I'll maybe pass that to Catherine. But I think typically 3% of revenue, it's a pretty good number for manufacturers of our capability to have. Could it spike one year for XYZ reasons? Possibly, but –

Catherine Gubbins: Yeah. Look, I think that's the benchmark that we've always kind of referred to. I think at this point in time, we wouldn't be giving any indication. I don't want to be led by the possibility to do way more because that's not where we are at this point in time. So I don't think we'll be giving any different guidance to what we've previously said.

Damian McNeela: Okay, thank you.

Dalton Philips: Okay, look, I'll call it a wrap there.

Sorry, is there a question? Sorry, apologies.

Operator: If you would like to ask a question, please signal by pressing star one on your telephone keypad. Thank you.

Dalton Philips: That all clear? Okay, we'll call it a wrap. Thank you very much. Know you've got a busy day. Appreciate you being here with us.

Catherine Gubbins: Thanks very much. Appreciate it.

[END OF TRANSCRIPT]