Greencore FY2024 Results

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Operator: Good morning, and welcome to the Greencore FY'24 results presentation. I would now like to hand over to Dalton Philips, Greencore's CEO. Please go ahead.

Dalton Philips: Good morning, and thank you for joining us for our FY'24 full year results. It's good to be sharing a strong set of numbers with you today. We've worked hard to stabilise our core operations and rebuild profitability onto what's now a really solid foundation, which we'll cover with you this morning. And on our Capital Markets Day in February, we'll share more on our medium-term trajectory and ambition for our business.

Let me share some key messages on page five.

Firstly, we exceeded market expectations in terms of profitability, and this performance has given us real momentum into this new financial year. Like-for-like revenue growth was 3.4%, and like-for-like volume growth was 0.5%, which continues our outperformance against the wider market.

We've successfully delivered against our commercial and operational excellence agendas, which has enabled us to achieve an adjusted operating profit of £97.5 million. And this improvement has been driven right across our business. I'm particularly pleased by the strong execution of our turnaround plans in some of our previously lower-performing categories.

Our leverage is now at the lower end of our target range, which gives us wider capital allocation options. We've completed our £50 million capital return to shareholders. This includes the recommencement of a progressive dividend policy of 2p per share, which equates to circa £9 million to shareholders, and our buyback of £40 million completed during the year.

As we look to FY'25, we remain confident in the outlook for the business, our cash flow and our balance sheet strength. We will continue to consider all options to create value to shareholders. And today, we're committing a further £10 million to buybacks, which we will execute in the coming months. We will of course continue to review our capital allocation options and our buyback programme as the year progresses.

And finally, we remain encouraged by the underlying momentum in the business and expect FY'25 adjusted operating profit to be within the top half of the current range of market expectations, despite the new labour cost headwinds, which we will fully mitigate.

Let me now hand you over to Catherine, who's been with us for almost a year and making an enormous contribution.

Catherine Gubbins: Thanks, Dalton. Good morning to everyone, and thank you for joining us in the room and on the call today. I'm delighted to be here with you this morning to take you through some further detail on the full year results for the Group.

If we start with an overview of the key financial metrics on slide seven. As Dalton has referenced, we've delivered a very strong performance year-on-year from an adjusted operating profit perspective with an increase of 28% to £97.5 million and ahead of our revised expectation. While our reported revenue for the period declined 5.6% due to the decisions made in 2023 to exit a number of contracts and the disposal of Trilby Trading, this has been underpinned by an encouraging like-for-like revenue performance of 3.4%, which I will provide more details on in later slides.

Adjusted earnings per share grew 37% to 12.7p driven by the increase in adjusted operating profit and a reduction in the weighted average number of shares in issue following continuation of the share buyback programme.

We had a free cash inflow of £70.1 million for the year, an increase of 23% when compared to 2023, driven by the improvement in adjusted EBITDA and partially offset by working capital movements and an increase in financing and tax costs for the year.

We continued to make good progress on deleveraging with our leverage at 1 times net debt to EBITDA being at the lower end of the Group's target range and down from 1.2 times for the equivalent period in 2023.

Finally, return on invested capital at 11.5% has increased 260 basis points from last year with specific actions taken in 2024 to drive returns, and this is something that both Dalton and I will give you further colour on throughout the presentation.

Moving on to slide eight, I wanted to highlight a couple of the key metrics and themes in greater detail. The Group saw progress across like-for-like revenue growth and margin in full year ’24 with an increase in the adjusted operating margin to 5.4%, that's up 140 basis points compared to 2023. This margin progression was delivered through like-for-like volume growth and other commercial activity, with this volume being delivered more efficiently due to the continued deployment of our operational excellence programme.

The Group has also continued to strengthen its balance sheet position with net debt at £148.1 million and leverage at the lower end of the Group's target range, ensuring that we have the financial flexibility as we move to Horizon 2 and look ahead to Horizon 3.

The Group has also created shareholder value, as demonstrated by the increase in earnings per share mentioned earlier, driven by the improved profit outturn and share buyback programme. As Dalton mentioned, we have declared a dividend of 2p per share in respect to full year ’24 and we will reintroduce the payment of the dividend going forward on a progressive basis in line with earnings growth.

Moving on then to slide nine. I am going to take you through a little bit more detail on our revenue performance across 2024.

As mentioned, reported revenue for the 12-month period has declined 5.6%, with 4.2% of the decline caused by the disposal of the Trilby Trading business and proactive contract resignations in 2023, driving a further 4.8% decline. Offsetting those declines was a like-for-like increase in volumes and mix, driving a 1.6% increase in revenue and 1.8% increase due to inflation recovery and pricing impacts, with our overall like-for-like revenue growth at 3.4%.

There is further detail on revenue growth by category included in the appendix in the presentation.

Just moving on then to slide 10. You will see that there has been really good progress made over the last two years in improving the Group's profitability and returns. Gross margin has improved 310 basis points since full year ’22 and is now ahead of full year ’19 levels, supported by volume growth being ahead of the market, margin accretive new product development and systematic deployment of our operational excellence programme.

Adjusted operating profit is up 35% since full year ’22, with adjusted operating margin progression of 120 basis points, as the improvement in gross margin was also supported by a continued focus on tight cost control to ensure the business is moving towards being right-sized for the future.

On ROIC, we have also made good progress to 11.5%, up 310 basis points when compared with full year 2022, as we continue to focus on driving returns through network optimisation and onboarding of new business wins. Despite this positive progress in full year ’24, we are conscious that for certain KPIs, we are still behind full year ’19 levels. We are on an accelerated journey in returning the Group to peak levels of adjusted operating profit and we will lay out our more medium-term financial targets at the Capital Markets Day, which we are hosting in February.

Slide 11 sets out some further detail in respect of our cash flows for the year and our net debt position. There was an overall free cash inflow of £70.1 million for the year, which represents a cash conversion of 45.6%, an improvement of 280 basis points year-on-year. So walking through some of the main components of this, you will see that working capital saw an outflow of £8 million due to the timing of certain supplier payments and maintenance capital expenditure at £26.2 million was broadly flat year-on-year.

We have exceptional cash flows of £5.3 million, which were predominantly related to the work done so far in our technology transformation programme, which we call Making Business Easier, alongside some smaller cash items related to prior year disposals and other property-related matters.

Interest and tax combined grew £6 million, and with the other items down to free cash flow broadly in line with expectations. As mentioned in May, we have also made significant progress on our UK Defined Benefit Pension Funded plans following the latest triennial valuation, and this scheme is now expected to be in a fully funded position by September 2025, at which point annual funding of approximately £10 million from the Group would cease. This will obviously support enhanced cash conversion for the Group going forward.

Net debt, excluding lease liabilities at the end of the period was £148.1 million, a reduction of £4.9 million year-on-year, and that is following £6.2 million of strategic capital expenditure and £60 million in relation to the share buyback programme and purchase of own shares.

Moving on to slide 12, I wanted to give you a little bit more context on our capital allocation plans. 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.

As mentioned, our balance sheet position remains strong with our leverage at the lower end of the Group's target. This continues to provide us with headroom for wider capital allocation options. As Dalton and I have both referenced, we are reintroducing the payment of a dividend on a progressive basis, starting with a dividend of 2p per share and we propose that this will grow in line with earnings going forward.

In the medium term, our target leverage for the Group remains at 1 to 1.5 times and our policy post the ongoing payment of a dividend is to continue to prioritise organic investments through capital expenditure, followed then by selective potential M&As that support our sustainable growth agenda with a consideration then of the quantum and mechanism for the return of excess cash periodically to shareholders.

We have recently completed a £40 million share buyback and arising from the strong performance of the Group and our assessment of available cash, we are also announcing today a further share buyback of £10 million to commence immediately.

I have been in my role now for ten months, and while I am delighted to be here to take you through these strong financial results, I am going to take you to the next slide. As you can imagine, our minds have already turned to 2025 and beyond, and I wanted to take a minute or so to highlight my priorities and key areas of focus as CFO.

We are very focused on continuing to drive overall profitability. And while our commercial and operational excellence models are functioning well, I would be bringing increased rigour to right-sizing our overall cost base. Another key priority for me and key lever to making this Group more efficient is our Making Business Easier programme. This critical systems investment is a key enabler for us to become more streamlined in how we operate as a Group.

As we continue to see improvement in the profitability of the Group, ensuring we deliver improved cash generation is also key, providing us with critical investment flexibility across Horizon 2 and 3. I also want to ensure that our capital allocation framework is used to deploy available resources in the most earnings accretive way possible.

So that concludes my comments. I would also like to highlight the technical guidance which we’ve included for full year 2025 at the back of the presentation. I will be back for Q&A. But I’ll now hand over to Dalton.

Dalton Philips: Thanks, Catherine. Now let me turn to the strategic and operating update, and I will start on page 15 by sharing a general roundup of the year and how we did against our big priorities.

Firstly, we have grown ahead of the market at an overall level and also within our key categories. We have delivered strong innovation through our commercial excellence engine. We have step changed our operational performance by driving out inefficiencies. We have successfully mobilised our new technology programme. And although, it took us a little longer to get going, we are now fully up and running. We have built solid foundations in sustainability but still have work to do on our key metrics.

Finally, we have stood up a dedicated team to explore longer term growth options. All in all, I am really pleased with our performance. So let's dig in a little further below these headline messages.

On page 16, you will remember the three Horizon framework that we launched two years ago. And you will know from our FY’23 results that we did a really solid job in delivering Horizon 1 and stabilising the business. For FY’24, we turned to Horizon 2, and you will have seen that we have actually accelerated our delivery on the profit recovery ambitions we had set out when we launched this plan.

And whilst 99% of the organisation is still firmly operating within the Horizon 2 tramlines, we do have a small team looking at Horizon 3.

Let me now show you how we have performed against the total market on page 17. The overall grocery market in volume terms declined by 0.1% in the year, representing stabilisation after some years of inflation. We outperformed this market by 60 basis points with 0.5% volume growth over the same period on a like-for-like basis. This outperformance was driven by our two key categories of sandwiches and ready meals. Sandwiches outperforming a largely flat market by 170 basis points with ready meals 100 basis points ahead of its market.

There is a lot going on behind the scenes to drive this growth. Certainly, the focus we put into consistent quality, which is complex in a world where there is a lot of human interaction and you are handling some 1.5 million products through the year. I would also call out the efforts we put into our innovation engine, both at an EPD and NPD level, so that is existing and new product development, coupled with service levels into our customers, which sat above 99%.

As we look forward, there are some encouraging trends with mobility building and the growth forecast in premium alternatives and the convenience space where we have built a strong foundation.

Turning to page 18. If we look at our in-year returns from a ROIC perspective, you can see we have driven improvements right across our business through focused portfolio plans. We implemented cross-functional teams who have been deployed against each of our nine categories to drive opportunities across commercial operations and our cost space. So our overall profit improvement is not coming from a single category or area, it is a marked step up right across the board.

This slide shows the performance of our four biggest categories. In salads, we increased ROIC by 590 basis points, a key driver of this being the smoothing of seasonality peaks by working with a nearby ready meals facility to leverage shared overheads and labour.

In sandwiches, we increased ROIC by 380 basis points. From the commercial side, we had a significant new business win with Costa. Alongside this, our sandwich sites have been really leaning into our operational excellence programme.

In ready meals, ROIC improved despite the annualization of a business loss. We put a focused effort into rebuilding during the year, and I'm glad to say that we've had a super onboarding of the Aldi ready meals business in September. In ambient sauce, we renewed a key partnership with our largest customer at our Selby site securing revenue for the long term.

Across our other five smaller categories, ROIC increased by 60 basis points. An example would be sushi, where we've been turning around a historically challenged category with the launch of a new format with M&S and a new concept with Aldi. Another less obvious category here is our direct-to-store business, which has turned from being a cost centre to now being a real profit driver for us.

So overall, we're encouraged with this level of improvement which has been necessary in order to have a sustainable and well-invested platform to support future customer growth ambitions. Of course, underpinning these improvements has been our excellence programme in commercial and operations, which I'll walk you through now.

Starting with commercial on page 19. At a total system level, we drove a gross margin improvement of 350 basis points. This was underpinned by four key components. Starting with volume, as you saw earlier, we grew ahead of the market and in tandem we landed a number of new contracts which will further drive volume forward this year.

In price and mix, we've seen 1 percentage point of revenue growth coming from improved mix. We achieved this in part by launching 421 new innovative and margin-accretive SKUs.

In cost, our procurement team continues to deploy our should-cost model or what we call Project Delorean[?] [00:19:02], which benchmarks prices of raw materials back to April 2021 looking at all the inflation drivers between then and now. We've also been more cost efficient by reducing the number of unique ingredients in our products by 5%. This focus on consolidation helps our buying terms and it has the benefit that the sites convert more profitably as it takes complexity out of our material handling systems.

The commercial team have also locked down circa £700 million of revenue secured through ten long-term contract renewals. Today, about 50% of Group revenue is now secured for three-plus years, providing us with a solid platform for joint growth with our customers.

And finally, this improvement has also been enabled by an optimised commercial org design. In 2022, we moved from decentralised BUs to a functional structure, and we've now further evolved this so that all key customer relationships are individually managed by our sales directors, who are connected right across their customer base, which means that there's now one point of contact for their entire Greencore portfolio.

Turning to operational excellence on page 20. We've driven a 0.7% improvement in service levels, achieving an average of 99.2% which as we all know only happens off a really strong operating platform. There are a number of areas underpinning this. Let's start with manufacturing and supply chain excellence. We're now applying a world-class operational excellence programme consistently across our business operating today as one network rather than how we used to do it as a cluster of sites within a BU.

Through a staggering 843 individual projects, so some large, some small, we delivered material savings across the network. A larger example would be labour reduction in our Warrington site. We delivered £750,000 in FY'24 through a line balancing effort to run more product through our automated lines. This reduces the number of manual tasks and equates to a 25 FTE reduction. A smaller example would be a change in our Brie cheese slicing process in our both site to reduce waste saving £96,000. The point to take is that we're driving this improvement from hundreds of projects going through our ops tracker, some big, some small but all contributing to the bottom line. It might seem like hard yards but that's the reality of being an own label manufacturer.

In automation, we're building our internal team's capabilities and have identified the manual processes where next-gen automation could be most impactful.

Network optimisation is the third key unlock for us. Each quarter we move further towards an integrated Greencore network with one best way of doing things, a huge efficiency unlock. Two examples would be our consolidated soups production and a new group logistics function to apply a centralised approach to warehousing, goods management and couriers across the network.

In labour optimisation, we've step changed the rigour in which we analyse our cost base with an aspiration for the business to work with a total delivered cost flat mindset. This is a significant cultural shift. We applied this principle to our labour structures, and we've started to see the outputs of this work through, for example, our improvements in units per labour hour.

And lastly, as you would expect, operations are underpinned by a large number of processes and systems which we've been streamlining and upgrading. An example of this is our new CAPEX approval workflow, where in this new financial year we've doubled the number of CAPEX projects in the sign-off process, trebled the actual number of sign-offs and halved the time to that sign-off.

Turning to people on page 21. Excluding materials, labour is both our biggest cost line, and given our product portfolio our most important strategic asset. At a headline, we've increased units per labour hour by 6%, a productivity improvement which drives real cash savings. We have to manage this cost line incredibly tightly and we've focused on five areas that help to move the P&L forward.

Firstly, resourcing and retention. Two key KPIs are voluntary labour attrition and absent rates, both big costs for the business. We've reduced voluntary attrition by almost 6 percentage points and absence by 1 percentage point by working with individual sites on local issues and also deploying best practises such as a new starter process.

Secondly, talent. Last year we had 224 apprentices and early career colleagues in the business. These are the young leaders that really drive our business forward day to day, and of course they're the future leaders for tomorrow.

Thirdly, comms and engagement. We run an all colleagues survey to do a temperature check. This year we had a sustainable engagement score of 81% in line with the high performance norm for UK companies across all sectors and up from 76% on our last survey. We put a real focus into ensuring all colleagues know what's going on across the business. For example, every week I send out a personal update video to the entire organisation.

Fourthly, reward. We've done lots of really positive things here, for example, launching a much improved parenthood policy supporting our efforts to become a really attractive place to build a career.

And fifthly, enabling systems. We're really focused on one best way of doing things which drives efficiencies and better outcomes. For example, standardising key admin processes through our new HRIS system.

Moving on now to technology on page 22.

In FY'24, we launched our Making Business Easier technology transformation programme. We began to execute several key enabler projects which we hope will give us a repeatable model for deployment.

Firstly, as I mentioned, we launched a new HRIS system, driving efficiencies in payroll, recruitment and data management. We delivered this on-time and under budget.

Secondly, we continue to roll out a common ERP system. We now have 13 of our 16 sites on the same system with a plan to transfer the remainder over the next two financial years. We launched new handheld devices for our logistics team which enables real-time tracking of vehicles and has materially improved service for our customers, and of course reduced the work of our service desk.

Looking forward, we're up and running on 10 out of 41 total initiatives, including end-to-end supply chain planning that drives standardisation, improving speed of decision making and will make us much more efficient and accurate.

We're building a materials management system to enable real-time visibility on operational performance in raw material and packaging management. There's also a large focus on data management which will improve the way we access and utilise data around the business. For context, this is a business that every week moves thousands of Excel files across the network. In total, Making Business Easier is a five-year programme with an investment profile of circa £10 million to £15 million a year.

This is catch-up on years of underinvestment, and this plan ensures we're utilising existing technologies and rolling them out incrementally rather than implementing a riskier big bang approach.

Now turning to sustainability on page 23, which is an area of increasing prominence in our commercial conversations and also an area where there are hard P&L savings. We have three main targets: food waste, energy, and water. We had mixed performance in these. In food waste, we overdelivered against our target. However, carbon emissions and water have a long way to go to reach our 2030 targets.

Having said that, much of last year was about setting ourselves up for an accelerated catch-up programme and we've had some successes. Firstly, we now have multi-year sustainability roadmaps in place to drive improvement across the value chain looking at areas like human rights, healthy, sustainable, diets, packaging, and of course, the big five of gas, electricity, diesel, water and waste, which are the main P&L contributors.

Secondly, we've moved to automated metering, giving us real-time insights into our energy consumption. Thirdly, we've built a product dashboard, which gives us a clear view of the health of the products in our portfolio at SKU, channel and customer level detail.

Fourthly, in FY’24, we allocated £8 million of CAPEX to energy projects, which will support delivery of our Scope 1 and 2 targets. Finally, we've also step changed our data and reporting capabilities in preparation for CSRD reporting in FY’26.

Before I finish, let me touch briefly on our approach to future growth on page 24. Part of our ambition for Horizon 1 and 2 has been to create a strong platform for growth in Horizon 3. Part of this growth will come from within our current business, the work we did on tidying up our portfolio has created capacity to grow profitably within our current footprint and we are starting to see the fruits of that through the improved portfolio returns lens that I showed you earlier.

However, in parallel, we're starting to work on our longer term growth engines. We believe there's a lot of opportunity to go after the capabilities that we have built and the model that we are creating through Horizon 2 of the potential to create value beyond our current portfolio.

We've been expansive but disciplined in our thinking. Expansive in the sense that we see opportunities to unlock value through our model in new categories, new channels, and in time, potentially new countries. Equally, we've been disciplined with clear guardrails in place to ensure that any investment has a strong strategic fit, has a clear financial value creation case, and is coherent with our sustainability objectives.

Finally, we've put in place a small but highly capable team to drive this work.

Turning to page 25, and I'd like to highlight the ten big priorities we'll be driving this year.

In commercial, our focus is on, firstly, growing ahead of the market with meaningful cost-effective product innovation. We see opportunities with customers wanting to consolidate manufacturing partners, and our focus is to meet their needs in these growth areas.

Building better processes in revenue management and product development to enhance pricing mix and promotional strategies. And thirdly, expanding our procurement excellence programme with a sharper focus on indirect spend.

In operations, we're prioritising the continued rollout of manufacturing and supply chain excellence programmes across the network. Doubling our efforts in automation. Optimising and rebalancing the network by aligning products with site capabilities. Low complexity long-run products will go to automated sites while bespoke products will stay in sites designed for complexity.

For our enablers, we're focussing on three things: standardising labour structures across sites by benchmarking and adjusting management to labour ratios based on factory size, product type and complexity; accelerating our programming technology and sustainability; and building our longer-term growth engine under Horizon 3.

So now turning to the outlook on page 27.

I'm really encouraged by our continued delivery of Horizon 2, resulting in a faster profit recovery through the year. We've accelerated our commercial and operational excellence agendas with robust plans in place to continue to drive improvements. And so, given all the activities we've talked to you about this morning, the Group is confident in delivering FY'25 adjusted operating profit within the top half of current market expectations despite the new labour cost headwinds, which we will fully mitigate.

So thank you again for your time this morning. And Catherine and I would now be delighted to take any of your questions.

Questions and Answers

Patrick Higgins (Goodbody): Good morning. Patrick Higgins from Goodbody. A couple of questions on my side. Maybe just starting off on your comments around your ability to offset labour costs into next year. Could you maybe just give us, firstly, a sense of the overall labour inflation that you're facing into next year? And I guess, what underpins that confidence of your ability to offset, is it self-help? Is it price?

And on price, have you had any conversations with retailers yet in terms of pricing into year ahead, and if not, maybe you could just remind us of the kind of usual cadence of how you talk to customers and when higher pricing hits shelves? That's my first question.

My second question is just on guidance for next year, and in terms of the delivery of the profit figure you've set out there. How should we think about the mix between top line and margin and achieving that kind of profit target?

Dalton Philips: Great. Well, look, I'll kick off on the labour inflation. And Catherine, you might want to pick up on the guidance piece.

Look, it's a big hit to the industry. I mean it's £25 billion going across all companies. Within retail, it's £7 billion. It's unexpected. It’s unplanned. It wasn't trailed but it's the world we live in and so we need to mitigate this. And you've seen a lot of the retailers coming out to the BRC. I think we all saw that letter that was issued to the BRC saying this is going to result in prices going up, because we are a low margin sector and there just isn't the ability in the supply chain to absorb that.

Having said that, look, before we ever go back to a customer looking to put a price up, we've got to look internally at our own cost base and we've been very focused on driving costs out. We look at the top of the P&L at the gross margin line. That's all the operational excellence work that I talked about, 843 projects, just trying to drive costs out of the business.

The lighthouses that we've talked about previously in terms of looking at our engineering, looking at our labour planning, looking at our waste, looking at our overall planning processes. So lots of work going on there, and of course, in the procurement side. But ultimately these prices are going to have to – this is going to flow through the customers.

Now the industry has some experience of this. As you know, Patrick, we've been dealing with £100 million-plus levels of inflation into our P&L over the last few years. The level here, look it's £7.5 million a year. It's a big number. It's a big number when it's not planned, but we just get on and deal with it like we've dealt with it before and of course conversations are now starting. We have trackers in place. We have customers that don't have trackers. At the end of the day, this is a negotiation but I'm confident that – we are fully confident that we can drive this through in a combination of increased pricing.

But first and foremost, we've got to look at our own cost base. I think we've done a good job there. But we will continue to squeeze our cost base to make sure that when we go to our customers, we're going to them with real integrity that we've looked inwards first. I'm confident we can absorb it all.

Catherine Gubbins: Yeah, look, when I think about our full year guidance and how we're planning on achieving that, it sort of comes back to a lot of the levers that Dalton has just spoken to us about. Think about our commercial levers and our operational excellence programmes. I mean for full year ’25, we're anticipating low- to mid-single digit revenue growth. So look, that's going to be volume-driven and it's also us continuing to work with our customers.

We've spoken to you at length around premiumisation, NPD, EPD how we're using that to really kind of solidify our relationships and drive our top line. Then obviously we're going to take that, I suppose, top line and essentially continue to drive operational excellence programmes across the network to make sure that we're delivering that volume to our customers efficiently. So it's literally relying on those two key pillars of the operation. And also as Dalton referenced there, a real focus this year on the cost base probably below the line to really kind of make sure that we're driving further efficiencies out of that.

Gary Martin (Davy): Gary Martin here from Davy. First of all, just congrats on a really strong set of results. Just a few questions from my side. Just starting off, I guess, if we look ahead into next year, I mean you've come on leaps and bounds with regards to just some of the initiatives that were undertaken. 843 projects completed in FY'24, and 10 out of 41 initiatives kind of knocked on the head. I mean if we look forward into FY'25, have we kind of harvested all low-hanging fruit at this point? Will there be a similar quantum of projects underway and initiatives underway, and how does that feed into overall returns and margin progress?

Dalton Philips: So look, we need to continue this level of activity. And when I think about what we're doing, we are moving into one network, Gary. And one network allows us to benchmark to a much greater level. So these 843 projects that level of intensity is just going to continue, and I think we call them internally rats and mice we go after. So Warrington is a big project of £750,000, but cutting the Brie ends saves us £96,000. It's those sorts of things. So lots of projects there.

There's a real opportunity too on our headcount across our sites. So we have different levels of headcount across our sites and we want to be much more standardised in how we look at our structures that's a big opportunity. And then, there's a big opportunity in indirect procurement. It's an area that we haven't really shone a light on, like we're obviously buying energy on a consolidated level.

But when you get into the detail, there's a lot more going on and we don't have standardised processes, and I think it's an area that Catherine's got a lot of experience in and is really working with the procurement team on. So this level of activity is going to have to continue. I think that's the reality of our noble manufacturing.

Gary Martin: Good colour there. And then, if we just maybe think about – maybe I think it was on slide 18 that you talk about ROIC improvements just across the different verticals and different core categories. I mean, how does the recent implications of the UK budget change? You're going to calculus on how you view some of the what we'll call maybe less core categories? Is there some flexibility there to potentially rationalise or consolidate further?

Dalton Philips: So I have some thoughts on this. Catherine may, too. Look, when we set out a couple years ago, we said everybody's going to have to cover the cost of capital, and if they're not, decisions are going to be made. We made a decision with Trilby, we made a decision with our soups manufacturing site consolidating that.

Actually, you can see from the numbers there the ROICs really stepped on. So I would not anticipate in this financial year any further consolidation at the network level. What we will do though is we will drive much harder this movement of product around the network. So we, for example, haven't been leveraging our ready meals network to the extent we should be. We make certain products in certain places, but actually it's more a symptom of customer and geography, whereas now we're looking at where do the economics make best sense.

We work with customers, as you say, we want to move production from this site to that site. It's better for you as a customer. We can improve the productivity of that product which obviously flows through into better margin for them. So I think there's a lot more going on. But overall, we're comfortable with the portfolio as it stands today.

Catherine Gubbins: Yeah, no, absolutely. I mean, I think over the last number of years, the Group has looked at the performance of the business in the context of those categories. And when you look at the returns that the individual categories have been delivering, we can see really strong improvement across the board. And I think, more importantly, we've figured out the levers that we can pull to really try and work on that on a go-forward basis. So I don't see the NIC issue as potentially changing our view on our category composition.

Andrew Ford (Peel Hunt): Morning, guys. It's Andrew from Peel Hunt. Firstly, well done. A really good set of numbers. I wondered if I could ask a first question on volume. Obviously, a bit of acceleration from the first half to the second. I just wanted to understand maybe what you're anticipating for next year if the exit rate is a good point of extrapolation. Next is on contracts. You mentioned, there's some good renewals going in there, and I know that they are helping with the gross margin. I just wondered if the nature of those contracts is changing at all, whether it be pass-throughs or longer durations. And what your sort of anticipation is on that direction of travel what you'd like to see?

And lastly, if I can be greedy and ask on your slide 15, one of the few ticks you didn't meet was traction in sustainability. I wondered what were the drivers for your customers in that area, what do they care about and are looking for? Is it carbon intensity? Is it products in particular? What's the sort of main focus for you in that area and your customers on the sustainability point? Those are my three.

Dalton Philips: So in terms of volume, it's going to be low single digits. That's the reality. I mean the market's flat. So this incremental volume that we're picking up from new customers, the costs, etc., it's going to be low single digits. If you want to add to that, Catherine?

Catherine Gubbins: Yeah, no, look. I mean we have seen – we closed out '24 strongly and we have seen that volume momentum in that space continue into full year '25 which is relatively low.

Dalton Philips: In terms of contracts, the change really happened over the last sort of two years with the trackers, where a lot more has gone into the trackers. A lot more labour has gone into the trackers, a lot more energy has gone into the trackers, and there hasn't been sort of any material change in the last half. We've definitely seen the sense that retailers are wanting to do more with less strategic partners, and I think you're seeing that right across the supply chain and it makes sense and we're sort of dialling into that.

Fresh is much more long-term in terms of the contract length. So you're talking three-ish years on a contract length, three to five on a fresh contract. On ambient, it's still a lot more transactional. Many of the ambient contracts might just be a year. And that again is an industry fact. But interestingly enough, you speak with the retailers and they go no, no, we'd like to have longer-term ambient contracts, we'd like to have longer-term partnerships; but it's just slow filtering through.

And in terms of sustainability, look, it just wasn't on the menu two years ago. Last year it started to come in. I mean, commercial teams from our customers were running one track. Sustainability teams were running another track, and we were really struggling in between. You have the sustainability teams, it's all about Scope 3, what are you doing. The commercial team is all about margin.

And so that's starting to converge now. And I think the conversations – I mean, the only – conversations only really work when commercial and the sustainability teams within our customers are aligned because you're trying to do one thing and another who's trying to do totally different. But I think there's more alignment. But for us, when I go back to the big five, so gas, electricity, diesel, water waste, those are big Scope 1 and 2 for us, which are our customers Scope 3.

We've got to really go after that. And I think if we can demonstrate that, I think those are where the conversations are at the moment.

Clive Black (Shore Capital): Thank you. Two areas, if I may. Firstly, what's the capacity utilisation or spare capacity within your network at the moment? And how would you characterise capacity across your product set at a wider industry, i.e., is there overcapacity elsewhere?

And then secondly, on costs going forward, because it is really in the first half of next year where a lot of stuff hits you, which means it goes into ’26. But it's also not just NIC, you've got the National Living Wage, the Employment Bill and EPR all coming in, in April ’25. That's a heck of a lot of stuff that you're going to absorb and pass on. So if it's £7 million for NIC, it's a hell of a lot more elsewhere. So just wondering if you could contextualise that further.

Dalton Philips: Yeah, look, I'll start on that, and Catherine, I know you'll come in on that. So in terms of capacity, I think in terms of the ready meal – sorry, let's start with sandwiches at a sort of gross level across the sector, because it's fairly well in balance. We didn't have a particularly good summer, so we didn't really top out at 100% a couple of days early on in the summer, but that was it. And I think that's probably the same for industry.

Seems to be a good level of balance there. I think we're all trying to eke out more OEE and automation is clearly a part of that, where automation not just takes cost out, but it can increase capacity. So I think in our principal market of sandwiches feels fairly balanced at the moment.

Ready meals, as you'll know, is a complex market with six players, all around 15% market share. There was additional capacity laid down. In fact, we were party to that. We laid down additional capacity in Kiveton in ’22. It's still excess capacity there. When we look at our plans, we still have some additional capacity in Kiveton. Kiveton now runs at about 70%, which is a strong improvement from where it had been. As you know, it had been a real drag.

Since it's 70%, the team has done an incredible job there. Once you start getting into third shifts and stuff, you can turn on more capacity, but the ready meals market now feels a little bit more stable. And certainly, we've had a fantastic year.

I think salads is a complex one. Massive overcapacity in the winter. It's all tight in the summer. So I think at the moment, we're not in a bad place as an industry. I think there's a good level. Maybe ready meals would be the one that I would call out on.

And in costs, well, I'll hand to Catherine. But the £7.5 million of NICs is just the aperitif, like, you get international living wage and you're into a multiple of that. So there is a lot of costs, which is why we have to really strangle the centre of the P&L to take those costs out.

Catherine Gubbins: Yeah. And look, I suppose from my perspective, I'll just reference the point that Dalton made already. We have a good muscle built. We've had good experience over the last number of years of identifying, mitigating, engaging with our customers around dealing with these, particularly the labour and the raw mat and pack increases coming through. I suppose the 6.7% on National Living Wage, we had anticipated that. It was a little bit higher than we had thought about, but I suppose we had built a specific plan around that. And absolutely, the National Insurance was new. And as Dalton has referenced, we are in the process of building a plan to deal with that.

But look, I mean, the muscle around how we run the operation really driving efficiencies in how we plan and run all of our lines. I know we keep saying it, but it really is targeted at looking at our cost base and just trying to minimise it and make the place as efficient as possible. And I think the most pleasing thing for us, when we look back on full year ’24, you can see that in the results, is that has really started to show up in the numbers. So I guess the challenge for us is just making sure that we continue to do that into next year.

Dalton Philips: But the whole consumer confidence piece of it, it is going to flow through, Clive, that you wrote about it this morning in terms of the BRC numbers that came out. So it's going to flow through. It has to, because it's just not the capacity in the sector to absorb it.

Andrew Wade (Jefferies): Thanks. Andy Wade from Jefferies. Three from me, if that's okay. First one on automation, something you've flagged a couple of times there. Obviously, we're aware of the cost of automation coming down and the cost of the people going up. But is there a big enough runway for you guys to use automation, given sort of how picky or specific the jobs that people do and the flexibility that you need from one run to the next? So just interested on that one.

Second one on – you mentioned a couple of times about retailers and customers wanting to consolidate their manufacturing partners. Interested how that plays into your Horizon 3 aspirations and whether that is potentially a boon for you as you look to expand channels and categories and so on?

And then the last one, the Making Business Easier, exceptional £10 million to £15 million that you've provided. Just give us what the nature of that is?

Dalton Philips: Okay. Thanks, Andy. Look, I'll have a crack at the first two. In terms of automation, is the runway big enough? It absolutely is, Andy. And if you think about the process down the line and you've seen them, so the de-nesting, and that's getting products onto the belt. In some cases, that's still manual de-nesting. In other cases, we've got automation, but we don't have automation everywhere. So number one is de-nesting.

Depositors. So in some cases, we're still depositing by hand because we haven't found depositors that can deposit and hold the texture right. So that's number two.

Number three is the MULTIPONDs. So still a lot of opportunity in MULTIPONDs. For example, chicken and bacon. In some cases, we're doing it through MULTIPOND. In other cases, we're still doing it manually.

Then you go further down the line. So rolling. So for example, sushi rolling, some of it's still done manually, some of it's done through automation. Wrapping is all done manually. So all wrapping of wraps. And remember, alternative sandwiches now are about 20% of the category. That's all done by hand. The packing of wraps is done by hand. In fact, most of the skillet packing is done by hand. And all the packaging into boxes, post line on our food to go, is done by hand. Okay. So these are areas where automation can play a real role.

Now, I think the team over the years have done a good job, but we've got 42 projects in place. Now we've got 8 million quid. So that's 20% of our total capital this year is targeted on automation projects. And that's really before you get into next-gen. I think next-gen automation will be how do you build some of these sandwiches, where the dexterity of the robots that isn't there today is there in the future. And that next-gen – I mean, a BLT is made by hand and we can't see a way of it not being made by hand.

But if Elon came and spent a day with us, he'd probably say, clowns, like there is a way of doing this. We haven't figured it out yet.

So there's a lot of opportunity in automation. There's a big runway ahead on existing processes with incremental improvements. The challenge is there's sort of four key suppliers we work with the Militex and the Proseals. And it's how do we bring them on the journey or how do we find incremental OEMs that can help us.

Well, in terms of Horizon 3, so all the retailers are saying, Andy, do more with existing customers or with existing supplier partners. And they come to us and they're always – like I won't say the categories at the moment, but there's two that we are always being asked, can we get into. Actually, when we run it through our strategic lens of Horizon 3, does it make strategic sense? Does it make financial sense? And does it have a sustainability angle to it that's consistent with what we're trying to do? These two categories we've said no.

But I expect more of that going on in the future where customers are saying, look, we would just prefer to work with somebody like us. Now, look, we're not the only game in town, but with high technical standards, high service levels, high degree of welfare through the supply chain. I think that’s where we’re looking in. And the Horizon 3 team are looking at all those areas. And as and when we find the right targets, we will absolutely bolt them onto the business.

Catherine Gubbins: Yeah, look, and I'll pick up on your question around Making Business Easier. So look, that's a pretty significant programme that was launched by the Group at the start of 2024. So it's a broad programme that is looking to invest in our ERP systems and business processes across the Group. And our estimate, I suppose, at this point is going to last for another five years.

I suppose the best way for me to explain to someone what we're hoping to achieve out of this programme is to explain that the problem statements that we're trying to fix. Dalton referenced, we don't have a standard ERP across all of our 16 sites in our back office. So we have one ERP for 13 and three individual ERPs for the remaining three sites. We don't have a standard chart of accounts. We don't have a standard workforce management or time and attendance system. We're a business that has thousands of SKUs, thousands of raw materials, 16 manufacturing sites and lots of different customers that we're trying to produce all of those SKUs for. And we also don't have kind of a standard set of rules or governance process around how we manage our data.

I mean, one of the best anecdotes I heard recently was, you know, co-op a really important customer for us. I think we have about 10 to 15 ways of recognising them as a customer in our system. So if you think about that as a problem statement, I mean, sometimes I tell people about the issues that we have and I sense a bit of concern around our ability to access data.

We absolutely have all the data that we need, but you can imagine with those constraints, how hard it is and how many people we need to get that information to allow us to run the business on a week to week basis. So when we make this investment, we're really confident that the organisation is just going to be better set up to run in a much more efficient way.

Andrew Wade: [Inaudible] [0:56:15].

Catherine Gubbins: I suppose it's broad. To be honest, we envisage that the overall cost of the programme for the next five years could be within £50 million to £80 million. So I suppose for full year '25, we're giving a little bit of guidance that if the total spend is £20 million, possibly £10 million to £15 million of that could be treated as exceptional.

We have external partners helping us with the programme running it and deploying the individual initiatives, and that would also include costs of people within our own business that we've taken out of their day jobs and have been allocated fully to making business easier to make sure that the programme is a success.

Andrew Wade: Okay. So do you think that [inaudible] [00:56:55].

Catherine Gubbins: Yeah.

Andrew Wade: [Inaudible] [0:57:01.3]

Catherine Gubbins: No, there's no redundancy cost in there, and there'll be cost to the various systems on plug-in applications, etc., different systems that we purchase over the period to improve the system essentially. That cost will go in there as well.

Andrew Wade: What the implementation cost [inaudible] [0:57:22].

Catherine Gubbins: Exactly. Yeah.

Andrew Wade: All right. Thank you.

Matthew Webb (Investec): Good morning. Matthew Webb from Investec. Just a question on your approach to returning surplus capital to shareholders. Your dividend payout ratio this year is very low. I appreciate it's the first year you're resuming that. But you've also guided that you're expecting dividends to grow in line with earnings, which would obviously suggest that that payout ratio will remain low. I infer from that that share buybacks will probably continue to be the default option for the majority of any capital that's being returned to shareholders. I just wanted to ask how you ensure that that is creating value. Do you trust the market to not to overvalue your shares? Do you continue going, well, all the time it's earnings enhancing? Or do you have a particular share price in mind that you think is either a fair value for the company or the point beyond which you would be concerned that maybe that wasn't the right approach?

Catherine Gubbins: Yeah. Look, I think at this point, obviously from our perspective, the Group hasn't paid a dividend for five years. So we're obviously happy that we're in a position to reintroduce the dividend. Happy that reintroducing at a relatively low level and indicating that we're going to grow that over the next number of years, that that's a good position for us at this point in time.

I think you'll recall in May, we announced £50 million return to shareholders and, I suppose, on the basis that £40 million of that buyback has been completed, we've decided to extend that by £10 million at this point in time. We'll obviously be considering this and giving you a little bit more detail on our plans going forward, particularly I suppose as we think about Horizon 3 and our overall cash available to the Group and our capital allocation framework.

I think it's probably at the Capital Markets Day at the start of February that we'll probably give you some greater clarity on our plans going forward.

Dalton Philips: Thank you. We'll go to the phone for questions.

Operator: Thank you. And ladies and gentlemen, to ask a question over the telephone, please signal by pressing star one. That is star one for your questions. And we do have a question from Damian McNeela of Deutsche Numis. Please go ahead.

Damian McNeela (Deutsche Numis): Hi. Morning, everybody. Thanks for taking the questions. The first one for me, I think for you, please, Catherine. Could you provide a breakdown of the gross profit margin contribution? I guess sort of either by sort of reduction in COGS, volume uplift, productivity if possible, please.

Then for you, Dalton. I think in your comments you indicated that you've succeeded in driving growth through innovation. I was just wondering whether you could quantify the amount of growth that was delivered by innovation last year, please.

And then just a classification question on slide 18 on the ROIC. If we add all of those up by the relative contribution, should we get back to the Group number of 260 basis points improvement in ROIC, or is there something else that we need to consider to get back to that 260 improvement, please?

Dalton Philips: Thanks, Damien. And sorry to not have you with us today, but we know you couldn't be here.

Catherine Gubbins: Yeah, look, I suppose with regard to the gross margin, I think we've indicated the contribution that the revenue growth has made. So we've looked at like-for-like revenue growth at 3.4%. And I suppose if you look at gross margin, closing out at 33%, even 0.2% up from 29.7%, I think probably the most significant contribution to that step on during the year has probably been from the operational excellence side of the house. To be honest, Damien, I don't have the exact breakdown in numbers with me at the moment, but I think that's probably a fairly significant impact from revenue growth, but I suppose the vast majority of that coming through then from operational excellence programmes and management of the cost lines in that regard.

Dalton Philips: We'll do the ROIC.

Catherine Gubbins: Sorry, I'm probably going to need Damien to repeat the ROIC question.

Dalton Philips: Okay. Well, in terms of should we – well, Damien, if you look at the incremental ROIC improvements, should that get us back to pre-pandemic levels of ROIC?

Damian McNeela: No. I was just saying that sort of, I think you've reported a 260 basis point improvement this year. And I was just wondering if we've sort of apportioned those. Is there something else? The numbers on slide 17 allow us to get back to that 260 basis points, or is there something else we need to consider?

Catherine Gubbins: No, I don't think so. I mean, I know that the change in the tax rate is impacting. When we look at the ROIC levels that we are achieving now versus what we had in 2019, I know that's absolutely something that's impacting that from a like-for-like perspective. But other than that, no, I wouldn't see anything else impacting.

Damian McNeela: Okay, thank you.

Dalton Philips: And Damien, in terms of innovation, look, you saw the 1.6% on the bridge in terms of volume growth through like-for-like. I think that the mix is driving about 1 percentage point. And really, that's through, well, a number of different areas. But clearly, the EPD and the NPD piece of that, like over 400 new products is driving that. And probably getting as much from EPDs, EPD being like lasagna, Tesco's new lasagna, like brilliant EPD. Morrisons cafe range, brilliant EPD. Aldi's Al Forno lasagna, brilliant EPD, as much as new product development, which could be poke bowls or the new sushi packs for Aldi or some of the sources we're doing for Tesco, which are totally out of the box, or obviously Kitchen Deli for Sainsbury's.

So I think we've got the EPD and the NPD engines running pretty well in balance at the moment. At any one time, there's about 500 projects on the pad, whether it's EPD or NPD. I mean, we've already now, with a number of customers, done Christmas 2025, which is a staggering thought that that's already got done at Halloween for one particular customer. That's how far people are thinking ahead.

Damian McNeela: Okay, very clear. Thank you.

Dalton Philips: Thanks, Damien. Okay, I think what we'll do is we'll call it an end, because I know you have a busy life. Thank you so much for being here today. We really appreciate it. Thank you for your questions.

Operator: That concludes today's call. Ladies and gentlemen, you may now disconnect.

[END OF TRANSCRIPT]