Premier Foods plc

19 May 2021

**Premier Foods plc (the "Group" or the "Company")**

## Preliminary year results for the 53 weeks ended 3 April 2021

**Adjusted PBT growth of 23.5%, Net debt/EBITDA[3] reduced to 1.9x and dividend reinstated after 13 years**

| Financial results | FY20/21 53 week basis | Exclude: Week 53 | FY20/21 52 week basis | FY19/20 | Change 52 week basis |
|---|---|---|---|---|---|
| <u>Headline measures</u> | | | | | |
| Revenue (£m) | 947.0 | (12.8) | 934.2 | 847.1 | +10.3% |
| Trading profit[1] (£m) | 151.3 | (3.0) | 148.3 | 132.6 | +11.9% |
| Adjusted profit before taxation (£m) | 117.9 | (2.6) | 115.3 | 93.3 | +23.5% |
| Adjusted earnings per share[7] (pence) | 11.2 | (0.2) | 11.0 | 8.9 | +22.8% |
| Net debt/EBITDA[3,11,13] (pre-IFRS 16) | 1.9 | 0.0 | 1.9 | 2.7 | |
| <u>Statutory measures</u> | | | | | |
| Operating profit (£m) | 152.6 | N/A | N/A | 95.3 | +60.1% |
| Profit before taxation (£m) | 122.8 | N/A | N/A | 53.6 | +129.1% |
| Basic earnings per share (pence) | 12.5 | N/A | N/A | 5.5 | +127.3% |
| Net debt[9] (pre-IFRS 16, £m) | (314.1) | N/A | N/A | (408.1) | +23.0% |
| Net debt (£m) | (332.7) | N/A | N/A | (429.6) | +22.6% |

Note: Only headline measures are provided on a 52 week basis, to aid comparability of results

### Financial headlines

- Branded revenue* up +13.6% in full year and ahead +7.0% in Q4
- Trading profit* increased +11.9% to £148.3m after increased marketing investment and incremental Covid costs
- Net debt/EBITDA,[3,11] (pre-IFRS 16) reduced to 1.9x, the Group's lowest ever leverage[14]
- Repaid £190m Floating rate notes in FY20/21 reducing interest costs by c.£10m p.a.; plus ratings agency upgrades
- Combined pensions surplus of £539.9m
- New RCF facility to 2024 and launching offer of new £300m 5 year Senior Secured Fixed Rate Notes
- Proposed final dividend of 1.0 pence per share; reinstated for first time in thirteen years

### Strategic & operational headlines

- Remained fully operational throughout pandemic
- Continued to deploy branded growth model; new product launches and six major brands received TV advertising
- Growing faster than the market; gained +70bps market share
- Online performance +104% and increased market share by 128bps
- Expanded consumer base as households tried new meal ideas
- International revenue growth +23%[8], demonstrating strong progress against revised strategy
- Strong ESG progress; reduced $CO_2$ emissions by 43% since 2008 and recyclable plastics increased from 63% to 70%
- Hovis disposal completed in H2, raising gross proceeds of £37.3m

Non-GAAP measures above are defined on page 15 and reconciled to statutory measures throughout
*Branded revenue and Trading profit on a 52 week basis
A reconciliation between 53 week and 52 week measure is provided in the appendices; EBITDA is EBITDA on an adjusted basis and as defined in the appendices

## Alex Whitehouse, Chief Executive Officer

*"This has been an outstanding year for the business with very strong financial metrics across the board. We have reduced our leverage to 1.9x EBITDA[3], repaid £190m of our Floating Rate Bonds saving approximately £10m in interest costs and entered into a transformational new pensions agreement. As a result, we are pleased to be reinstating dividend payments for the first time in 13 years. We have also just completed the refinancing of a new Revolving Credit facility with a refreshed bank group, extending maturity to at least 2024, and are today announcing the launch of a new Fixed Rate Bond."*

*"Throughout the year, we continued to drive our branded growth model, launching a series of new product ranges, including many healthy options such as Sharwood's low sugar stir fry sauces and increasing marketing investment with six of our major brands benefitting from TV advertising. This, along with a robust performance from our supply*

*chain, ensured we delivered growth ahead of the market. Sales of our brands online more than doubled and our continued focus on this channel led to further market share gains. In overseas markets we are now clearly seeing the benefits of last year's change in strategy with double digit growth in each quarter and 23% in the full year."*

*"We enter this year in a strong position, with the benefit of an expanded consumer base, further TV advertising for our brands and a substantial pipeline of new products planned. We are confident in our Trading profit expectations for the full year and we expect adjusted PBT to benefit from lower financing costs. As we look to the future, with a transformed business in a demonstrably much stronger financial position, we will continue to move forward at pace and with rigour, applying our brand building skills to expand the business. We will do this through entering new categories in the UK, scaling up our overseas businesses and exploring the opportunity for appropriate bolt on acquisitions."*

*"Finally, and most importantly, I would like to thank our colleagues who have shown incredible resilience and commitment, keeping our operations running, ensuring we were able to keep food supplies flowing to our customers and taking all the necessary actions to keep each other safe."*

This announcement contains inside information.

**Further information**

A presentation to investors and analysts will be webcast today at 9:00am BST.
To register for the webcast follow the link: www.premierfoods.co.uk/investors/investor-centre
A recording of the webcast will be available on the Company's website later in the day.

A factsheet with highlights of the Preliminary results is available at:
www.premierfoods.co.uk/investors/results-centre

A Premier Foods image gallery is available using the following link:
www.premierfoods.co.uk/media/image-gallery/

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- Ends –

## Environmental, Social and Governance (ESG)

The Group is committed to doing business responsibly and in a way that is sustainable for the business, its communities and the planet. It has a five pillar responsibility strategy which enables it to focus efforts on addressing the issues that are most relevant to people and the planet, now and in the future. These five pillars are: (i) encourage healthier choices; (ii) realise people's potential; (iii) support our communities; (iv) drive ethical sourcing and (v) reduce our environmental footprint. The Group delivered strong progress in all its ESG pillars during the year which includes:

- Healthier choices: 17 new better for you ranges were introduced in the year
- Realise people's potential: Featured in the Top 100 apprenticeship employers for 4$^{th}$ year in succession
- Ethical sourcing: 100% of its direct sourced soya now meets Round Table Resourced Soy (RTRS) requirements
- Supporting communities: Donated over 550,000 meals via Fareshare and 238,000 products to the NHS
- Reducing the Group's environmental footprint: $CO_2$ emissions reduced by 5.8% since last year and are now 42.7% lower than the 2008 baseline. Percentage of recyclable plastics increased from 63% to 70%.

On 5 May 2021, the Group appointed Hannah Collyer as Director of Corporate Affairs and ESG, to the executive leadership team of the Group, reporting to CEO Alex Whitehouse. This newly created role reflects the increased strategic importance of ESG issues to the business and the growing significance of sustainability in its fullest sense across the Group.

## Response to Covid-19 pandemic

In the face of this pandemic, the business has proven to be robust and resilient, with colleagues demonstrating great resolve at home and at work, meeting unprecedented levels of consumer demand for the Group's brands, whilst adopting new Covid-safe ways of working. The Group's response to this crisis can be summarised as follows:

- Health and wellbeing of colleagues has been paramount
- Early implementation of enhanced hygiene protocols and social distancing measures in February 2020
- Manufacturing and logistics operations remained fully operational, ensuring continuity of food supply
- Donated 550,000 meals through charitable food redistributor, Fareshare and 238,000 products to NHS
- Continued to focus on the core business model, increasing brand investment and further innovation plans

## Outlook

The Group goes into FY21/22 in a strong position, having gained a significantly larger consumer base during the past year. The business will continue to employ its successful branded growth model, with further new product launches planned and six of its largest brands due to benefit from TV advertising in FY21/22. It expects to deliver further progress overseas as it applies these strategies in its key international markets.

Initial trading this year is in line with the Group's expectations, reflecting the ongoing strength of its growth strategy, set against a period of strong comparatives. The Board is confident in the delivery of its full year profit expectations, and is set to benefit from substantially lower financing costs. As the Group transitions to the next phase of its evolution, it will look to expand through accessing new categories in the UK and also in selected overseas markets, while exploring bolt-on acquisition opportunities. It continues to target 1.5x Net debt/EBITDA[3] in the medium term.

## Financial results

### Revenue

| £m | FY20/21 53 week basis | Exclude: Week 53 | FY20/21 52 week basis | FY19/20 | FY20/21 vs FY19/20 (52 week % change) |
|---|---|---|---|---|---|
| **Grocery** | **702.6** | (9.2) | **693.4** | **611.6** | +13.4% |
| - Branded | 609.3 | (7.6) | 601.7 | 514.7 | +16.9% |
| - Non-branded | 93.3 | (1.6) | 91.7 | 96.9 | (5.3%) |
| **Sweet Treats** | **244.4** | (3.6) | **240.8** | **235.5** | +2.2% |
| - Branded | 203.2 | (3.3) | 199.9 | 190.9 | +4.7% |
| - Non-branded | 41.2 | (0.3) | 40.9 | 44.6 | (8.4%) |
| **Group** | **947.0** | (12.8) | **934.2** | **847.1** | +10.3% |
| - Branded | 812.5 | (10.9) | 801.6 | 705.6 | +13.6% |
| - Non-branded | 134.5 | (1.9) | 132.6 | 141.5 | (6.3%) |

Group revenue for the 53 weeks to 3 April 2021 was £947.0m, an increase of £99.9m compared to the 52 weeks ended 28 March 2020.

On a 52 week basis, Group revenue increased by +10.3% to £934.2m; Branded revenue grew by +13.6% while Non-branded revenue was (6.3%) lower. In the fourth quarter, on a 13 week comparative basis, Group revenue increase by +4.0% to £226.9m and branded revenues increased by +7.0%. In the year, the Group's branded mix advanced by 250 basis points to 85.8% on a 52 week basis.

The Group saw a prolonged period of elevated demand for its product ranges, as consumers were restricted to eating all meals at home due to the closure of hospitality outlets for long periods. The supply chain demonstrated its robustness through meeting these volumes and in doing so, kept product availability high. This, together with continued new product launches and brand investment, resulted in 70 basis points of market share gain in the year. Overall, the Group's consumer base expanded this year, as a result of more people cooking from home, experimenting with new recipes and expanding their repertoire of meals.

#### Grocery

Grocery revenue for the 53 week financial year was £702.6m, of which £609.3m was branded revenue and £93.3m Non-branded. On a 52 week basis, Grocery revenue increased by 13.4% to £693.4m, led by its branded portfolio which grew by 16.9% to £601.7m. The fourth quarter saw revenues grow by 3.6% to £172.4m with brands up by 6.8%. The grocery portfolio gained 32 basis points of value share in the year, growing faster than a market which increased by 12.3%.

In FY20/21, the Group's Grocery brands benefitted from the Group's innovation strategy and increasing consumer marketing investment behind emotionally engaging advertising. A significant driver of increased volumes in the year was due to consumers eating more meals at home due to pandemic related restrictions on eating out of home; consequently many of the major Grocery brands grew in strong double-digit terms, with *Bisto, Oxo, Ambrosia, Sharwood's, Homepride, Paxo* and *Nissin* all stand out performers. Additionally, the increase in cooking at home, with consumers expanding their repertoire of meals has resulted in a significant increase in household penetration of brands such as *Bisto, Oxo, Sharwood's* and *Paxo,* which all attracted approximately a million or more new households buying their product ranges.

New product development in the year was led by better for your options such as *Sharwood's* 30% less sugar cooking sauce pouches, 30% less fat Butter Chicken sauces and low-fat Naan breads. *Oxo* launched meat free Beef flavoured stock cubes, suitable for a vegan diet. The Group became the UK's sole distributor for the high quality *Cape Herb and Spice* range, which highlights the extension of the Group into a new sub-category. Other new products brought to market this year include *Bisto* Southern style gravy, which provides consumers with the opportunity to replicate takeaways at home following the fakeaway trend.

The Group's five largest Grocery brands; *Ambrosia, Batchelors, Bisto*, *Sharwood's* and *Oxo* received an aggregate 58 weeks of advertising on television during the year. *Ambrosia* and *Sharwood's* both benefitted from advertising for the first time in four and five years respectively, each with new production copy designed to build an emotional engagement with consumers.

The online market grew rapidly in H1 and broadly maintained this elevated level through the second half of the year. The Group's categories have grown ahead of this, with sales increasing by +104%, equating to a market share gain of 128 basis points. The Group has been developing its online capabilities over the last three years, increasing resource in this area to ensure maximum benefits from the growth potential in this channel. This includes ensuring the Group's brands are promoted and displayed using pertinent techniques for the online channel.

Looking ahead to FY21/22, the Grocery business will continue to launch a number of new product ranges as part of its healthier choices strategy. For example, it will be launching a Deliciously Vegan range of *Sharwood's* Indian cooking sauces and 30% less fat *Loyd Grossman* lasagne sauces. Other new product ranges include *Oxo* marinades and rubs, *Bisto* Creamy pepper sauce and *Bird's* convenient custard pots. The new *Cape Herb and Spice* range of rubs, chilli tins and seasonings, as described above, will expand to further distribution.

Additionally, the Group is planning to advertise all five of its largest Grocery brands during the course of the next financial year.

**Sweet Treats**

Sweet Treats revenue was £244.4m in the 53 weeks to 3 April 2021; branded revenue was £203.2m and Non-branded revenues £41.2m. On a 52 week basis, Sweet Treats revenue increased by 2.2% to £240.8m. Branded revenue saw growth of 4.7% in a declining cake market, which reflected fewer celebration occasions, while Non-branded revenue was 8.4% lower. The fourth quarter saw an acceleration in revenue growth, as total revenue in Sweet Treats increased by 5.4% on a 13 week comparable basis. Branded revenue was the driver of this growth, as revenue grew by 7.7%; well ahead of the wider cake market.

Market share of the Group's cake brands grew by 113 basis points in a market which declined by 2.3%, while Household penetration increased by a very strong 193 basis points.

After a muted start to the year, when consumers and customers focused heavily on staple items, both *Mr Kipling* and *Cadbury cake* enjoyed a strong year of revenue growth. *Mr Kipling,* the Group's largest brand, reached revenue of £150m for the first time in its history, benefitting from 25 weeks of TV advertising in the year, increased sales of its reduced sugar slices ranges and expansion of its premium Signature collection. *Cadbury cake* sales were supported by the launch of Crunchie and Fudge cake bars, while the core Mini Rolls delivered robust volumes through the year. The Group maintains its longstanding relationship with *Cadbury* owner, Mondelēz International; its licence for cake and ambient desserts is due to run until 2025.

In the coming months, the Group will be investing in further TV advertising for *Mr Kipling,* while FY21/22 sees the launch of *Mr Kipling* Choc Tarts. Sweet Treats will also benefit from the full year effect of new products launched in the prior year, such as the new *Cadbury* Crunchie and Fudge cake bars and expanded *Mr Kipling* Signature collection.

**International**

The International business enjoyed a strong year, as it began to reap the benefits of its revised strategy, with revenue at constant currency up 23%[8] compared to the prior year on a 52 week basis. This revamped approach is designed to deliver sustainable profitable growth as evidenced in the UK and is led by a new Head of International. The business has moved to a new organisational structure where locally based market heads have replaced function heads; a switch of resources from the UK to relevant markets. There is now a change of emphasis underpinned by strong focus on in-market execution, which involves ensuring the right products are presented to the shopper at the right price, combined with an optimum promotional strategy. Route to market solutions include using carefully chosen local partners with appropriate capabilities.

Revenue in FY20/21 grew in double digit percentage terms compared to the prior year in each four quarters of the year. In Ireland, all major brands displayed growth, some of which reflected increased at home consumption during the pandemic, in a similar way to the UK. In the second half of the year, Ireland saw the launch of new products such as the *Mr Kipling* Signature range and *Soba* Noodle pots and TV advertising for *Bisto* and *Mr Kipling*. These activities are the first examples of how the International business is applying the established and proven branded growth model from the UK to its overseas markets. Australia saw a similar approach; *Mr Kipling* aired on Australian TV in the fourth quarter and new product launches included *Sharwood's* low fat cooking sauces and *Mr Kipling* Chocolate & Cherry slices. A new head of market for Australia, now country and not UK based, was appointed in the year alongside a new team with strong local market consumer sector backgrounds.

The USA saw very strong revenue growth in the year which reflected significantly improved in market execution for *Sharwood's*, achieving 3,000 new distribution points. In the fourth quarter, the Group signed a new agreement with Weston Foods to sell and market *Mr Kipling* cakes in the USA. The first shipments of cake are expected to commence in the first half of FY21/22, which will follow the confirmation of a preferred lead customer.

**Non-branded**

On a 52 week basis, Grocery Non-branded revenue declined (5.3%) in the year while Sweet Treats revenue fell by (8.4%). Grocery saw an increase in volume and revenue for its retailer brand contracts, but this was more than offset by a fall in revenue for business to business units such as Knighton Foods and Charnwood Foods due to reduced eating out of home throughout the year. In Sweet Treats, the sales decline reflected contract exits for retailer brand cake and lower volumes in the discounter channel; these effects are expected to unwind in the second half of FY21/22.

**Trading profit**

| £m | FY20/21 53 week basis | Exclude: Week 53 | FY20/21 52 week basis | FY19/20 | FY20/21 vs FY19/20 (52 week % change) |
|---|---|---|---|---|---|
| **Divisional contribution** | **197.9** | (3.0) | **194.9** | **171.9** | +13.4% |
| - Grocery | 174.7 | (2.2) | 172.5 | 148.2 | +16.4% |
| - Sweet Treats | 23.2 | (0.8) | 22.4 | 23.7 | (5.5%) |
| Group & corporate costs | (46.6) | - | (46.6) | (39.3) | (18.6%) |
| **Trading profit** | **151.3** | (3.0) | **148.3** | **132.6** | +11.9% |

The Group delivered Trading profit of £151.3m in FY20/21. This comprised Divisional contribution of £197.9m less costs of Group & corporate related activity of £46.6m. On a 52 week basis, Trading profit in FY20/21 was £148.3m, an 11.9% increase on the prior year. Divisional contribution grew by +13.4% on the same basis, reflecting strong growth in the Grocery business of +16.4%, partly offset by a reduction in Sweet Treats Divisional contribution of £22.4m which was 5.5% lower.

Grocery benefitted from strong performances across its branded portfolio, as the substantial increase in volumes saw benefits of operational leverage feed through to Divisional contribution. This effect more than offset incremental supply chain costs incurred during the year associated with enhanced hygiene and social distancing measures and temporary labour as a result of the Covid-19 pandemic. Additionally, the Group increased its consumer marketing expenditure with *Ambrosia, Batchelors, Bisto, Sharwood's* and *Oxo* all recipients of television advertising in the year. This reflects one of the key pillars of the Group's branded growth model strategy of delivering emotionally engaging advertising. In the first half of the year, the Group also benefitted from generally lower market rates for media slots and accordingly was able to purchase more television advertising time than expected, however these lower market rates dissipated in the second half.

In Sweet Treats, Divisional contribution was £1.3m lower than the prior year. Divisional contribution was impacted by incremental Covid-19 related costs in a similar way to the Grocery business, although the requirements for additional social distancing measures and increased temporary labour due to higher absence was more evident in Sweet Treats than Grocery. Additionally, with less pronounced volume uplifts in Sweet Treats compared to Grocery, limited operational leverage benefits were offset by these incremental pandemic related costs. Marketing investment for *Mr Kipling* was higher in the year, as the Group's largest brands benefitted from 25 weeks on air of the popular 'Little Thief' television advert.

Group & corporate costs increased by £7.3m in the period to £46.6m. This was largely as a result of higher Group wider management incentive schemes costs, covering a large section of the Group's workforce.

The Group will continue to invest strongly behind its brands in FY21/22 as it did in FY20/21, with six of the Group's largest brands in line to benefit from media advertising. *Mr Kipling* and *Bisto* are planned to benefit from new advertising creative.

As the Group enters this year, it has been closely monitoring movements in commodity markets. The recent increase in some input costs are not unexpected and follow a period of relatively benign input cost inflation. The business has planned for these changes, and will use a range of measures to ensure any impacts are offset.

## Operating profit

| £m<br>53 week basis | FY20/21 | FY19/20 | Change |
|---|---|---|---|
| **EBITDA[3]** | **170.4** | **152.5** | **17.9** |
| Depreciation | (19.1) | (19.9) | 0.8 |
| **Trading profit** | **151.3** | **132.6** | **18.7** |
| Amortisation of intangible assets | (30.4) | (29.4) | (1.0) |
| Net interest on pensions and administrative expenses | 9.7 | (4.6) | 14.3 |
| Fair value movements on foreign exchange & derivatives | (2.3) | 1.7 | (4.0) |
| Non-trading items: | | | |
| Restructuring costs | (4.9) | (4.1) | (0.8) |
| GMP equalisation | (2.9) | - | (2.9) |
| Other non-trading | (0.5) | (0.9) | 0.4 |
| **Operating profit before gain on sale of Hovis** | **120.0** | **95.3** | **24.7** |
| Reversal of impairment loss on financial assets | 15.7 | - | 15.7 |
| Profit on disposal of investment in associate | 16.9 | - | 16.9 |
| **Operating profit** | **152.6** | **95.3** | **57.3** |

Operating profit increased by £57.3m, to £152.6m in the year. This growth reflected the Trading profit performance as described above, a positive movement in the net interest on pensions and administrative expenses and the sale of the Group's Hovis investment in the second half of the year.

Amortisation of intangible assets was £30.4m in the year compared to £29.4m in FY19/20. Fair valuation of foreign exchange and derivatives resulted in an adverse movement of £2.3m. Non-trading restructuring costs increased by £0.8m to £4.9m in FY20/21. This increase was due to costs associated with advisory work on the segregated merger pensions agreement announced on 20 April 2020, integration of the Knighton Foods business. The November 2020 Guaranteed Minimum Pensions (GMP) high court judgement ruled that pension scheme trustees are also legally responsible for equalising the GMP for the employees who transferred out of UK defined benefit pension schemes. Accordingly, there is a requirement to revisit historic cash equivalent transfer values that were previously not equalised and make adjustments where necessary and a non-cash charge of £2.9m in the year reflects past service costs associated with this equalisation.

Net interest on pensions and administrative expenses was £9.7m, which includes expenses for operating the Group's pension schemes of £10.7m, offset by a net interest credit of £14.4m. Also included is a credit of £9.3m related to a Wind Up Lumpsum exercise as part of the scheme merger and a charge of £3.3m which reflects settlement costs associated with enhanced transfer value payments made to certain RHM scheme deferred members.

An impairment reversal of £15.7m was recognised in the period in respect of the Hovis loan note previously written off, reflecting the reassessment of the loan note's recoverability. A profit on disposal of £16.9m was recognised as result of the sale of the Hovis investment.

## Finance costs

| £m | FY20/21 53 week basis | Exclude: 53 week | FY20/21 52 week basis | FY19/20 |
|---|---|---|---|---|
| Senior secured notes interest | 25.9 | (0.4) | 25.5 | 31.0 |
| Bank debt interest - net | 4.6 | (0.0) | 4.6 | 5.0 |
| | 30.5 | (0.4) | 30.1 | 36.0 |
| Amortisation of debt issuance costs | 2.9 | - | 2.9 | 3.3 |
| **Net regular interest[5]** | **33.4** | (0.4) | **33.0** | **39.3** |
| Write-off of financing costs | 1.3 | | | - |
| Discount unwind | (1.1) | | | 1.3 |
| Other finance cost | 0.9 | | | 1.1 |
| Other finance income | (4.7) | | | - |
| **Net finance cost** | **29.8** | | | **41.7** |

*Note: 52 week basis not applied for Write off of financing costs, Discount unwind, Other finance cost and Other finance income*

Net finance cost was £29.8m in the year to the 53 weeks ended 3 April 2021, a decrease of £11.9m compared to FY19/20. Net regular interest was £33.4m in the year and £33.0m on a 52 week basis. This compares to £39.3m in the comparative period. The reduction in net regular interest in the year was primarily due to lower Senior secured notes interest charges, principally due to four partial redemptions of the Group's Floating Rate Notes (FRN) which completed at different points during the year, and are outlined in the table below.

| £m | £m |
|---|---|
| **FRN outstanding at 28 March 2020** | **210.0** |
| Part redemptions in FY20/21: | |
| 17 June 2020 | (80.0) |
| 1 December 2020 | (40.0) |
| 16 February 2021 | (40.0) |
| 31 March 2021 | (30.0) |
| **FRN outstanding at 3 April 2021** | **20.0** |

Bank debt interest decreased by £0.4m to £4.6m in the year and amortisation of debt issuance costs were also £0.4m lower. The Revolving Credit Facility (RCF) was undrawn at the year end.

Following the partial redemptions of the FRN during the year, write off of financing fees amounting to £1.3m were incurred in the year. A credit of £1.1m in the year related to a discount unwind associated with properties held by the Group. Other finance income of £4.7m relates to the reversal of the impairment of the interest on the Hovis loan note.

## Taxation

| £m | FY20/21 | FY19/20 |
|---|---|---|
| **Profit before taxation** | 122.8 | 53.6 |
| - Tax charge at rate of 19.0% | (23.3) | (10.2) |
| Tax effect of: | | |
| - Changes in tax rate | - | 4.9 |
| - Capital gain on disposal of business | 6.6 | - |
| - Other items | (0.1) | (1.8) |
| **Income tax (charge)** | **(16.8)** | **(7.1)** |
| Deferred tax asset | 28.4 | - |
| Deferred tax liability | 85.8 | 184.9 |

A tax charge in the year of £16.8m compared to £7.1m in the prior year. The current year reflects a charge of £23.3m on profit before tax at the rate of 19% and a capital gain of £6.6m relating to the disposal of the Hovis investment.

At 3 April 2021, deferred tax assets were £28.4m (28 March 2020: nil) while a deferred tax liability of £85.8m is a decrease of £99.1m compared to the prior year position and reflects a reduction in the combined pensions surplus.

The Group currently retains brought forward losses which it can utilise to offset against future tax liabilities. Due to changes in tax legislation with respect to tax shields, the Group expects to recommence paying cash tax in low single digit £millions in the medium term.

**Earnings per share**

| **Statutory earnings per share (£m)**<br>53 week basis | **FY20/21** | **FY19/20** | **Change** |
|---|---|---|---|
| Operating profit | 152.6 | 95.3 | +57.3 |
| Net finance cost | (29.8) | (41.7) | +11.9 |
| **Profit before taxation** | **122.8** | **53.6** | **+69.2** |
| Taxation | (16.8) | (7.1) | (9.7) |
| Profit after taxation | 106.0 | 46.5 | +59.5 |
| Average shares in issue (millions) | 851.4 | 846.6 | +4.8 |
| **Basic Earnings per share (pence)** | **12.5** | **5.5** | **+7.0** |

The Group reported a profit before tax of £122.8m in the year, an increase of £69.2m compared to FY19/20. Profit after tax in the year grew by £59.5m from £46.5m to £106.0m. Basic earnings per share in FY20/21 increased by 7.0p to 12.5p.

| **Adjusted earnings per share (£m)**<br>52 week comparable basis | **FY20/21** | **FY19/20** | **Change (%)** |
|---|---|---|---|
| Trading profit | 148.3 | 132.6 | +11.9% |
| Less: Net regular interest | (33.0) | (39.3) | +15.9% |
| **Adjusted profit before tax** | **115.3** | **93.3** | **+23.5%** |
| Less: Notional tax (19%) | (21.9) | (17.7) | (23.5%) |
| Adjusted profit after tax[6] | 93.4 | 75.6 | +23.5% |
| Average shares in issue (millions) | 851.3 | 846.6 | 0.6% |
| **Adjusted earnings per share (pence)** | **11.0** | **8.9** | **+22.8%** |

Adjusted profit before tax on a 52 week comparable basis increased by 23.5% in the year to £115.3m, reflecting both Trading profit growth in the period and lower net regular interest costs as described above. Adjusted profit after tax also increased, by 23.5%, to £93.4m in the year after deducting a notional 19.0% tax charge of £21.9m. Based on average shares in issue of 851.3 million shares, adjusted earnings per share for the 52 week comparable basis grew +22.8% to 11.0p.

**Hovis**

In April 2014, the Group entered into a partnership with The Gores Group LLC in respect of Hovis Holdings Limited ("Hovis"). This partnership, of which the Group held a 49% equity interest, was subsequently written off in FY 2015/16. On 5 November 2020, the Group completed the sale of its interest in Hovis to Endless LLP. As part of the sale, the group has received a total consideration of £37.3m, of which £16.9m was in respect of equity and £20.4m reflected the settlement of the outstanding loan to associate.

**Dividend**

The Company last paid a dividend to shareholders in 2008. Over recent years, the Company has made significant progress in delivering against its branded growth model strategy and so in turn, reducing Net debt to a level that would enable the payment of a dividend under the Group's financing arrangements. In February 2021, the Company completed a capital reduction which will provide greater flexibility in how the Company manages its capital resources going forward. Subject to shareholder approval, the directors have proposed a final dividend of 1.0 pence for the 53 weeks ended 3 April 2021 (2019/20: nil), payable on 30 July 2021 to shareholders on the register at the close of business on 2 July 2021. The shares will go ex-dividend on 1 July 2021. Under the dividend matching agreement with the Company's pension schemes, for up to £5 million paid to shareholders as a dividend, a payment of 50 pence for every £1 paid to shareholders is payable to the pension schemes. For any dividend paid between £5m and £10m, there is no matching payment made to the pensions schemes and for any dividend paid above £10m, the 50 pence: £1 matching arrangement, as described above, recommences.

**Free cash flow**

| £m | FY20/21 | FY19/20 |
|---|---|---|
| **53 week basis** | | |
| **Statutory cash flow statement** | | |
| Cash generated from operating activities | 85.6 | 85.9 |
| Cash generated from (used in) investing activities | 13.8 | (18.0) |
| Cash (used in)/generated from financing activities | (276.2) | 82.2 |
| **Net (decrease)/increase in cash & cash equivalents** | **(176.8)** | **150.1** |
| Cash, cash equivalents and bank overdrafts at beginning of period | 177.9 | 27.8 |
| **Cash, cash equivalents and bank overdrafts at end of period** | **1.1** | **177.9** |

On a statutory basis, cash generated from operations was £118.2m compared to £121.5m in the comparative period. Cash generated from operating activities was £85.6m after deducting net interest paid of £32.6m. Cash generated from investing activities was £13.8m compared to £18.0m used in the prior year. This reflected proceeds received from the Group's Hovis investment, partly offset by the purchase of tangible and intangible assets of £23.6m. Cash used in financing activities was (£276.2m) in the year versus £82.2m cash generated in the prior year; the difference was due to two main actions. Firstly, the Group repaid a drawdown of £85.0m on its committed revolving credit facility in the first quarter of the year. This followed an earlier prudent decision by the Group at the end of the previous financial year to draw this £85.0m sum, reflecting early stage wider uncertainties associated with the COVID-19 pandemic. Secondly, the Group repaid £190.0m part redemptions of its Senior Secured Floating Rate Notes during the year. Cash and cash equivalents of £1.1m at the year end comprised a bank overdraft of £3.1m and cash and bank deposits of £4.2m.

| £m | FY20/21 | FY19/20 |
|---|---|---|
| 53 week basis | | |
| Trading profit | 151.3 | 132.6 |
| Depreciation | 19.1 | 19.9 |
| Other non-cash items | 3.4 | 1.7 |
| Interest | (32.6) | (35.6) |
| Pension contributions | (47.0) | (44.7) |
| Capital expenditure | (23.6) | (18.0) |
| Working capital & other | 0.6 | 14.6 |
| Non-trading items | (5.1) | (6.6) |
| Proceeds from share issue | 1.7 | 1.1 |
| Sale of property, plant & equipment | 0.1 | 0.1 |
| Net proceeds from sale of Hovis investment | 30.3 | - |
| **Free cash flow[10]** | **98.2** | **65.1** |

The Group reported an inflow of Free cash in the year of £98.2m compared to £65.1m in the previous year. Trading profit of £151.3m on a 53 week basis was £18.7m ahead of the prior year for the reasons outlined above, while depreciation was slightly lower at £19.1m (FY19/20: £19.9m). Other non-cash items of £3.4m was due primarily to share based payments.

Net interest paid of £32.6m was £3.0m lower than the prior year, due to part redemptions of the Group's Senior Secured Floating Rate Notes during the year which attract a coupon of 5.0% above LIBOR. The Group expects interest paid to continue to reduce in FY21/22 as the full year impact of these part redemptions take effect. Additionally, and as announced today, the Group is planning to issue new Senior Secured Fixed Rate Notes which are expected to replace its existing Fixed Rate Notes which currently attract a 6.25% interest rate.

Total pension contributions in the period were £47.0m (2019/20: £44.7m), due to previously agreed planned increases in deficit contribution payments to the Premier Foods pension scheme. Of this, pension deficit contribution payments were £39.1m and administration costs including pension levy costs were £7.9m.

Capital expenditure in the year was £23.6m, in line with expectations and higher than FY19/20. The Group expects to continue investing at least £25m per annum in capital expenditure as it funds growth projects supporting the Group's innovation strategy and cost release projects to deliver efficiency savings. Both these areas of capital investment offer attractive payback returns and accordingly are a key factor in the Group's assessment of capital allocation.

Following the completion of the sale of the Group's Hovis investment to Endless LLP, as described above, cash proceeds of £37.3m were received on 5 November 2020. This was partly offset by a £7.0m share of proceeds made to the Group's pension schemes.

A working capital inflow of £0.6m compared to an inflow of £14.6m in the prior year. The prior year position was due to unusually low stock holding levels as the Group experienced higher than expected demand from its retail customers in the final three weeks of the financial year due to impacts associated with COVID-19. Non-trading items of £5.1m were paid in the year and comprise the final tranche of advisory costs associated with the Group's strategic review and costs relating to restructuring of both the International and Knighton businesses.

**Net debt and sources of finance**

| **£m** | **Pre-IFRS 16** | **Post-IFRS 16** |
|---|---|---|
| **Net debt at 28 March 2020** | **408.1** | **429.6** |
| Free cash inflow in period | (98.2) | (98.2) |
| Movement in debt issuance costs | 4.2 | 4.2 |
| Movement in lease creditor | - | (2.9) |
| **Net debt at 3 April 2021** | **314.1** | **332.7** |

Net debt at 3 April 2021 was £332.7m, a reduction of £96.9m compared to the prior year while on a pre-IFRS 16 basis, Net debt was £314.1m, £94.0m lower than the comparative period. Free cash inflow in the period was £98.2m and the movement in debt issuance costs was £4.2m. On a pre-IFRS 16 Leases basis, Net debt / EBITDA[3] was 1.9x; while on a reported basis, Net debt / EBITDA[3] was 2.0x.

There were no changes to the Group's committed bank lending facilities in the year. As at 3 April 2021, the Group held net cash and bank deposits of £1.1m. At the start of the financial year the Group held in issue £300m Senior Secured Fixed Rate Notes maturing October 2023 and £210m Senior Secured Floating Rate Notes ("FRN") maturing July 2022. With the Group's strong progress in cash generation and debt reduction during the last two years, it redeemed £190m of the original £210m outstanding FRN during FY20/21 at par.

The Group has today announced the proposed issue of new five year £300m Senior Secured fixed rate notes due 2026, to refinance its £300m existing Senior Secured fixed rate notes, due to mature October 2023. Pricing of the new £300m Senior Secured fixed rate notes is to be confirmed and the notes are expected to be callable after two years.

The Group has also entered into a new revolving credit facility (RCF) with an updated lending group for a period of three years from May 2021 with the option of extending for up to two additional years. This new senior secured RCF is a committed facility of £175m with an interest margin grid broadly in line with the previous RCF. The prevailing coupon on the RCF at the year end was 2.75% plus three month LIBOR, although the facility was undrawn. Undrawn elements of the RCF will continue to attract interest equivalent to 35% of the applicable margin. It is expected that the Group's outstanding £20m Senior Secured Floating Rate Notes due July 2022 will be repaid as part of this refinancing.

## Pensions

### Pensions agreement overview

Following an extensive strategic review which explored all options available to the Group, on 20 April 2020 the Board announced a landmark agreement with its pension schemes which is transformational for both the Group and its pension scheme members, by significantly improving its long standing pension funding situation. In particular, the Board expects this will provide greater funding certainty for Premier Foods pension schemes members by leveraging the strength of the successful RHM pension scheme investment strategy. Alongside the strong progress the Group has delivered through its branded growth model strategy, this new pensions agreement provides the platform for further value creation for all stakeholders. The Group agreed and signed legal documentation with the scheme trustees for the merger, which was implemented as planned on 30 June 2020. A winding up lump sum (WULS) exercise was completed in February 2021. Following the segregated merger, the Group chose to effect a winding up of the Premier Foods Pension Scheme Trustees Limited and the Premier Grocery Products Pension Schemes Trustee Limited which will be completed in 2021. A winding up lump sum (WULS) exercise was completed in February 2021.

### IAS 19 results and commentary

| **IAS 19 Accounting Valuation (£m)** | **3 April 2021** | | | **28 March 2020** | | |
|---|---|---|---|---|---|---|
| | RHM | Premier Foods | Combined | RHM | Premier Foods | Combined |
| Assets | 4,459.4 | 792.5 | 5,251.9 | 4,745.3 | 774.7 | 5,520.0 |
| Liabilities | (3,536.9) | (1,175.1) | (4,712.0) | (3,240.0) | (1,049.6) | (4,289.6) |
| **Surplus/(Deficit)** | **922.5** | **(382.6)** | **539.9** | **1,505.3** | **(274.9)** | **1,230.4** |
| Net of deferred tax (19.0%) | 747.2 | (309.9) | 437.3 | 1,219.3 | (222.7) | 996.6 |

The IAS 19 pension schemes valuation reported a surplus for the combined RHM and Premier Foods' pension schemes at 3 April 2021 of £539.9m, £690.5m lower than 28 March 2020. Net of deferred tax, the combined surplus at 3 April 2021 was £437.3m. A deferred tax rate of 19.0% is deducted from the IAS19 retirement benefit valuation of the Group's schemes to reflect the fact that pension deficit contributions made to the Group's pension schemes are allowable for tax.

Assets in the combined schemes at 3 April 2021 were £268.1m lower at £5,251.9m. RHM scheme assets decreased by £285.9m to £4,459.4m while the Premier Foods' schemes assets increased by £17.8m to £792.5m. The reduction in the RHM scheme assets was largely due to a drop in the value of government bonds held by the schemes. At the previous year end, UK 30 year Government gilts were at c.0.6%, however during the year, UK government Gilt yields increased. The pension schemes use hedges to reduce the impact of movements in Gilts on the actuarial valuation, so when gilt yields rise, the asset values of these hedges fall.

Liabilities in the combined schemes increased by £422.4m to £4,712.0m as at 3 April 2021 compared to 28 March 2020. The RHM scheme liabilities increased by £296.9m to £3,536.9m in the year and the Premier Foods scheme liabilities increased by £125.5m to £1,175.1m The main driver of the movement in liabilities was due to a decrease in the discount rate used at 28 March 2020 of 2.5%.

| Combined pensions schemes (£m) | 3 April 2021 | 28 March 2020 |
|---|---|---|
| **Assets** | | |
| Equities | 14.9 | 11.5 |
| Government bonds | 1,625.4 | 1,802.6 |
| Corporate bonds | 1.0 | 25.3 |
| Property | 467.9 | 445.2 |
| Absolute return products | 1,112.1 | 1,198.2 |
| Cash | 79.8 | 32.4 |
| Infrastructure funds | 321.5 | 309.8 |
| Swaps | 485.4 | 487.1 |
| Private equity | 240.6 | 510.1 |
| LDI | 191.2 | 268.3 |
| Other | 712.1 | 429.5 |
| **Total Assets** | 5,251.9 | 5,520.0 |
| **Liabilities** | | |
| Discount rate | 2.00% | 2.50% |
| Inflation rate (RPI/CPI) | 3.25%/2.80% | 2.65%/1.65% |

The net present value of future deficit payments, to the end of the respective recovery periods remains at c.£300-320m.

Alex Whitehouse
Chief Executive Officer

Duncan Leggett
Chief Financial Officer