

Chief Executive's Report

The period under review has been incredibly challenging with market conditions and channel dynamics being entirely shaped by the ongoing Covid-19 pandemic. The overall demand for food and drink (both in-home and out-of-home) has fluctuated significantly, shaped by national, regional and local lockdowns and restrictions. However, it is testament to the hard work and commitment of our teams that we have been able to successfully manage and adapt the business, resulting in year-on-year revenue growth and a total sales figure almost at pre-pandemic levels.

COMMITMENT



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Robust Performance Despite a Difficult Trading Environment

The Group delivered a strong second half performance, with H2 revenues up 9.1% against the corresponding period in the previous year despite further Covid unlocking delays. This strong performance has resulted in revenues for the year increasing 2.3% to £313.3 million (2020: £306.3 million), which is almost at pre-pandemic levels (2019: £315.3 million).

9.1%

H2 revenues up against the corresponding period in the prior year.

Revenue in the Group's core division, UK bakery, increased 0.8% for the full year, driven by a strong second half with H2 revenues up 6.8% versus the previous year. The recovery of the Group's foodservice business has continued, although slower than expected due to ongoing Covid restrictions.

Overseas revenues for the full year were up 13.4% against the previous year. This was driven by an extremely positive performance in the second half versus the corresponding period in the previous year, which was negatively impacted by earlier implementations of Covid lockdowns across Europe.

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GROWTH

Developing an Offering for the Times

As we reflect on lockdown sales patterns and study demand profiles as restrictions have eased, the data shows the pandemic has mainly accelerated existing consumer trends rather than triggered new ones. Pre-pandemic, online grocery shopping, for example, had been growing in prevalence for some time, but no one could have anticipated the widespread, almost overnight adoption by large swathes of the country in response to stay at home guidance. While the nation is returning to bricks and mortar stores, online has undoubtedly taken a sizeable share of the market that is unlikely to revert in the near future. In response to this, we have been working with key retail partners to share our cake and celebration cake strategy initiatives in order to ensure we are aligned with their post-pandemic online strategies.

Similarly, while demand across categories has ebbed and flowed with restrictions in the period, momentum behind the consumer trends we have seen develop in recent years – vegan, artisan and wellness, for example – has continued to build, and we continue to work with our partners and customers to create new and innovative products in response to them.

In vegan, we now have several touchpoints in both cake and bread, including a range of cakes and a brioche bun developed in collaboration with plant-based food specialist brand BOSH! In artisan, we continued to cement our position as a leader in the segment, investing in state-of-the-art bread production equipment and upping capacity by 50%.

We have also made investments to extend our Free From capability within cake, especially the sharing cake market, and speciality bread ranges with plans to grow further in Free From.

Wellness remains a major trend and we continue to take steps to reduce salt and sugar to ensure all our products can be enjoyed as part of a balanced diet. More than 98% of our products meet the salt content targets of the FSA, and we continue to make good progress against Public Health England's sugar reduction ambitions with content down 12.4% on the previous year versus an 8.2% reduction this time last year.

From a brand portfolio perspective, we continued to go from strength to strength. In the period we were able to deepen our relationships with existing partners such as Mars and Diageo, while adding new ones such as TGI Fridays. The extension of our branded portfolio further into sharing cake has supported the implementation of a robust strategy which is delivering significant category share growth with key customer partners.

As part of our response to Covid, as well as mitigating the various risks, we continue to explore ways to address some of the emerging opportunities presented by the changing consumer landscape, such as more at home lunchtime eating occasions. This will see the Group gradually step-up investment in specific areas of capacity and product capability in the new financial year.

Chief Executive's Report/Continued

In Pursuit of Operational Excellence

In 2019 we rolled out six Group Operating Principles, a set of practical building blocks that establish best practice and how we want to consistently run our businesses. They are:

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

We are now at a more mature stage in the delivery of our Operating Brilliance Programme and continue to accelerate the development of initiatives to enable Finsbury to operate as a single, efficient Group capable of scale execution, despite the impacts of Covid. Combined, these initiatives are designed to benefit the Group over the long term but we are already seeing tangible benefits in areas such as factory efficiency and waste reduction, which is having a positive impact on our gross margin.

Building on the infrastructure investment made previously, we have continued to strengthen our Group IT systems in areas such as supply chain optimisation, product lifecycle management and sales and operations planning. We are also on the verge of completing the implementation phase of a new Group-wide computerised maintenance management system, which will ensure that the equipment and processes in all bakeries consistently operate to an industry-recognised high standard.

Linked to this is our Process Blueprint project, designed to establish, embed and optimise knowledge of all our processes while encouraging collaboration and exchange of ideas. This is now fully integrated and we are seeing excellent results from both a quality and sustainability perspective.

While the Operating Brilliance Programme pre-dates the pandemic, there is no doubt our experience of managing and adapting to the challenges of the past 18 months has had a significant, positive impact on our efforts to find better ways of working.

One example of this is the programme we have launched with a third-party consultancy to maximise the efficiency of our workforce and give our people the tools and training they need to realise their potential. The vast majority of this has been carried out remotely at a faster pace than we had originally anticipated and is an approach we will continue to take as conditions normalise.

While we are pleased with the operational headway made in the year against a challenging backdrop, there are several key workstreams underway to identify and address additional areas for improvement. With each period, Finsbury is becoming an ever-more optimised organisation, and I look forward to reporting on further progress on this front.

Bringing Our People Closer and Helping Them Succeed

I would like to take this opportunity to personally thank our people across the Group for their continued hard work, determination and commitment through what has been a challenging time for many of them and their families. It is thanks to them we have been able to play a part in keeping food shelves stocked in the territories we serve and they should all be extremely proud of their contributions.

Bringing our teams and people closer together has been a major focus in recent periods and the past year has seen this process accelerate considerably, thanks in large part to the sudden and comprehensive shift to digital. One example of this is the Group-wide health and safety exercise we have been conducting with an external adviser.

The exercise was centred around a series of online focus groups, and subsequently we received responses to a request for feedback from over two and a half thousand colleagues, or more than 75% of the workforce. It is difficult to imagine this level of engagement being possible – particularly not at this speed and scale – without the convenience of the whole exercise taking place remotely. In addition, further roll out of Facebook Workplace, an online communication tool, to connect every member of staff that works for the Group meant that as a management team we were able to update on the process in real time via written and video messages. Workplace has been an invaluable tool throughout the pandemic, not just from a communication perspective but in connecting colleagues and giving people a sense of shared purpose and collaboration.

As we execute against our strategy and the business grows and evolves, so should the roles and responsibilities of the Group Executive Committee. To this end, we have grown the senior team in the period, promoting from within where possible. Our Leadership Development Programmes have been strengthened, our Graduate Recruitment Programme continues to be successful, and our Apprenticeship Programme, which is key to building a pipeline of engineers, is growing in popularity. We have an abundance of talent in the Group and are committed to continuing to develop colleagues and giving those who excel the opportunity to move up through the organisation.

From a wellness perspective, we launched our Health and Wellbeing Strategy in the period, comprising three pillars: mental, physical and financial health. Run by a combination of internal champions and external partners, the programme offers a broad range of support both to colleagues and their families. This is supplemented by various Group-wide campaigns designed to encourage our team members to stay active and healthy which have proven very popular.



A Growing Focus on Sustainability

Finsbury has always prided itself on being a responsible business that acts with integrity and care. Sustainability is in our DNA, with metrics and goals embedded within all our business strategies. Despite the operational challenges in the period related to the pandemic, we continued to make great strides in the period in becoming more energy efficient and reducing waste.

This time last year, we reported on how we were intending to roll out asset energy monitoring across the Group following a successful localised trial. I'm pleased to report this is now complete, and plans are afoot to extend it to water use. We also updated on our Group-wide transition to LED lighting. This has risen from 60% to 70% coverage in the period, and is expected to reach 100% by the end of the current financial year. We also relocated our foodservice frozen storage operations to a new, more energy-efficient facility in the period, achieving an estimated 65% reduction in carbon emissions.

We continue to reduce plastic use and are making good progress towards making all plastics 100% recyclable. Currently, 90% is readily recyclable. At the same time, we remain a certified zero landfill business. Over 80% of all our waste is recycled and we have engaged several third parties to help us improve our output further. I am also pleased to report that from May 2021, all of our electricity is supplied from renewable sources.

We take a Group-wide approach based on our position as a major and responsible employer in the food industry, and supplement it with local initiatives chosen by our employees. In both ways, we ensure we can have a positive impact on the communities where we operate, which has always been an important part of how we do business. At Group level, we support two charities, Grocery Aid and FareShare, both of which are closely aligned to our industry. A high proportion of our workforce live close to our bakeries, putting them at the heart of our local communities. We therefore ask each of our sites to choose a local charity partner for each year, to help improve the lives and welfare of the communities we work and live in.

80%

Over 80% of all our waste is recycled.

Outlook

The environment in which we operate continues to face headwinds in relation to raw material prices, inflation, and skilled labour and driver shortages. Nevertheless, over the last 18 months the Group has shown its resilience and its ability to adapt, develop and strengthen no matter the circumstances.

Looking ahead, as we move into the new financial year, we will maintain our focus on delivering organic growth, capitalising on the momentum behind the consumer trends we have seen develop in recent years such as vegan, artisan and wellness. We continue to explore ways to address some of the emerging opportunities presented by the changing consumer landscape such as more at home lunchtime eating occasions. This will see the Group focus its investment programme in specific areas of capacity and product capability, as well as further productivity enhancing automation, in the new financial year.



John Duffy
Chief Executive Officer
17 September 2021



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