# Interim Results

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On behalf of: Finsbury Food Group Plc ('Finsbury', 'the Company' or 'the Group')
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# Finsbury Food Group Plc

## Interim Results

Finsbury Food Group Plc (AIM: FIF), a leading UK speciality bakery manufacturer of cake, bread and morning goods for the retail and foodservice channels, is pleased to announce its unaudited interim results for the 26 weeks ended 29 December 2018.


**Summary**

- Group revenue on a like for like*[1] basis up 0.5% to £145.5m (H1 2017: £144.8m) with UK Bakery sales up 1.7%.
- Total group revenue down 3.5% to £152.3m, reflecting closed businesses partially offset by acquisition.
- Group operating profit (adjusted*[2]) flat at £8.7m.
- Group operating profit margin (adjusted*[2]) increased to 5.7% (H1 2017: 5.5%).
- Group EBITDA (adjusted) up 2.2% to £12.9m (H1 2017: £12.7m)
- Profit before tax of £7.5m (H1 2017: loss (£1.2m)).
- Profit before tax (adjusted*[2]) of £8.3m broadly in line with prior year of £8.4m.
- Adjusted*[3] diluted EPS (pence per share) up 2.1% at 4.9p (H1 2017: 4.8p), adjusted EPS, up 2.0% at 5.1p (H1 2017: 5.0p).
- Interim dividend per share increased 5.5% to 1.16p (H1 2017: 1.1p per share).
- Net debt of £36.1m increased to 1.3 times annualised EBITDA of the Group (H1 2017: £16.6m, 0.6 times).


**Strategic highlights**

- Completed the acquisition of Ultrapharm, a manufacturer of Gluten Free Bread and Morning Goods both in the UK and in Europe.
- Successful launch of a new range of individually wrapped cake bars for on the go consumption.
- Launch of new 'Vegan' brioche style burger bun into Foodservice, approved by Vegan society.
- Winner of Bakery Manufacturing company of the year in the Food Manufacturer Excellence Awards.
- Winner of Quality food awards for a number of products.

*The Group uses Alternative Performance Measures (APMs) which are non-IFRS measures to monitor performance of its operations and of the Group as a whole. The reconciliation to IFRS measures is shown in the Consolidated Statement of Comprehensive Income.*

*[1] *Like for like revenue is the revenue from operations excluding the revenue from the closed bakeries and acquired businesses.*

*[2] *Profit is before significant non-recurring and other items.*

*[3] *Adjusted and adjusted diluted EPS have been calculated using earnings excluding the impact of amortisation of intangibles and significant non-recurring and other items as shown on the face of the Statement of Comprehensive Income. The adjusted diluted EPS and adjusted EPS have been given, as in the opinion of the Board this will allow shareholders to gain a clearer understanding of the trading performance of the Group.*

**Commenting on the results, John Duffy, Chief Executive of Finsbury Food Group Plc, said:**

*"In what has been a challenging period, we are pleased to report another robust set of financials, testament to the strength of our business and our position in the market place. This strength is clearly illustrated by the growth in margins achieved and the further increase in our dividend.*

*"This resilience comes from a number of areas, both historic and ongoing: our capital investment, the diversification of the Group into foodservice and high growth areas such as Free From, and our constant drive for efficiency. However importantly, alongside this, our relentless drive to deliver on customer trends and ensure our products are not only best in class, but also what customers are looking for. Our launch of a new 'Vegan' brioche style burger bun is testament to this.*

*"Whilst there is no doubt that the wider market pressures will continue in the period ahead, our market position is solid and we are well positioned both now and for the longer term."*

*This announcement contains inside information.*

**Contact:**


| | | |
|---|---|---|
| **Finsbury Food Group**<br>John Duffy (Chief Executive)<br>Steve Boyd (Finance Director) | www.finsburyfoods.co.uk | 029 20 357 500 |
| **Cenkos Securities**<br>Max Hartley<br>(Corporate Finance) | | |
| **Alma PR**<br>Rebecca Sanders-Hewett<br>Sam Modlin | finsbury@almapr.co.uk | 020 3405 0205 |


**Notes to editors:**

- Finsbury Food Group Plc (AIM: FIF) is a leading UK manufacturer of cake and bread bakery goods, supplying a broad range of blue chip customers within both the grocery retail and 'out of home eating' foodservice sectors including major multiples and leading foodservice providers.

- The Company is one of the largest speciality bakery groups in the UK and, with its Overseas division, has sales in the financial year ending 30 June 2018 exceeding £300m.

- The Company's bakery product range is comprehensive and includes:
    - Large premium and celebration cakes.
    - Small snacking cake formats such as cake slices and bites.
    - Artisan, healthy lifestyle and organic breads through to rolls, muffins (sweet and savoury) and morning pastries, all of which are available both fresh and frozen dependent on customer channel requirements.

- The Company is one of the largest ambient cake manufacturers in the UK, a market valued at over £950 million (source: IRI, 52 w/e 8th December 2018). The annual retail bread and morning goods market has a value of £4.4 billion (source: Kantar Worldpanel 52 weeks to 30th December 2018). The UK foodservice bread and savoury morning goods bakery sector is worth approximately £743 million per annum (source: derived from MCA data for 52 weeks to 30th September 2018). The UK foodservice cake and sweet morning goods bakery sector is worth approximately £913 million per annum (UK foodservice data derived from MCA data for 52 weeks to 30th September 2018).

- The Company comprises a UK Bakery division and an Overseas division:
    - The UK Bakery division has manufacturing sites in Cardiff, East Kilbride, Hamilton, Salisbury, Sheffield, and Manchester.
    - The Overseas division comprises the Company's 50% owned company, Lightbody Stretz Ltd, which supplies and distributes the Group's UK-manufactured products and third party products, primarily to Europe.

- Since the year end date of 30th June 2018, the Company completed the acquisition of Free From baker Ultrapharm, giving the Group a significant opportunity to access an exciting and high growth marketplace and manufacturing facilities in Pontypool in the UK and in Żywiec, Poland.

**STRATEGY**

Our strategic objective is to create sustainable value for our shareholders, customers and other stakeholders through our vision to build the leading speciality bakery group in the UK. We produce a broad range of high-quality bread, cake and bakery snacking products targeted at growing channels and market niches. These deliver growth and differentiation for our major customers and fulfil the needs of end consumers.

Our strategy to achieve our vision is as follows:

- Invest in our people and our manufacturing sites to form a strong foundation for us to deliver our strategy.
- Create innovative, high-quality bakery products that anticipate key market trends.
- Ensure customer and consumer needs are at the heart of our decision making.
- Develop a strong licensed brand portfolio to complement our core retailer brand relationships.
- Aim to succeed in both the retail grocery and out-of-home channels.
- Grow through a combination of organic growth and targeted acquisitions.

Our growth strategy will continue to be delivered through a combination of organic growth and targeted acquisitions. Future acquisitions will typically consolidate our market share in existing product areas or introduce further diversification into additional specialist product areas, customers and channels.

Net debt of £36.1 million at half year, equating to 1.3 times annualised EBITDA; which results in comfortable gearing alongside a strong balance sheet. Following the acquisition, the Group has a £55.0 million revolving credit facility and an accordion of £35.0 million available to it. The facility and the potential for it to be increased further provides increased capacity for the Group to explore future growth opportunities and support its long-term investment strategy.

Our core strategy is centred on generating returns for shareholders. Adjusted diluted earnings per share are up 2.1% year on year at 4.9p per share, adjusted earnings per share is up 2.0% at 5.1p per share.

A final dividend for the year to 30 June 2018 of 2.2p per share was paid on 21 December 2018 to shareholders on the register at the close of business on 23 November 2018. This brought the total dividend for the year to 30 June 2018 to 3.3p per share.

The Board of Directors is announcing an interim dividend for the year ending 29 June 2019 of 1.16p per share (H1 2017: 1.1p per share), an increase of 5.5%. The interim dividend will be paid on 26 April 2019 to shareholders on the register at the close of business on 5 April 2019. The election deadline for participants in the Company's Dividend Re-investment Plan will be 5 April 2019.

**OUTLOOK**

We have continued to operate with market wide headwinds, but due to the work undertaken in previous periods, our resilient business has withstood these exceptional pressures well.

Looking forward, the Board expects stronger organic growth in the second half following new business wins and product launches. The UK grocery market continues to be challenging with seemingly no rest in cost inflation. This is a result of continued increased commodity prices alongside wider macro pressures. The Group is experienced in mitigating food industry wide challenges and input cost inflation through continued operational efficiency, investment in automation and, inevitably, price increases. Nonetheless, whilst we expect our second half to be under pressure to fully offset cost inflation, the Board is confident of achieving adjusted EBITDA not less than that achieved in the first half. The broad channel, customer and product diversification of the Group remains a solid platform for the business, and will continue to benefit us given our access to higher growth opportunities such as the faster growing foodservice channel.

As one of the largest speciality bakery groups in the UK, we will continue to deliver and create innovative, high-quality bakery products in line with customer needs, and drive growth organically and through acquisition. Our balance sheet remains strong allowing us to continue to invest in our businesses and continue to deliver our stated growth strategy.

**OPERATING REVIEW**

**Revenue and Operating Profit**

Group revenue, on a like for like basis excluding revenue from acquired and closed businesses increased in H1 2018 by 0.5% year on year to £145.5 million. Including the revenue from acquired and closed businesses the revenue declined by 3.5% from £157.8 million to £152.3 million. Profit before interest, tax and significant non-recurring and other items remained flat at £8.7 million.

**UK Bakery**

| | H1 2018 £m | H1 2017 £m | Movement |
|---|---|---|---|
| **Revenue** | **133.4** | 140.5 | -5.0% |
| **Operating profit** | **7.4** | 7.3 | +0.6% |
| **Operating margin** | **5.5%** | 5.2% | |

UK Bakery comprises the supply of cake, bread and morning goods in the Grocery and Foodservice channels. Revenue in the period decreased by 5.0% to £133.4 million driven by the loss of the revenues from the closure of loss-making bakeries in the previous year of £13.0m, like for like revenue growth was 1.7%. The closure of the bakeries has however underpinned the operating profit which at £7.4 million has remained broadly flat year on year.

The grocery ambient cake and the bread and morning goods markets are both large mature markets. The grocery ambient cake market sees year on year volume growth of +0.8% and value growth of +1.4% (Source: IRI 26 weeks ending 5th January 2019) and the bread and morning goods grocery market sees year on year volume growth of +1.0% and value growth of +2.7% (source: Kantar Worldpanel 24 weeks ending 30th December 2018).

The growth in UK Bakery operating profit margin from 5.2% to 5.5% is a consequence of the closure of loss-making bakeries. The Bakery sector continues to face commodity head winds, now led by flour, continuing labour inflation ahead of CPI driven by National Living Wage, significant utility inflation as a consequence of Government green levies and general inflation all of which has necessitated and will continue to necessitate price recovery from customers.

**Overseas**

| | H1 2018 £m | H1 2017 £m | Movement |
|---|---|---|---|
| **Revenue** | **18.9** | 17.3 | +9.3% |
| **Operating profit** | **1.3** | 1.2 | +8.0% |
| **Operating margin** | **6.9%** | 7.0% | |

The Overseas business comprises Lightbody Europe which trades primarily in France, specialising in the import and sale of premium UK manufactured food products and is an important channel into Europe for Group UK manufactured licensed celebration cake and bite style products and the newly acquired Ultraeuropa business which manufactures and supplies gluten free products to Europe.

The business is exposed to the Euro but the consistency of the Euro over the two reporting periods means that there is little impact on sales and profit. When excluding the revenue from the acquisition, like for like sales are down £1.4m primarily driven by biscuits. The operating margin is steady despite being driven by the same headwinds facing the UK Bakery sector.

**Interest Payable**

Interest payable and credits (H1 2017: charges) on related interest rate swaps on the Group's bank debt in H1 2018 was £392,000 (H1 2017: £331,000), an increase of £61,000. The increase in charges is a consequence of the higher average debt balance over the period following the acquisition of Ultrapharm Limited in September 2018.

**Taxation**

The Group's effective tax rate in H1 2018 was 19.9%, which compares to 21.2% in H1 2017. The effective rates represent a blend of the UK and French corporation tax rates. There was a decrease in the blended rate driven by a lower proportion of profits charged at the higher French corporation tax rate in the current year.

**Earnings per share**

The Group considers both adjusted and adjusted diluted earnings per share to be the most appropriate EPS measure. The adjusted earnings per share were up 2.0% to 5.1p, (H1 2017: 5.0p) and adjusted diluted earnings per share were up 2.1% to 4.9p, (H1 2017: 4.8p). Further earnings per share information is given in Note 7.

**FINANCIAL REVIEW**

**Cash flow and net debt**

Cash inflow from operating profit before changes in working capital was £12.9 million, which compares with £12.7 million in H1 2017. Net debt at 29 December 2018 was £36.1 million which compares to £16.6 million at H1 2017 an increase of £19.5 million following the acquisition of Ultrapharm Limited during September 2018 for an initial consideration, including the settlement of debt acquired of £16.9 million. Working capital increased in H1 2018 by £5.3 million. Growth in working capital is driven largely by an uplift in seasonal Christmas volume in H1 2018. Capital expenditure of £5.2 million is £0.3 million higher than H1 2017 driven by the investment in additional capacity in the Free From sector. The cash out-flow relating to restructuring and reorganisation costs was £2.5 million in H1 2018 (H1 2017: £2.4 million).

**Pensions**

The Group has one defined benefit pension scheme within its Memory Lane Cake business in Cardiff. All remaining group companies have defined contribution schemes. The Memory Lane Cake pension scheme has been closed to future accruals and new members since 31 May 2010. The net pension deficit (before related deferred tax) was £10,536,000 at 30 June 2018, the next accounting valuation update will be carried out at 29 June 2019. Cash contributions (including the PPF levy) were £185,000 in the six months to 29 December 2018 (H1 2017: £199,000).

**Principal risks and uncertainties**

A number of risks and uncertainties have been identified that could potentially have a material impact on the financial position of the Group. These are set out in the Risk Report Section of the Annual Report for the year to 30 June 2018 and the Board considers these remain applicable.

Commodity price inflation and the National Living Wage legislation presents a challenge that the Group is preparing for through a number of initiatives. Adjusting and mitigating the impact will take time and will require ever-greater focus on efficiency improvements and cost reduction programmes and, ultimately, price recovery.

**Forward looking statements**

Throughout this report certain statements have been made which are forward looking. These statements have been made based on latest knowledge and expectations of the future. The Board considers the statements to be reasonable. Inevitably there are risks associated with these forward-looking statements which are usually outside the control of the Group. Actual results or performance may therefore differ from the outcome implied by these forward-looking statements.

# Consolidated Statement of Comprehensive Income (unaudited)

| | Unaudited 26 weeks ended 29 December 2018 £000 | | | Unaudited 26 weeks ended 30 December 2017 £000 | | |
|---|---|---|---|---|---|---|
| | **Adjusted Operating Performance** | **Significant non-recurring and other accounting items** | **Consolidated Statement of Comprehensive Income** | Adjusted Operating Performance | Significant non-recurring and other accounting items | Consolidated Statement of Comprehensive Income |
| Revenue | **152,337** | **-** | **152,337** | 157,787 | - | 157,787 |
| Cost of sales | **(106,120)** | **-** | **(106,120)** | (110,292) | - | (110,292) |
| **Gross profit** | **46,217** | **-** | **46,217** | 47,495 | - | 47,495 |
| Administrative expenses | **(37,550)** | **(680)** | **(38,230)** | (38,788) | (9,595) | (48,383) |
| **Results from operating activities** | **8,667** | **(680)** | **7,987** | 8,707 | (9,595) | (888) |
| Finance expense | **(392)** | **(110)** | **(502)** | (331) | 11 | (320) |
| Share of losses of associates after tax | **-** | **-** | **-** | (11) | - | (11) |
| **Profit before taxation** | **8,275** | **(790)** | **7,485** | 8,365 | (9,584) | (1,219) |
| Taxation | **(1,641)** | **147** | **(1,494)** | (1,772) | 1,691 | (81) |
| **Profit after tax and total comprehensive income** | **6,634** | **(643)** | **5,991** | 6,593 | (7,893) | (1,300) |
| **Profit/(loss) attributable to:** | | | | | | |
| Equity holders of the parent | | | **5,525** | | | (1,810) |
| Non-controlling interest | | | **466** | | | 510 |
| **Profit/(loss) and total comprehensive income for the period** | | | **5,991** | | | (1,300) |
| Earnings per share (pence) | | | | | | |
| Basic | **5.1** | | **4.3** | 5.0 | | (1.4) |
| Diluted basic | **4.9** | | **4.2** | 4.8 | | (1.4) |

## Consolidated Statement of Financial Position (unaudited)

| | Note | Unaudited 29 December 2018 £000 | Unaudited 30 December 2017 £000 | Audited 30 June 2018 £000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Intangibles | | **95,307** | 81,965 | 83,313 |
| Property, plant and equipment | | **57,538** | 47,446 | 49,922 |
| Investments in equity accounted investees | | **-** | 258 | - |
| Other financial assets | | **28** | 28 | 28 |
| Deferred tax assets | | **3,890** | 5,158 | 3,890 |
| | | **156,763** | 134,855 | 137,153 |
| **Current assets** | | | | |
| Inventories | | **18,384** | 13,257 | 13,456 |
| Trade and other receivables | | **52,206** | 50,832 | 44,575 |
| Cash and cash equivalents | 8 | **10,715** | 4,106 | 9,363 |
| Other financial assets - fair value of foreign exchange contracts | | **503** | 490 | 558 |
| | | **81,808** | 68,685 | 67,952 |
| **Total assets** | | **238,571** | 203,540 | 205,105 |
| **Current liabilities** | | | | |
| Other interest bearing loans and borrowings | 8 | **(46,491)** | (16,315) | (24,685) |
| Trade and other payables | | **(62,080)** | (61,831) | (55,598) |
| Provisions | | **(2,988)** | (6,621) | (3,798) |
| Deferred consideration | | **(970)** | - | - |
| Other financial liabilities - interest rate swaps/ fair value of foreign exchange contracts | | **(28)** | (65) | (40) |
| Current tax liabilities | | **(562)** | (1,093) | - |
| | | **(113,119)** | (85,925) | (84,121) |
| **Non-current liabilities** | | | | |
| Other interest-bearing loans and borrowings | 8 | **-** | (4,353) | - |
| Provisions and other liabilities | | **(3,976)** | (211) | (4,623) |
| Deferred consideration | | **(1,769)** | - | - |
| Deferred tax liabilities | | **(1,348)** | (1,278) | (1,243) |
| Pension fund liability | | **(10,536)** | (10,498) | (10,536) |
| | | **(17,629)** | (16,340) | (16,402) |
| **Total liabilities** | | **(130,748)** | (102,265) | (100,523) |
| **Net assets** | | **107,823** | 101,275 | 104,582 |
| **Equity attributable to equity holders of the parent** | | | | |
| Share capital | 9 | **1,304** | 1,304 | 1,304 |
| Share premium account | | **64,956** | 64,956 | 64,956 |
| Capital redemption reserve | | **578** | 578 | 578 |
| Employee share reserve | | **(3,282)** | (3,282) | (3,282) |
| Retained earnings | | **41,729** | 35,322 | 38,954 |
| Total shareholders' equity | | **105,285** | 98,878 | 102,510 |
| Non-controlling interest | | **2,538** | 2,397 | 2,072 |
| **Total equity** | | **107,823** | 101,275 | 104,582 |

## Consolidated Statement of Changes in Equity (unaudited)

| | Share capital £000 | Share premium £000 | Capital redemption reserve £000 | Employee share reserve £000 | Retained earnings £000 | Non-controlling interest £000 | Total equity £000 |
|---|---|---|---|---|---|---|---|
| Balance as at 1 July 2017 | 1,304 | 64,956 | 578 | (3,585) | 39,862 | 1,887 | 105,002 |
| (Loss)/Profit for the 26 weeks ended 30 December 2017 | - | - | - | - | (1,810) | 510 | (1,300) |
| **Other comprehensive income** | - | - | - | - | - | - | - |
| **Total comprehensive income for the period** | - | - | - | - | **(1,810)** | **510** | **(1,300)** |
| **Transactions with owners, recorded directly in equity:** | | | | | | | |
| Own shares issued/(acquired) | - | - | - | 303 | (218) | - | 85 |
| Foreign exchange differences | - | - | - | - | 41 | - | 41 |
| Dividends paid | - | - | - | - | (2,553) | - | (2,553) |
| **Balance as at 30 December 2017** | **1,304** | **64,956** | **578** | **(3,282)** | **35,322** | **2,397** | **101,275** |
| Profit for the 26 weeks ended 30 June 2018 | - | - | - | - | 3,990 | 474 | 4,464 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Other comprehensive income/(expense):** | | | | | | | |
| Remeasurement on defined benefit pension | - | - | - | - | (172) | - | (172) |
| Deferred tax movement on pension scheme remeasurement | - | - | - | - | 29 | - | 29 |
| Other comprehensive income | **-** | **-** | **-** | **-** | **(143)** | **-** | **(143)** |
| | | | | | | | |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **-** | **3,847** | **474** | **4,321** |
| | | | | | | | |
| **Transactions with owners, recorded directly in equity:** | | | | | | | |
| Own shares acquired | - | - | - | - | 1 | - | 1 |
| Impact of share based payments | - | - | - | - | 1,138 | - | 1,138 |
| Deferred tax on share options | - | - | - | - | 58 | - | 58 |
| Foreign exchange differences | - | - | - | - | (7) | - | (7) |
| Dividends paid | - | - | - | - | (1,405) | (799) | (2,204) |
| **Balance as at 30 June 2018** | **1,304** | **64,956** | **578** | **(3,282)** | **38,954** | **2,072** | **104,582** |
| | | | | | | | |
| Profit for the 26 weeks ended 29 December 2018 | - | - | - | - | 5,525 | 466 | 5,991 |
| **Other comprehensive income** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **-** | **5,525** | **466** | **5,991** |
| | | | | | | | |
| **Transactions with owners, recorded directly in equity:** | | | | | | | |
| Own shares issued/(acquired) | - | - | - | - | - | - | - |
| Foreign exchange differences | - | - | - | - | 59 | - | 59 |
| Dividends paid | - | - | - | - | (2,809) | - | (2,809) |
| **Balance as at 29 December 2018** | **1,304** | **64,956** | **578** | **(3,282)** | **41,729** | **2,538** | **107,823** |

## Consolidated Cash Flow Statement (unaudited)

| | Note | Unaudited 26 weeks ended 29 December 2018 £000 | Unaudited 26 weeks ended 30 December 2017 £000 | Audited 52 weeks ended 30 June 2018 £'000 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| (Loss)/profit after taxation for the period | | **5,991** | (1,300) | 3,164 |
| Adjustments for: | | | | |
| Taxation | | **1,494** | 81 | 1,311 |
| Finance expenses | 6 | **502** | 320 | 762 |
| Share of losses of associates after tax | | **-** | 11 | - |
| Depreciation | | **3,909** | 3,694 | 7,041 |
| Amortisation of intangibles | | **369** | 269 | 715 |
| Significant non-recurring expenses | | **692** | 9,683 | 13,067 |
| Movement in fair value foreign exchange contracts | | **(12)** | (88) | (49) |
| Contributions by employer to pension scheme | | **-** | - | (411) |
| **Operating profit before changes in working capital** | | **12,945** | 12,670 | 25,600 |
| **Changes in working capital** | | | | |
| Increase in inventories | | **(3,728)** | (574) | (757) |
| (Increase)/decrease in trade and other receivables | | **(5,566)** | (343) | 6,235 |
| Increase/(decrease) in trade and other payables | | **4,036** | 918 | (4,160) |
| **Cash generated from operations** | | **7,687** | 12,671 | 26,918 |
| Costs associated with closure of operations | | **(2,475)** | (2,425) | (4,594) |
| Interest paid | | **(325)** | (323) | (634) |
| Corporation taxes paid | | **(475)** | (1,789) | (3,338) |
| **Net cash generated from operating activities** | | **4,412** | 10,559 | 18,352 |
| **Cash flows from investing activities** | | | | |
| Purchase of property, plant & equipment | | **(5,169)** | (4,874) | (12,606) |
| Purchase of subsidiary companies | | **(16,915)** | - | - |
| Disposal of property, plant and equipment | | **-** | - | 768 |
| **Net cash used in investing activities** | | **(22,084)** | (4,874) | (11,838) |
| **Cash flows from financing activities** | | | | |
| Repayment of bank loans | | **-** | (1,468) | (8,794) |
| Drawdown of revolving credit | | **21,772** | 2,500 | 25,000 |
| (Repayment)/drawdown of invoice discounting | | **-** | (749) | (11,646) |
| (Repayment) of asset finance facilities | | **-** | (33) | (57) |
| Options exercised | | **-** | 85 | 86 |
| Non-controlling interest dividend paid | | **-** | - | (799) |
| Dividend paid to shareholder | | **(2,809)** | (2,553) | (3,958) |
| **Net cash in/(out) from financing activities** | | **18,963** | (2,218) | (168) |
| **Net increase/(decrease) in cash and cash equivalents** | | **1,291** | 1,042 | 6,346 |
| Opening cash and cash equivalents | | **9,363** | 3,024 | 3,024 |
| Effect of exchange rate fluctuation | | **61** | 40 | (7) |
| **Cash and cash equivalents at end of the period** | | **10,715** | 4,106 | 9,363 |

## NOTES TO THE FINANCIAL STATEMENTS

### 1) BASIS OF PREPARATION

This interim report, which is unaudited, does not constitute statutory accounts within the meaning of section 434(3) of the Companies Act 2006. The comparative figures for the financial year ended 30 June 2018 have been extracted from the statutory accounts for that year. Those accounts, which were prepared in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRSs"), have been reported on by the company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

It should be noted that current liabilities exceed current assets. Having reviewed the Group's short and medium-term plans and available financial facilities, the Board has reasonable expectations that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group has stayed within its banking facilities during the period, meeting covenant requirements. The Group has a £55m revolving credit facility plus scope for the facility to be increased by up to a further £35m. In addition, the Group has a strong trade debtor book and strong asset backing. Accordingly, the Board continues to adopt the going concern basis in preparing the Financial Statements.

### 2) ACQUISITION

On 3 September 2018 the Group acquired the entire share capital of Ultrapharm Limited (Ultrapharm) for £16.9 million plus up to £3 million payable in annual instalments to the period to 30 June 2021 and a final incentive payment subject to performance criteria over the period to 30 June 2021. As a specialist 'Free From' bakery, the business has an extensive product range including bread, buns & rolls and other morning goods. Ultrapharm has a diverse customer base with long term blue-chip customers, including Finsbury itself, where it supplies Free From products to Lightbody Europe.

The cash outflow under 'purchase of a subsidiary' of £16,915,000 on the face of the Consolidated Cash Flow Statement in the 26 weeks to 29 December 2018 relates to the following:

| | £000 |
|---|---|
| Initial consideration | 14,869 |
| Debt settled | 2,792 |
| Cash acquired | (746) |
| Cash consideration (excluding acquisition costs) | 16,915 |
| Working capital adjustment | (60) |
| Discounted deferred consideration net of deferred taxation | 2,738 |
| Total consideration including working capital adjustment | 19,593 |

The acquisition had the following effect on the Group's assets and liabilities:

| | Pre fair value acquisition carrying amount £000 |
|---|---|
| Acquiree's net assets at acquisition date: | |
| Property, plant and equipment | 6,385 |
| Stock | 1,200 |
| Trade and other receivables | 2,392 |
| Deferred tax liability | (88) |
| Trade and other payables | (2,652) |
| Net identifiable assets | 7,237 |
| Goodwill / Intangibles | 12,356 |
| | 19,593 |

The Group is in the process of establishing fair values for the acquired identifiable assets. Goodwill and intangibles are shown as one amount in the table above as the Group is working through an exercise to correctly identify and value any intangible assets acquired. The post acquisition revenue included within these financial results amounts to £6,458,000 and an operating profit of £240,000.

## 3) SIGNIFICANT NON-RECURRING ITEMS

The Group presents certain items as non-recurring and significant. These relate to items which, in management's judgement, need to be disclosed by virtue of their size or incidence in order to obtain a more meaningful understanding of the financial information. The amounts shown within significant non-recurring and other accounting items on the face of the Consolidated Statement of Comprehensive Income are shown in the table below:

| | **Unaudited 26 weeks ended 29 December 2018 £000** | Unaudited 26 weeks ended 30 December 2017 £000 |
|---|---|---|
| Acquisition, restructuring and impairment costs | **(692)** | (9,683) |
| Movement in fair value of foreign exchange contracts | **12** | 88 |
| Shown under Administrative expenses | **(680)** | (9,595) |
| Unwinding of discount on deferred consideration | **(55)** | - |
| Movement in fair value of swaps | **(55)** | 11 |
| Shown under Finance expense | **(110)** | 11 |

## 4) SEGMENT INFORMATION

Operating segments are identified on the basis of the internal reporting and decision making. The Group's Chief Operating Decision Maker is deemed to be the Board as it is primarily responsible for the allocation of resources to segments and the assessment of performance by segment. The Board assesses profit performance principally through adjusted profit measures consistent with those disclosed in the Annual Report and Accounts.

The UK Bakery segment manufactures and sells bakery products to UK grocery and food service sectors. It comprises six subsidiaries all of which manufacture and supply food products through the channels described above. These subsidiaries have been aggregated into one reportable segment as they share similar economic characteristics. The economic indicators considered are the nature of the products and production process, the type and class of customer, the method of distribution and the regulatory environment.

The Overseas segment procures and sells bakery products to European grocery and food service sectors. With the newly acquired Ultraeuropa business, Free From bakery products are manufactured in Poland and sold into the European markets.

The Company acquired Ultrapharm on 3 September 2018, the prior year financial results include those relating to the closed bakeries, the table below shows the like for like revenue.

| | **UK Bakery** | | **Overseas** | | **Total Group** | |
|---|---|---|---|---|---|---|
| **Revenue** | **H1 2018 £000** | **H1 2017 £000** | **H1 2018 £000** | **H1 2017 £000** | **H1 2018 £000** | **H1 2017 £000** |
| Total | **133,453** | 140,512 | **18,884** | 17,275 | **152,337** | 157,787 |
| From acquired business | **3,467** | - | **2,991** | - | **6,458** | - |
| From closed business | **336** | 12,995 | **-** | - | **336** | 12,995 |
| Like for like | **129,650** | 127,517 | **15,893** | 17,275 | **145,543** | 144,792 |

| **Reportable Segments** | **26 weeks to 29 December 2018 £000 Total** | 26 weeks to 30 December 2017 £000 Total |
|---|---|---|
| Revenue UK Bakery | **133,453** | 140,512 |
| Revenue Overseas | **18,884** | 17,275 |
| **Total revenue** | **152,337** | 157,787 |
| | | |
| Adjusted operating profit UK Bakery | **7,369** | 7,326 |
| Adjusted operating profit Overseas | **1,298** | 1,202 |
| Adjusted operating profit Group | **-** | 179 |
| **Total adjusted operating profit** | **8,667** | 8,707 |
| **Significant non-recurring and other items** | **(680)** | (9,595) |
| **Finance expense** | **(502)** | (320) |
| **Share of losses of associates after tax** | **-** | (11) |
| **Profit before taxation** | **7,485** | (1,219) |

The Group has two customers (2017: two) which individually account for more than 10 per cent of the Group's total revenue. These customers account for 19 per cent and 13 per cent respectively. In the prior year these same two customers accounted for 18 per cent and 14 per cent respectively of the revenue in the six months to 30 December 2017. In addition to the Europe sales disclosed in Reportable Segments, the Group also made sales to European markets through UK based organisations.

## 5) SHARE BASED PAYMENTS

The Group operates both approved and unapproved share option schemes. Following the adoption of IFRS2 'Share-based payments' charges have been made to the Income Statement to reflect the calculated fair value of employee share options. The cost is calculated at the date of grant and is charged equally over the vesting period. The fair value is based on the best available estimate of the number of options expected to vest. The corresponding adjustment is made to reserves.

During the 26 weeks to 29 December 2018 no options were granted (H1 2017: 1,652,817). Administration costs include a charge in the prior year first six months of £122,000 in relation to the fair value of the newly awarded share options during that period.

## 6) FINANCE INCOME AND EXPENSES

| | **Unaudited 26 weeks ended 29 December 2018 £'000** | Unaudited 26 weeks ended 30 December 2017 £'000 | Audited 52 weeks ended 30 June 2018 £'000 |
|---|---|---|---|
| Change in fair value of interest rate swaps | **-** | 11 | 143 |
| Interest on interest rate swap agreements | **20** | - | 18 |
| Bank interest receivable | **-** | - | 6 |

| | | | |
|---|---|---|---|
| Finance income | **20** | 11 | 167 |
| Net interest on net pension position | **-** | - | (277) |
| Net bank interest payable | **(412)** | (318) | (638) |
| Charge on interest rate swaps | | (13) | (14) |
| Unwinding of discount on deferred consideration | **(55)** | - | - |
| Change in fair value of interest rate swaps | **(55)** | - | - |
| Finance expense | **(522)** | (331) | (929) |
| Net finance expense | **(502)** | (320) | (762) |

The Group has one interest rate swap arrangement for £20.0 million for five years from 3 July 2017 at 0.455% maturing 3 July 2022 to hedge its risks associated with interest rate fluctuations.

These arrangements do not meet the conditions necessary for hedge accounting to be applied and, therefore, changes in their fair value are recognised immediately in the income statement resulting in a charge of £55,000 (H1 2017: credit £11,000).

**7) EARNINGS PER ORDINARY SHARE (EPS)**

Basic earnings per share for the period is calculated on the basis of profit for the period after tax, divided by the weighted average number of shares in issue of 127,679,000 (30 December 2017: 127,467,000).

Basic diluted earnings per share for the period is calculated by adjusting the weighted average number of shares in issue to assume conversion of all potential dilutive ordinary shares, which for 29 December 2018 is 132,231,000 (30 December 2017: 131,942,000).

An adjusted earnings per share has also been calculated as, in the opinion of the Board, this will allow shareholders to gain a clearer understanding of the trading performance of the Group.

The adjusted earnings per share exclude amounts shown under significant and non-recurring items in the Consolidated Statement of Comprehensive Income and exclude amortisation of intangibles.

| | | **26 weeks to 31 Dec 2018** | | 26 weeks to 30 Dec 2017 | |
|---|---|---|---|---|---|
| **Profit** | | | | | |
| Profit/(loss) attributable to equity holders of the Company (basic) | £000 | **5,525** | | (1,810) | |
| Significant non-recurring and other items | £000 | 643 | | 7,893 | |
| Amortisation of intangibles | £000 | 307 | | 269 | |
| **Numerator for adjusted earnings per share calculation (adjusted basic)** | £000 | **6,475** | | 6,352 | |
| **Shares** | | **Basic** | **Diluted** | Basic | Diluted |
| Weighted average number of ordinary shares in issue during the period | '000 | 127,679 | 127,679 | 127,467 | 127,467 |
| Dilutive effect of share options | '000 | - | 4,552 | - | 4,475 |
| | | **127,679** | **132,231** | 127,467 | 131,942 |
| **Earnings per share** | | | | | |
| Basic and diluted | Pence | **4.3** | **4.2** | (1.4) | (1.4) |
| **Adjusted basic and adjusted diluted** | Pence | **5.1** | **4.9** | 5.0 | 4.8 |

**8) ANALYSIS OF NET DEBT**

| | **Unaudited 26 weeks ended 29 December 2018 £'000** | Unaudited 26 weeks ended 30 December 2017 £'000 | Audited 52 weeks ended 30 June 2018 £'000 |
|---|---|---|---|
| Net cash at bank | **10,715** | 4,106 | 9,363 |
| Loans within one year | **(46,772)** | (5,437) | (25,000) |
| Loans after more than one year | - | (4,389) | - |
| Invoice discounting within one year | - | (10,897) | - |
| Asset finance within one year | - | (24) | - |
| **Net bank debt excluding unamortised transaction costs** | **(36,057)** | (16,641) | (15,637) |
| Unamortised transaction costs: | | | |
| within one year | **281** | 43 | 315 |
| more than one year | **-** | 36 | - |
| **Total unamortised transaction costs** | **281** | 79 | 315 |
| Bank debt net of unamortised transaction costs within one year | **(35,776)** | (12,209) | (15,322) |
| Bank debt net of unamortised transaction costs more than one year | **-** | (4,353) | - |
| **Bank debt net of unamortised transaction costs** | **(35,776)** | (16,562) | (15,322) |

**9) SHARE CAPITAL**

No shares were issued during the period or the comparative prior year period.

At 29 December 2018 2,704,030 shares (H1 2017: 2,704,030) were held by the Finsbury Food Group Plc Employee Benefit Trust.

## Advisers

**Secretary**
Laura Nuttall

ONE Advisory Limited

201 Temple Chambers
3-7 Temple Avenue
London
EC4Y 0DT
Tel: 0207 583 8304

**Registered Office**
Maes-y-coed Road
Cardiff
CF14 4XR
Tel: 029 2035 7500

**Nominated Adviser & Broker**

Cenkos Securities plc

6.7.8 Tokenhouse Yard

London

EC2R 7AS

**Remuneration Committee Advisor**
Deloitte LLP
Four Brindleyplace,
Birmingham,
B1 2HZ

**Registered Number**
00204368

**Auditor**
PricewaterhouseCoopers LLP

1 Kingsway

Cardiff
CF10 3PW

**Registrars**
Capita Registrars

34 Beckenham Road

Beckenham
Kent
BR3 4TU

**Solicitors**

CMS Cameron McKenna LLP

Cannon Place

78 Cannon Street

London

EC4N 6AF



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