



20 April 2020

Premier Foods plc (the “Company” or the “Group”)

Strategic review concluded with landmark pensions agreement Update on Quarter 4 and Full year Trading

Premier Foods plc today confirms it has concluded its strategic review announced on 27 February 2019 and announces a transformational agreement with its pensions schemes. The Group also provides an update on current Trading and on the impact on the Group of the COVID-19 outbreak.

Overview

- Landmark pensions agreement between Company and pension Trustees
- NPV of pensions deficit contributions to reduce from £300-320m by up to approximately 45% to £175-185m
- Trading profit for FY19/20 at top end of market expectations
- Net debt/EBITDA at March 2020 comfortably lower than 3.0x, beating previous target

Introduction

Following an extensive strategic review which has explored all options available to the Group, the Board today announces 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.

This transformational agreement is a segregated merger of all the Group’s pension schemes, which will place all the UK defined benefit schemes under one Trust and is the result of extensive discussions with a number of key stakeholders. The key benefit of this agreement is that once the RHM pension scheme executes a buyout, a surplus would then be able to be passed to the remaining schemes in deficit, and so would result in a vastly improved funding position of these schemes. As such, this agreement represents a much more secure future for the Group’s pension scheme members and has the potential to significantly reduce future funding requirements for the Group.

Pensions agreement highlights

- Segregated merger of RHM, Premier Foods and Premier Grocery Products pension schemes
- RHM pension scheme moving progressively closer to a scheme buyout by a specialist insurance provider
- On buyout, a prospective RHM surplus would be expected to transfer to remaining deficit pension schemes
- Potential for significant reduction in future pension deficit contributions from current £38m p.a.
- From FY23/24, indicative annual cash deficit contribution reduction, subject to future valuation discussions and other assumptions¹⁻⁵ projected as follows:
 - Low case: £8m lower p.a. at £30m
 - Medium case: £16m lower p.a. at £22m
 - High case: £21m lower p.a. at £17m
- NPV of pension deficit contributions could reduce from current £300-320m by up to approximately 45% to £175-185m^{1,2}
- Scheme expenses saving to the Company of £4m annually from FY20/21
- Substantial improvement to the position of the Premier Foods schemes

Colin Day, Chairman, said:

“The segregated merger of the Company’s pensions schemes we are announcing today represents a ground-breaking agreement which is set to unlock benefits and value for all stakeholders in the Company, leveraging the strength of the RHM scheme and substantially improving the position of the Premier Foods schemes. With a buyout of the RHM scheme getting progressively closer, any resulting surplus would be transferred to the remaining schemes and therefore result in significantly reduced pension deficit cash contributions by the Company in future years. The agreement we have reached follows extensive and highly collaborative discussions with all connected stakeholders, and marks a positive conclusion to the Company’s strategic review. The Group will continue to pursue its successful branded growth model strategy, opening up further opportunities to deliver value in due course.”

The merger is subject to agreeing definitive legal documentation with the scheme Trustees, with implementation expected by the end of June 2020. The triennial actuarial valuation review continues and will be concluded by the end of June 2020. Further details on the pensions agreement are available on a brief presentation on the Company’s website by following the link below:

<https://www.premierfoods.co.uk/Investors/Investor-Centre.aspx>

Trading update⁶ and COVID-19 impact

With the strategic review now concluded, the Group will continue to actively pursue its successful branded growth model strategy, building market leading brands through consumer focused innovation and highly engaging advertising. Following the progress made with this strategy, the Board now expects to report Trading profit for the 52 weeks ended 28 March 2020 at the top end of market expectations. The trading performance in the fourth quarter continued the positive momentum seen in previous quarters and volumes in March rose sharply to fulfil increased consumer demand during the outbreak of COVID-19. As a result, Group sales in the fourth quarter are expected to have grown approximately 3.6% compared to the prior year and approximately 10.5% in March. In the UK, sales are expected to have increased around 7.3% in the fourth quarter and 15.1% in March.

During the outbreak of COVID-19, the Group’s first priority is the health and wellbeing of its colleagues, customers and other stakeholders. The Group also takes its responsibility as a major UK food manufacturer very seriously and is working closely with its customers to ensure maximum availability of its product ranges for consumers. During this challenging time, the Company’s manufacturing and distribution operations are working at maximum capacity and coping well with this recent elevated level of demand, and customer service levels continue to be high.

As outlined above, the Group experienced a dramatic short-term peak in volumes across many of its categories during March. Volumes have started to reduce from the exceptional levels seen in March, although are still expected to continue to be higher than average patterns of demand. This reflects more meals being eaten at home than usual due to recent measures set out by HM Government and hence increased demand for the Group’s product ranges.

Cash and liquidity⁶

The Group continued to build cash during the second half of its financial year to 28 March 2020. As at the end of March, the Group expects to report in excess of £90m of cash generated from operating activities on its balance sheet and a Net debt/EBITDA ratio comfortably lower than the previous 3.0x target. In addition to this, the Group has taken the prudent measure of drawing down £85m of its £176.6m committed revolving credit facility. Therefore, the Group expects to report cash on deposit at the year end in excess of £175m, with a further £91.6m of committed facilities available. No other long dated maturities are due before June 2022.

Preliminary results

The Group’s Preliminary results for the 52 weeks ended 28 March 2020 are expected to be released on 14 May 2020, although the Group notes the recent comments published by the FCA and FRC regarding full year reporting. Further details on this will follow in due course.

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

~ Ends ~

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Assumptions & Notes to Editors

1. *Assumptions on future deficit contributions subject to: (i) Investment returns of RHM scheme; (ii) no change to deficit recovery period length. Also subject to future actuarial valuations and associated negotiations.*
2. *Assumes RHM scheme reaches a surplus on buyout within 2-3 years.*
3. *Assumes an average high-case for the RHM scheme investment performance of Gilts +3.25%. This is lower than the recent medium-term performance of the RHM scheme.*
4. *RHM scheme investment performance assumptions: Low case = +2.0%; Medium case = +2.8%*
5. *The merged scheme will manage its own investment strategy and performance, albeit in consultation with the Company.*
6. *Financial disclosures for the 52 weeks ended 28 March 2020 subject to audit*
7. *The Trading profit upside sharing arrangement which the Premier Foods pension schemes currently benefit from will lapse.*
8. *The dividend match arrangement which the RHM scheme currently benefit from will lapse.*
9. *The Premier Foods pension schemes continue to benefit from a dividend matching arrangement. The structure of this arrangement is revised and is follows:*
 - (i) *Up to £5m of cash dividend – for every £1 paid as dividend, 50 pence is payable to the Premier Foods Schemes*
 - (ii) *Between £5m and £10m of cash dividend - 100% to shareholders*
 - (iii) *Above £10m cash dividend - for every £1 paid as dividend, 50 pence is payable to the Premier Foods Schemes*

This replaces the previous scheme whereby every £1 paid as a dividend, £1 was payable to the RHM and Premier Foods schemes.