



# Half Year Results to 30 June 2013

23 July 2013

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Premier Foods plc



# Cautionary statement

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*Certain statements in this presentation are forward looking statements. By their nature, forward looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by those statements. Forward looking statements regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Accordingly, undue reliance should not be placed on forward looking statements.*

# Agenda

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- |   |                        |             |
|---|------------------------|-------------|
| 1 | Introduction           | Gavin Darby |
| 2 | 2013 Half Year Results | Mark Moran  |
| 3 | Growth Strategies      | Gavin Darby |
| 4 | Q&A                    | All         |

# Strong performance across all priorities



Six successive quarters of Grocery Power Brands growth

Underlying Trading profit increased by **+50%**

Bread restructuring well ahead of plan

Completed **£20m** SG&A saving activities

Additional cost savings of **£10m** for H2

Net debt reduced to **£890m**

**2013 Full year Trading profit expectations raised**

# 2013 Half Year Results

Mark Moran

# Operating profit



£m	2013 H1	2012 H1
<b>Underlying business sales</b>	<b>621</b>	<b>627</b>
<b>Underlying business Trading profit</b>	<b>47</b>	<b>32</b>
Add: Contract withdrawal	-	1
Add: 2012 disposals	2	21
Add: 2012 pension credit	-	19
<b>Continuing operations Trading profit</b>	<b>49</b>	<b>73</b>
Amortisation of intangible assets	(24)	(26)
Fair value movements on forex derivatives	0	(1)
Net interest on pension and administration costs	(13)	(12)
Restructuring costs for disposed businesses	(12)	(18)
Re-financing costs	(0)	(1)
(Loss)/Profit on disposal	(2)	0
Impairment of goodwill and intangible assets	(1)	-
<b>Operating (loss)/profit</b>	<b>(3)</b>	<b>15</b>

# Adjusted earnings per share



£m	2013 H1	2012 H1	%
<b>Underlying Trading profit</b>	<b>47</b>	<b>32</b>	<b>50.2%</b>
Disposals, contract loss and other credits	2	41	96.3%
<b>Continuing operations Trading profit</b>	<b>49</b>	<b>73</b>	<b>(32.4%)</b>
Net Regular Interest	(27)	(43)	35.5%
<b>Adjusted PBT</b>	<b>22</b>	<b>30</b>	<b>(28.2%)</b>
Tax @ 23.25%/24.5%	(5)	(7)	31.9%
<b>Adjusted earnings</b>	<b>17</b>	<b>23</b>	<b>(27.0%)</b>
<b>Continuing operations adjusted earnings per share (pence)</b>	<b>6.9p</b>	<b>9.5p</b>	<b>(27.0%)</b>

# Power Brands performing strongly



Sales (£m)	2013 H1	2012 H1	Growth (%)
Power Brands	428	415	3.2%
Support brands	101	106	(5.1%)
<b>Total branded</b>	<b>529</b>	<b>521</b>	<b>1.5%</b>
Non-branded	92	106	(12.7%)
<b>Total</b>	<b>621</b>	<b>627</b>	<b>(0.9%)</b>
Grocery Power Brands	253	244	4.0%

- Six successive quarters growth of Grocery Power Brands
- Q2 Grocery Power Brand sales ahead 4.4%
- Total underlying sales down 0.9% reflecting non-branded contract withdrawals

# Grocery Division



£m	2013 H1	2012 H1	Growth (%)
Branded sales	344	339	1.3%
Non-branded sales	37	45	(18.5%)
<b>Total sales</b>	<b>381</b>	<b>384</b>	<b>(1.0%)</b>
<i>Power Brands sales</i>	253	244	4.0%
<b>Divisional contribution</b>	<b>77</b>	<b>77</b>	<b>0.3%</b>

- Brands now account for over 90% of Grocery sales
- Consumer marketing slightly lower in H1; expected to reverse in H2
- Promotional activity remains a major feature of the Grocery market

# Bread Division



£m	2013 H1	2012 H1	Growth (%)
Branded bread sales	185	182	1.8%
Non-branded bread sales	56	60	(8.3%)
<b>Total bread sales</b>	<b>241</b>	<b>242</b>	<b>(0.7%)</b>
Milling sales	115	87	33.0%
<b>Total sales</b>	<b>356</b>	<b>329</b>	<b>8.2%</b>
<b>Divisional contribution</b>	<b>14</b>	<b>19</b>	<b>(23.8%)</b>

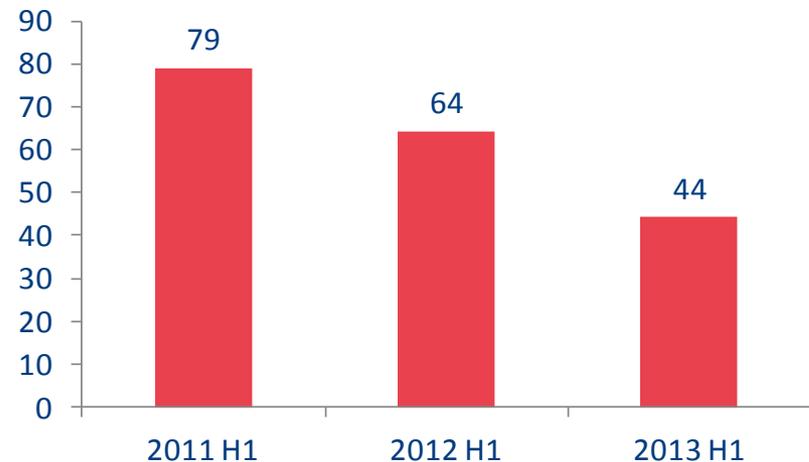
- Restructuring programme well ahead of plan
- Logistics network reconfiguration complete
- Focused and dedicated management structure now based at High Wycombe
- Milling sales increase reflects pricing activity

# SG&A cost savings in line with plan



£m	2013 H1	2012 H1	Growth (%)
Grocery divisional contribution	77	77	0.3%
Bread divisional contribution	14	19	(23.8%)
Group SG&A costs	(44)	(64)	31.1%
<b>Group Trading profit</b>	<b>47</b>	<b>32</b>	<b>50.2%</b>

SG&A £m



- SG&A savings programme activity complete
- Annual SG&A cost base now £70m lower than 2011 exit run rate
- Headcount reduced by c.50%

# Recurring cash flow



£m	2013 H1	2012 H1
<b>Trading profit</b>	<b>47</b>	<b>32</b>
Underlying adjustments	-	20
<b>Trading profit pre-adjustments</b>	<b>47</b>	<b>52</b>
Depreciation	16	18
Other non-cash items	2	(20)
Interest	(23)	(35)
Taxation	-	-
Pension contributions	(3)	(11)
Regular capital expenditure	(15)	(27)
Working capital	(29)	(22)
<b>Recurring cash flow</b>	<b>(5)</b>	<b>(45)</b>

- Interest lower following close out of higher-rate swaps
- Capital expenditure expected to be c. 2.5% of sales in FY 2013
- Working capital outflow due to unwind of year end position, reflecting seasonality

# Recurring cash flow



£m	2013 H1	2012 H1
<b>Recurring cash outflow</b>	<b>(5)</b>	<b>(45)</b>
Disposed businesses cash flows	2	23
Restructuring activity	(25)	(9)
<b>Operating cash flow from total Group</b>	<b>(28)</b>	<b>(31)</b>
Net disposal proceeds	91	34
Financing fees & finance leases	0	(25)
<b>Free cash flow</b>	<b>63</b>	<b>(22)</b>

- Full year restructuring cash costs expected to be £40m
- Disposal proceeds reflect completion of Sweet Pickles & Table Sauces transaction
- Deferred bank fees of £29m to be paid in H2

# Net debt



	£m
<b>Net debt at 31 December 2012</b>	<b>951</b>
Free cash flow 2013 H1	(63)
Other non cash items	2
<b>Net debt at 30 June 2013</b>	<b>890</b>

- Recurring free cash flow weighted to H2, reflecting business seasonality
- Deferred bank fees of £29m in H2
- Other non cash items includes movement in capitalised debt issuance costs

# Lower pensions valuation due to discount rates



IAS 19 Accounting valuation (£m)	30 June 2013	31 Dec 2012
Assets	3,259	3,209
Liabilities	(3,654)	(3,676)
<b>Gross deficit</b>	<b>(395)</b>	<b>(467)</b>
<b>Net deficit (Tax @ 23.25%/24.5%)</b>	<b>(303)</b>	<b>(352)</b>
<b>Discount rate</b>	<b>4.70%</b>	<b>4.45%</b>

- Actuarial valuation ongoing, completion expected early 2014
- Discounted future post tax cash flows are c.£290m
- Deficit sensitivity to discount rate
- Recent communication from pensions regulator
  - Recovery periods
  - Affordability concept

# 2013 Guidance



2013 Guidance	Previous	Revised
SG&A cost savings	£20m	£20m
<b>De-complexity cost savings</b>	-	<b>£10m</b>
<b>Recurring cash flow</b>	<b>£40-60m</b>	<b>£50-70m</b>
Depreciation	c.£35m	c.£35m
<b>Capex</b>	<b>3-3.5% of sales</b>	<b>c.2.5% of sales</b>
Net regular interest	£60-65m	£60-65m
Tax – P&L notional rate	23.25%	23.25%
Tax - cash	£0-£3m	£0-£3m

- Additional cost savings from de-complexity programme of £10m in 2013 H2
- Capex expectations lowered to c.2.5% of Group sales
- Recurring cash flow generation raised to £50-£70m

# Growth Strategies

Gavin Darby

# We are setting out our growth strategies for the next 3 years



Encouraging set of results for the Half Year

3 year Roadmap to clarify direction and goals

Evolving strategy - focus on driving category as well as brand growth

Balance between top-line and sustainable cost control

We will update you on our progress in coming months

# What you already know about Premier Foods



## CONSUMERS

- Premier products bought by 97% of UK households

## BRANDS

- Simplified portfolio - focus on Power Brands
- 6 successive Quarters of Grocery Power Brand growth

## CUSTOMERS

- We remain 2<sup>nd</sup> biggest ambient supplier in UK
- Improving relationships, esp. with Mults.

## COSTS

- Nearly halved SG&A in 2 years
- Supply Chain strength
- Taking bold decisions to transform Bread business

## PEOPLE

- New CEO
- Dedicated management teams for Bread & Grocery

**But...** constrained by an inappropriate legacy capital structure

# What you may not fully appreciate ...



## CONSUMERS

- Ambrosia & Batchelors have reached 1million more households in 2013 than same period last year

## BRANDS

- We are in double digit growth in half our categories
- Grocery EBITDA % margins are comparable with Unilever Europe

## CUSTOMERS

- We have unexploited opportunities in emerging channels

## COSTS

- There are more opportunities to reduce complexity than previously understood

## PEOPLE

- We have enhanced commercial talent with major consumer sector blue chip experience

... we remain a highly cash generative business

... a 1% increase in discount rates would reduce our pension deficit by over £300m

# By focusing on category as well as brand we will drive sustainable profitable growth

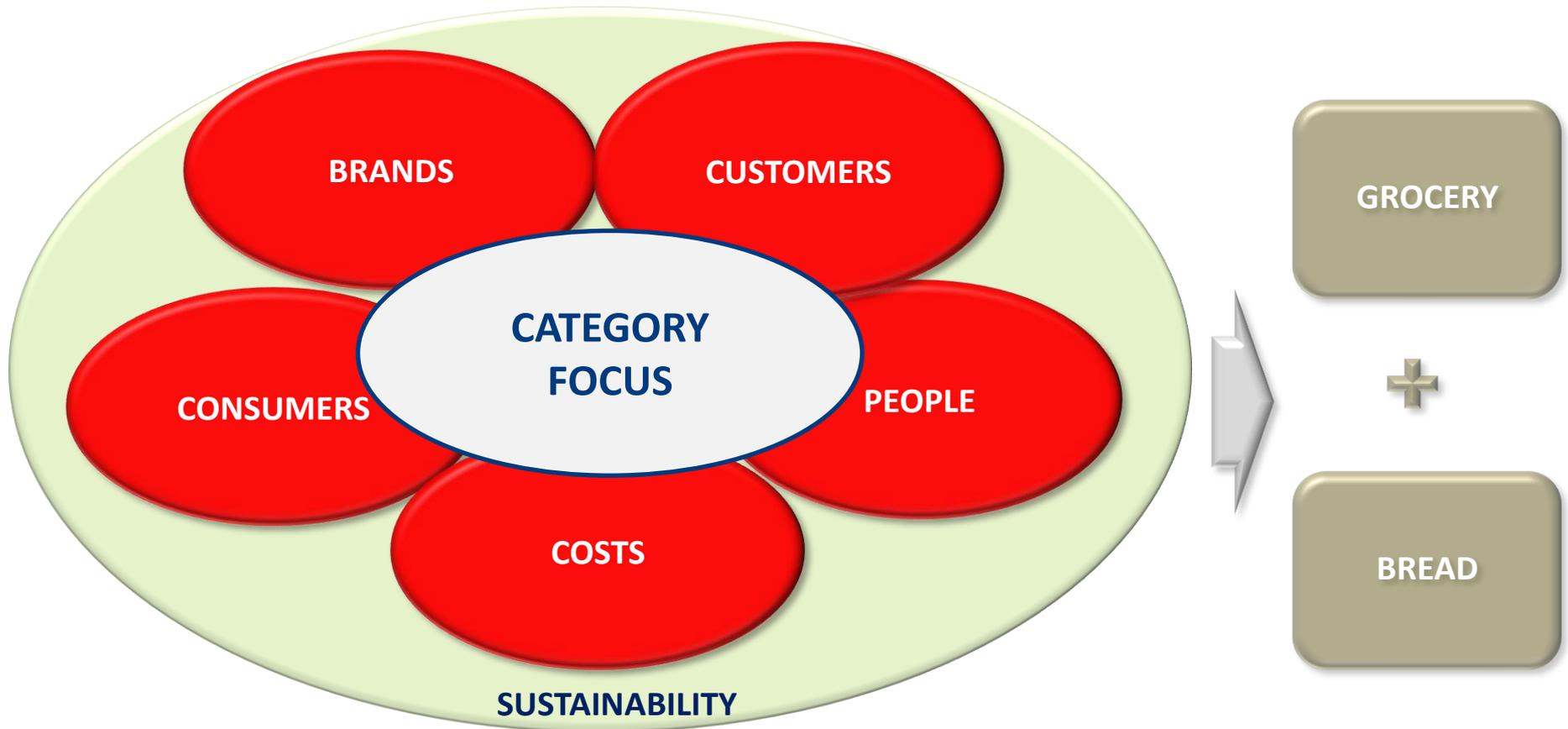


- 'Slice of the pie'
- Power Brand focus
- Tactical customer relationships
- Innovation constrained
- Sporadic growth

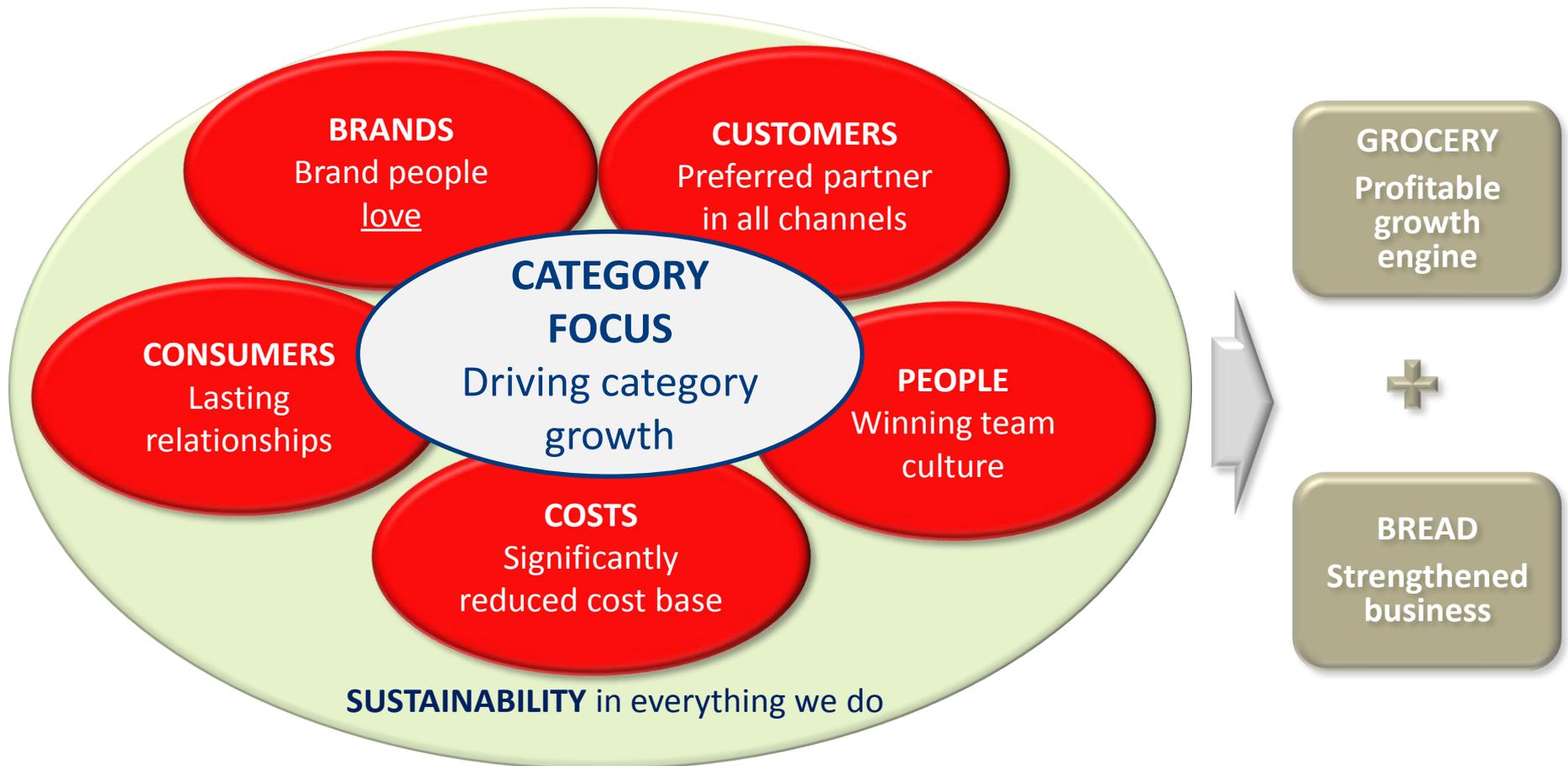


- 'Size and slice of the pie'
- Leverage total portfolio
- Customer partnerships
- Innovation centric
- Sustainable growth

# Our strategy draws together our strengths with a category focus and sustainability foundation...



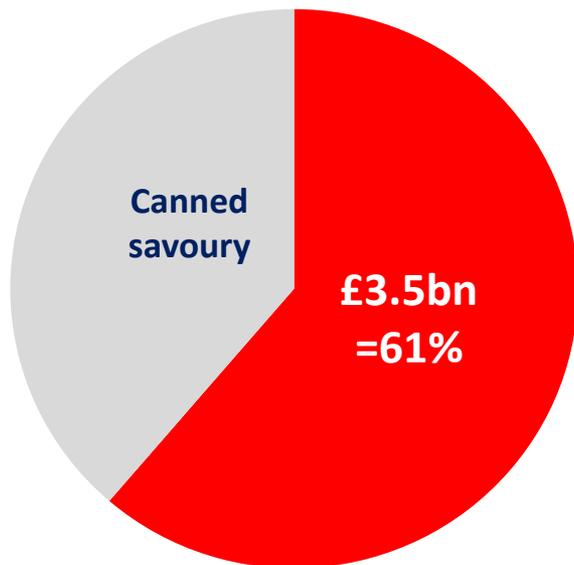
# ...and will take us to our 3 year destination: “The Best in British Food”



# In Grocery we operate in two broad and growing arenas

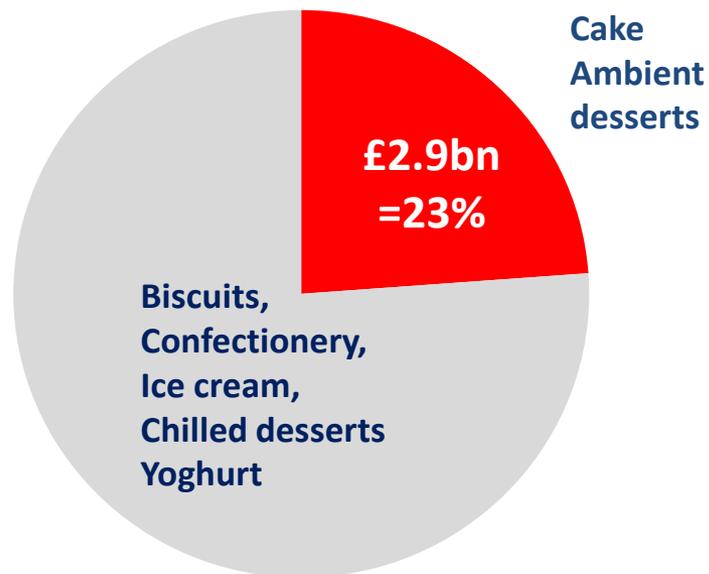


## Savoury Meal Making £5.7Bn, +5%<sup>1</sup>



Savoury snacks  
Condiments  
Cooking sauces  
Stocks & gravy  
Seasonings  
Herbs & Spices  
Pasta & Rice

## Sweet Foods £11.9bn, +3%<sup>1</sup>



 = Premier Foods participation

Innovation & Communication to drive category growth

Extending into new segments and delivering 'snackability'

# The organisation has been aligned to the category focus



Grocery Commercial Director – Ian Deste

Sweet  
Business  
Unit

Savoury  
Business  
Unit

Customer  
Brands  
& B2B

Sales

Operations

Consumer    Shopper    Customer    Costs

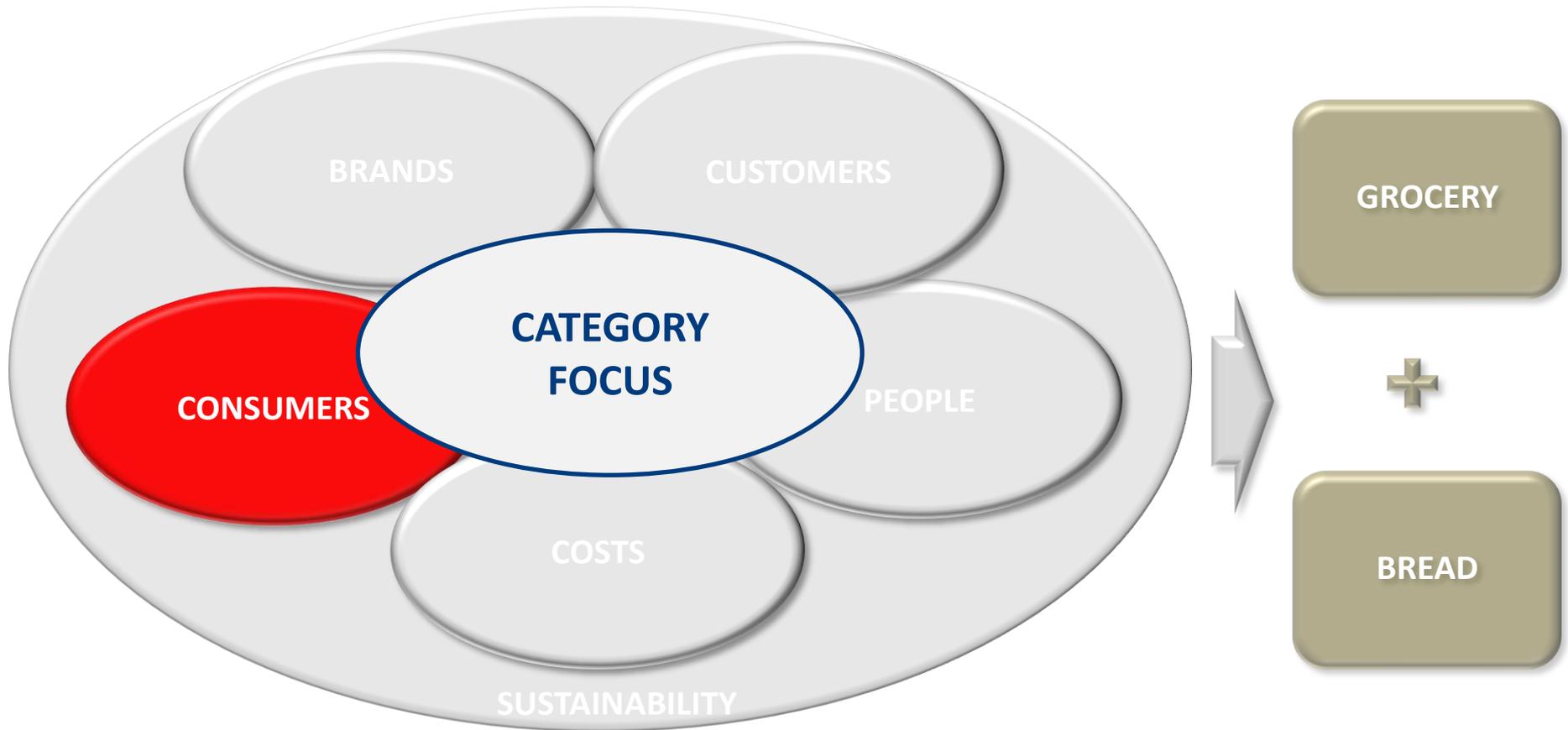
# Operating structure defines clear responsibilities



Divisions	Grocery	Bread	Total	
		Baking	Milling	
<b>Turnover<sup>1</sup></b>	£857m	£498m	£190m	£1,545m
<b>Branded mix<sup>1</sup></b>	87%	54%		72%
<b>Div. Contribution<sup>1</sup></b>	£195m	£27m		£222m
<b>Centrally managed</b>	<b>SG&amp;A</b>		£99m	
	<b>Trading profit</b>		£123m	

- Divisional management focused on Sales and Divisional Contribution targets
- Central SG&A cost base managed entirely separately by CEO & CFO

# Consumers...



# Consumer insight underpins our category approach



Household income remains under pressure



Enjoyment & Convenience drive behaviour



Indulgence (or treating) remain important



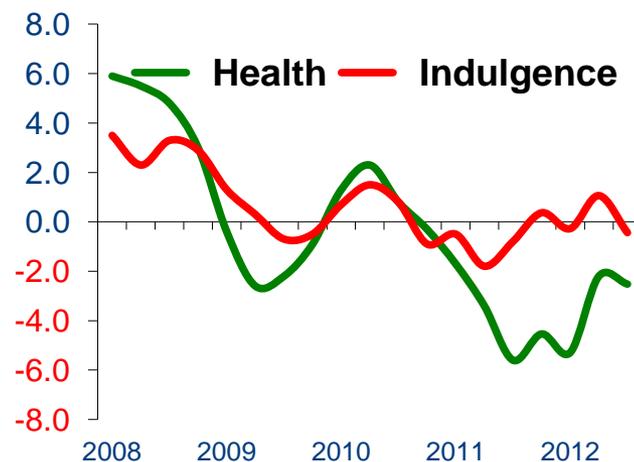
**Packed Lunch** £1.40



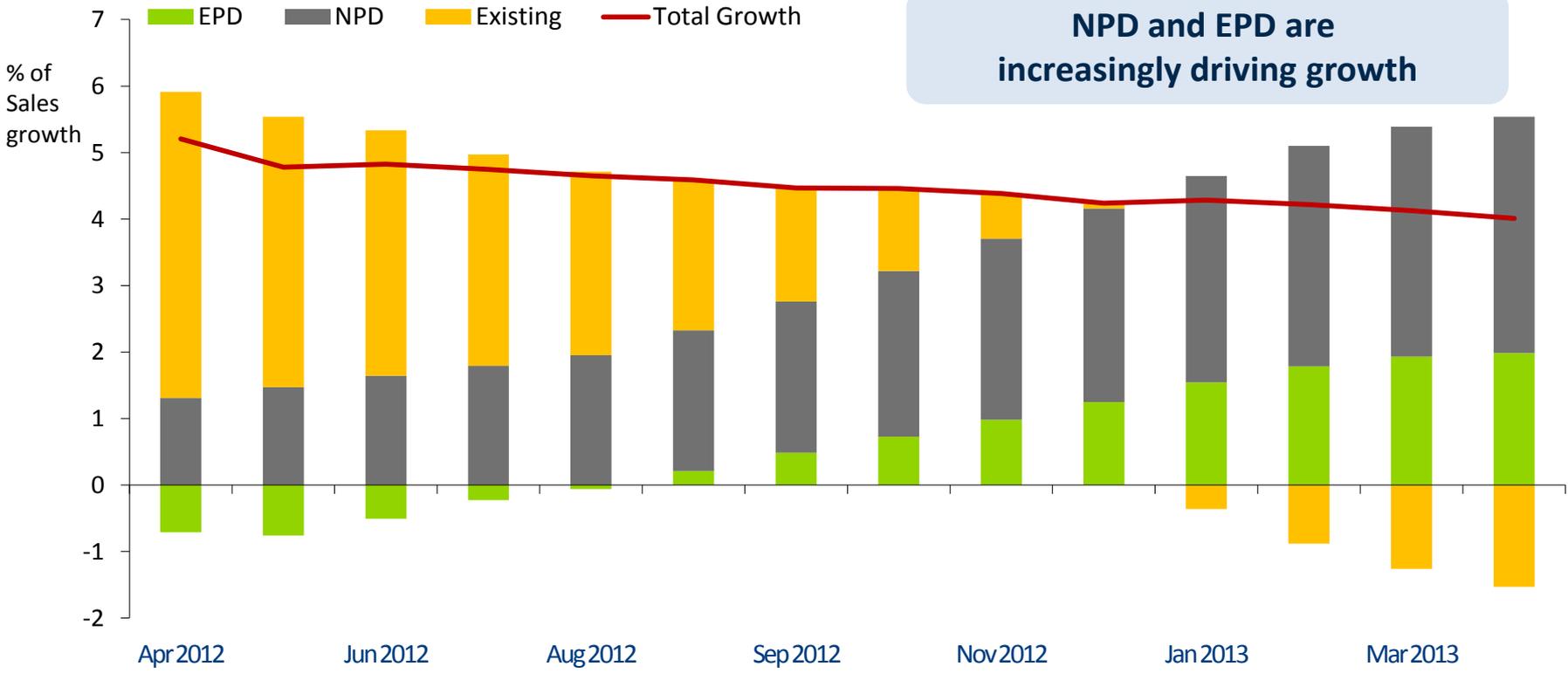
**Out of Home Lunch** £3.50



0% 50% 100%



# Innovation is core to market growth

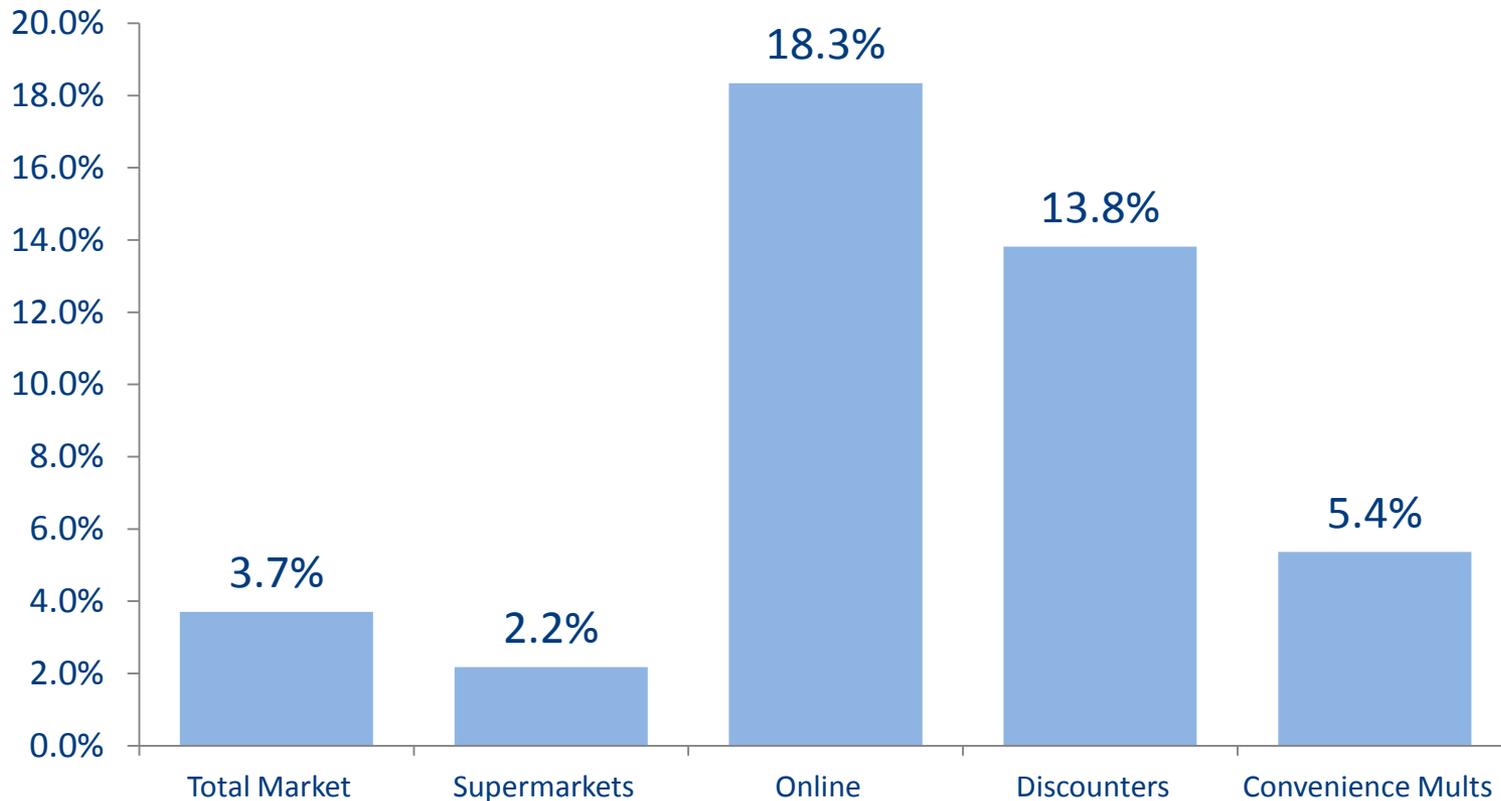


52 w/e Contribution to Growth from New Product Development (NPD)/Existing Product Development (EPD)/Existing Existing = products >2 years old.

# Shoppers becoming more savvy leading to growth in online, discounters & 'new' convenience

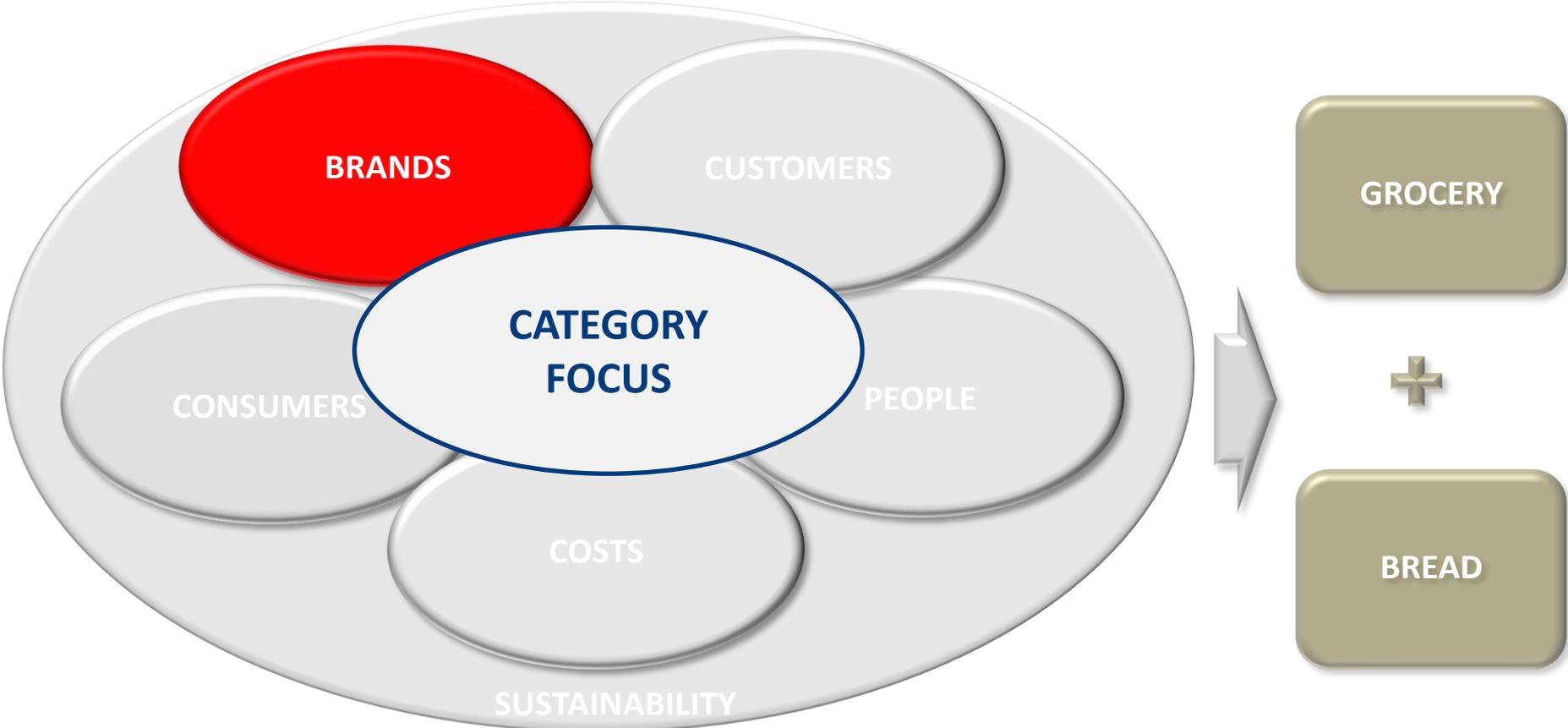


YoY growth

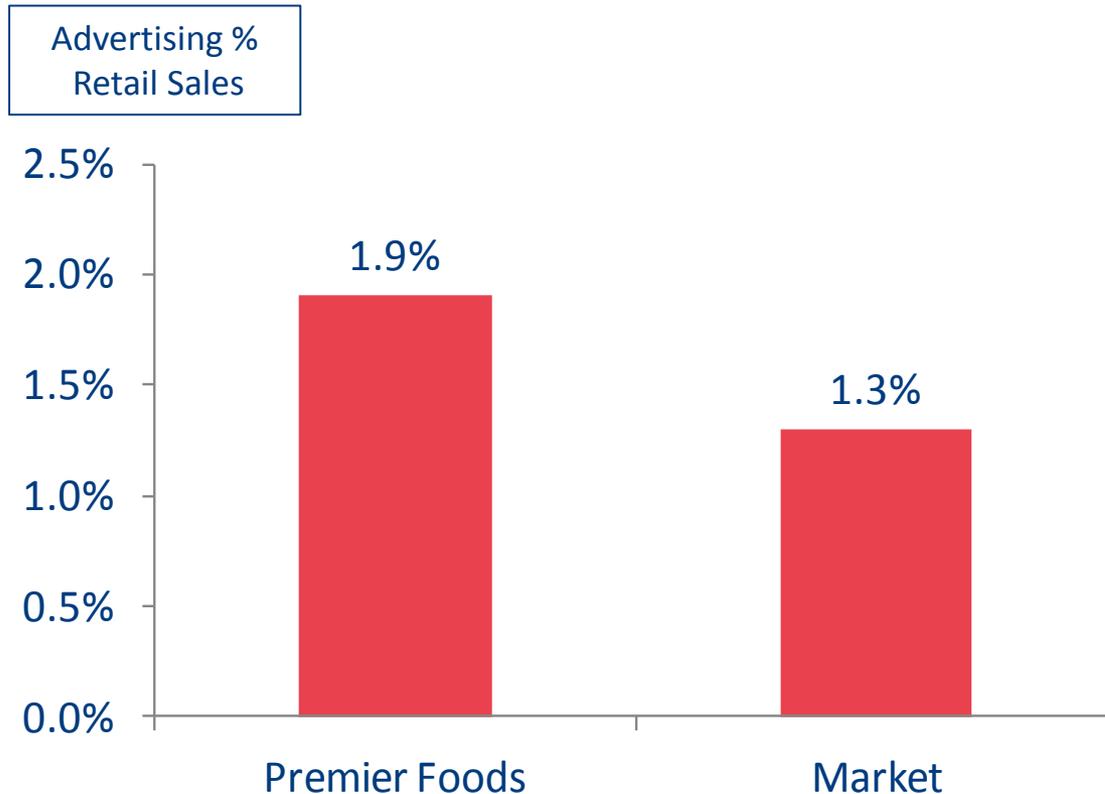


Channel size	£101.8bn	£67.8bn	£5.2bn	£8.1bn	£4.2bn
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# Brands...



# Focus on improving marketing effectiveness



- We have significantly increased media spend behind our Power Brands
- Consumer marketing spend increased by nearly 60% in 2012 vs 2011
- Improved efficiency of spend in 2013

# Innovation and marketing will continue to drive category growth



## Oxo / Bisto



### Gravy/Stocks

Category +14.2% June YTD  
Premier +13.8%

## Ambrosia



### Ambient Desserts

Category +5.6% June YTD  
Premier +12.8%

## Batchelors



### Easy Eating

Category +8.0% June YTD  
Premier +10.0%

# There is a category role for all brands



## Loyd Grossman Sharwood's

## Mr. Kipling

## Support Brands

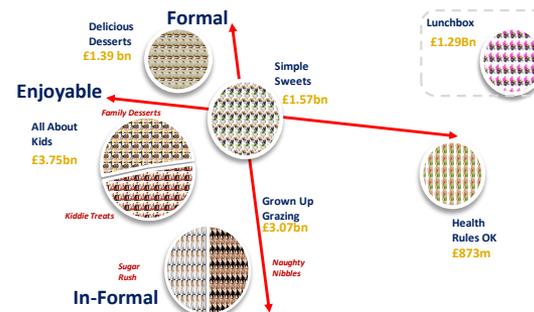


- Investing in core equity
- Insight to meal occasions

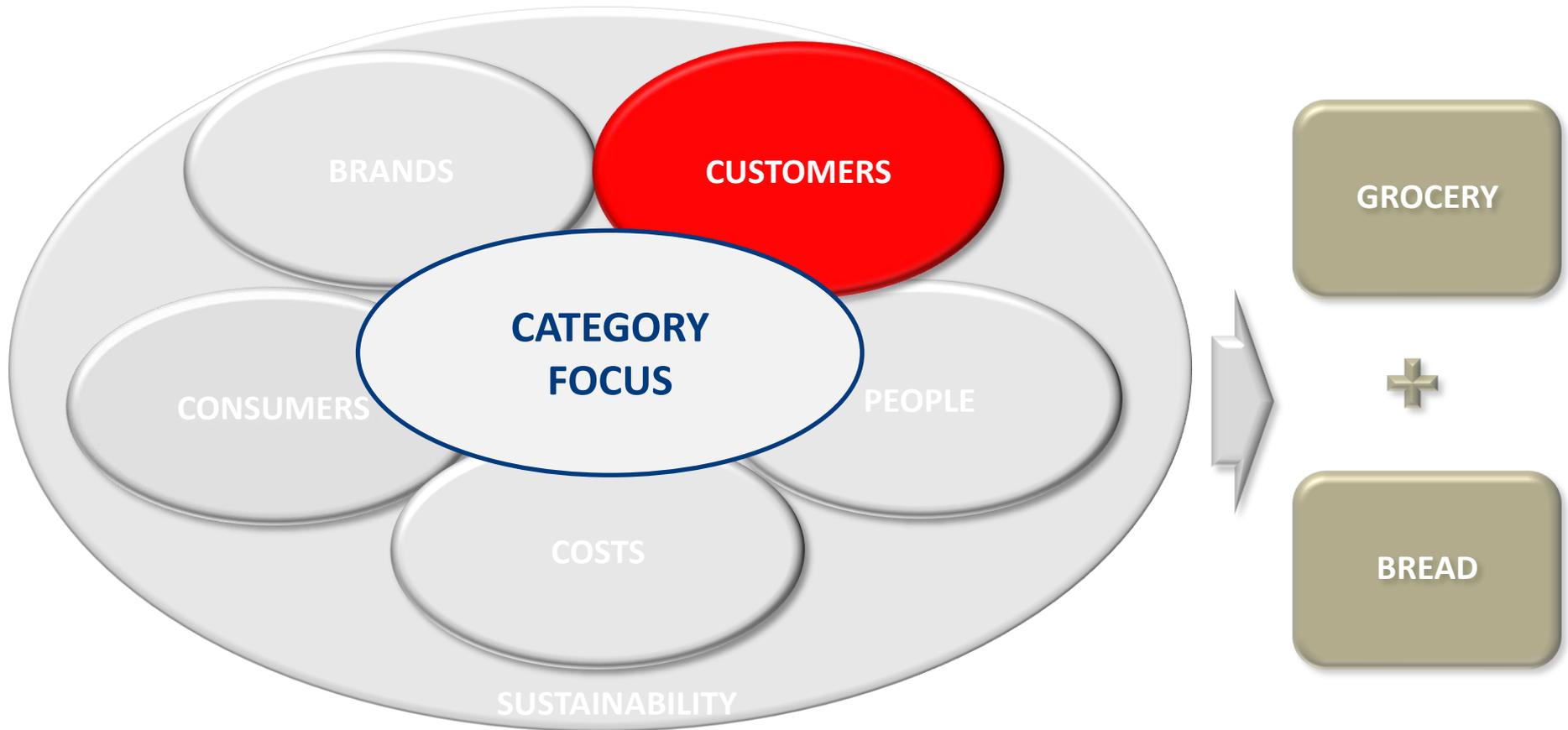
- Delivering 'snackability'
- Clear plan for H2

- Support category focus
- Leverage in wider channels

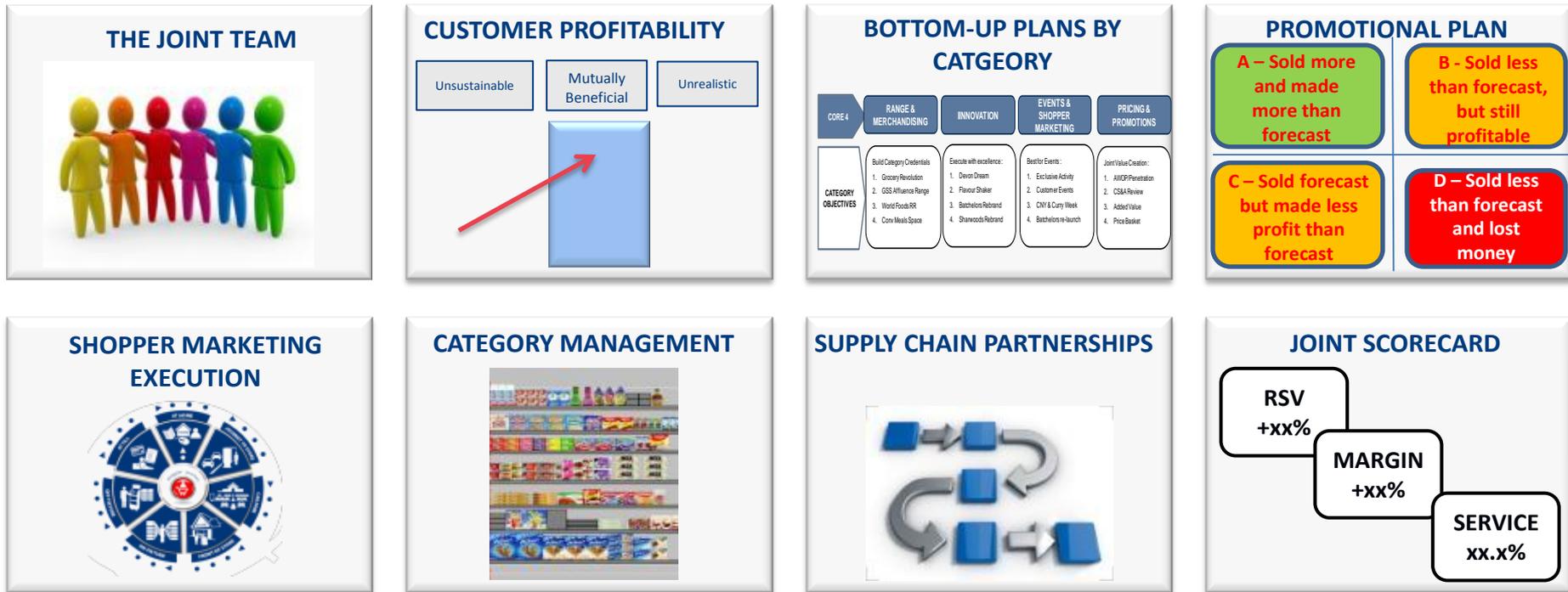
	Fancy Change	E'vey Favourite	E'vey Fuel	Simple Meal Solutions	Needs Must	Rest Days/ Other High Effort
	Spend: £2.7bn C/d Share: 6%	Spend: £9.2bn C/d Share: 22%	Spend: £9.2bn C/d Share: 23%	Spend: £1.4bn C/d Share: 2%	Spend: £2.4bn C/d Share: 3%	Spend: £1.0bn C/d Share: 4%
High-Profile Menu	Cooking Success Heartland					Light Lunch
Surprise & Delight	Original Feast	Family Pre Family	Just-Add-Your-Milk			
Self-Centred Treat	Adult Live Meal					
Secret Support		Relaxed Traditional				



# Customers...



# Joint Business Planning (JBP) in action....

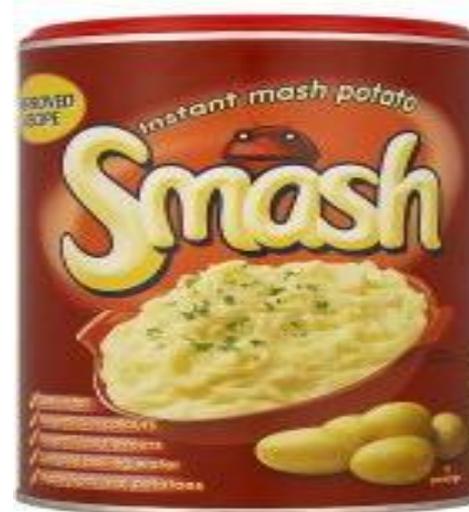


JBP's in place with all major customers

Achieved incremental 37,000 more distribution points in H1

Through our progressive customer relationships, we led 100% more range reviews in 2013 H1 than 2012 H1

# Exploiting growth channels - discounters



Discounters growing at 13.8% and represent 8% share of the market

Leveraging support brands in new channels using new and existing formats

# There are further opportunities online



UK Grocery Market (online)

**£5.2 Billion**

Growth +18.3%

**21.8%**

of UK population currently shop online for groceries

Premier over-indexes in online with a 27% share of Grocery Power categories

Premier growth rate is 21.5% vs the online market at +18.3%

Search engine prominence is key

## Retailer online market share

**TESCO**

**ASDA**

**Sainsbury's**



**Waitrose**

48.5%

19.4%

14.8%

12.3%

4.9%

# International partnerships provide growth opportunities

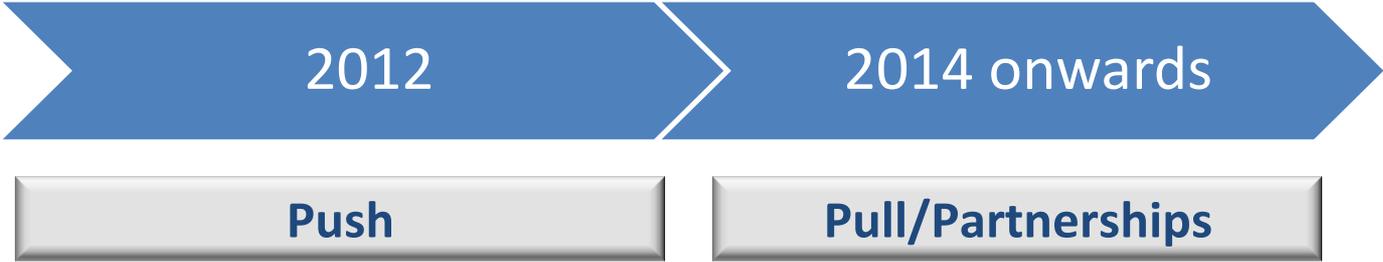
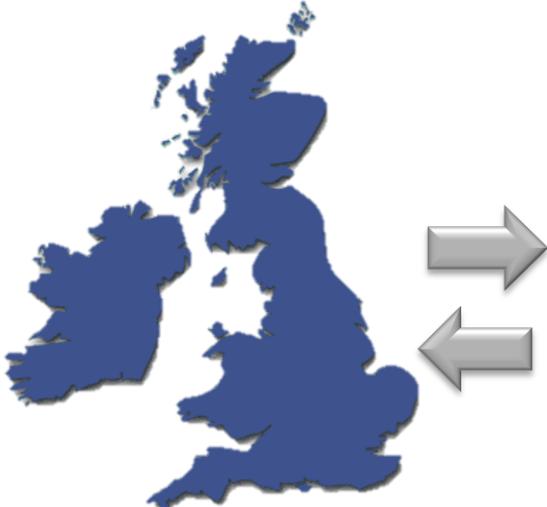


## External and Internal Opportunities

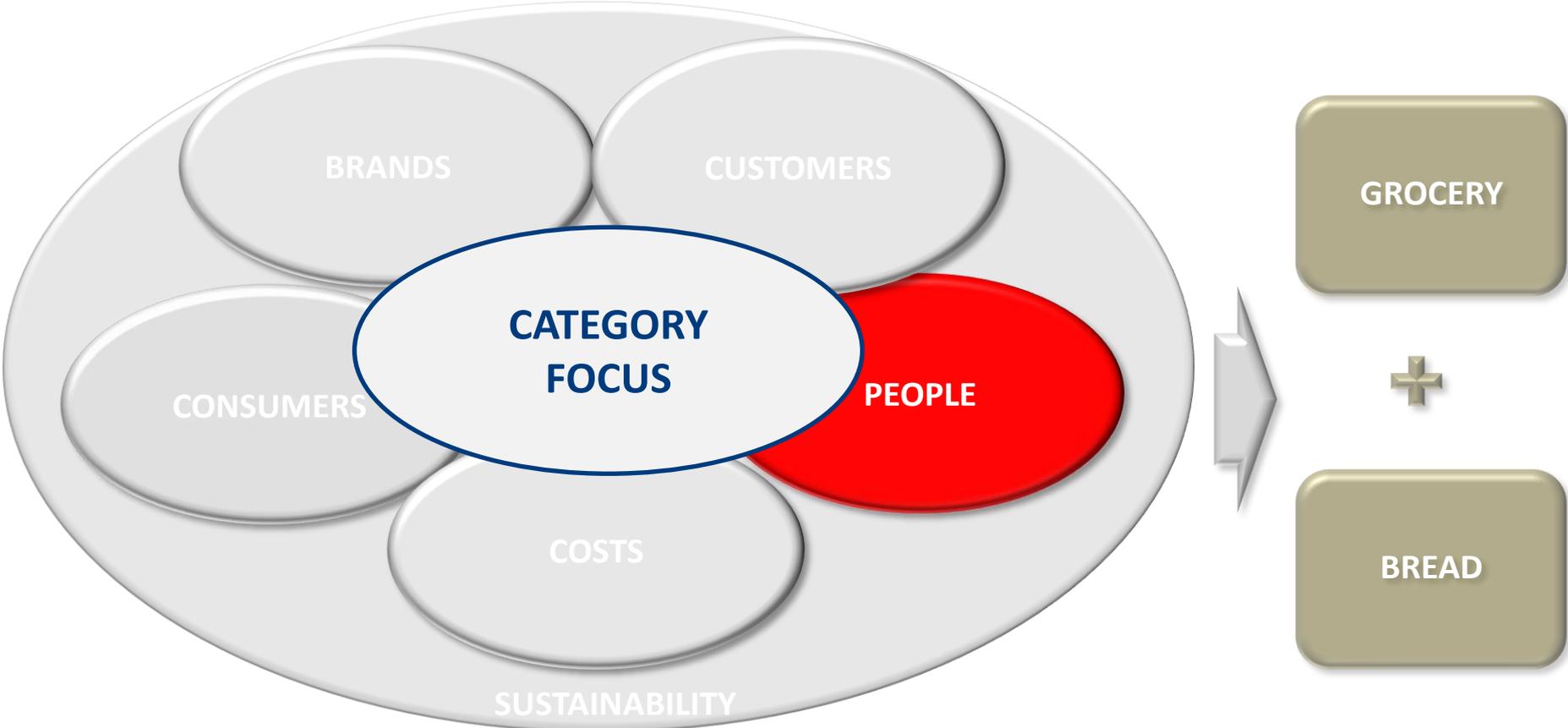
- Evolve from export 'push' to partnership 'pull' approach in key markets

2012 Group sales    UK = 97.4%    International = 2.6%

- Leverage Premier Foods' UK capabilities and infrastructure with international partners



# People...



# Talented commercial team from across the consumer industry



**Ian Deste** - Commercial Director, Grocery

- 20 years at Coca-Cola

## Key senior commercial appointments and experience

**Claire Harrison-Church** - CBU Director Sweet

Sainsbury's



**Helen Warren-Piper** - CBU Director Savoury



P&G  
Procter & Gamble

**Graeme Karavis** - Grocery Multiples Account Director



**Richard Martin** - Commercial Strategy Director



**Nick Steel** - Consumer Insight Director



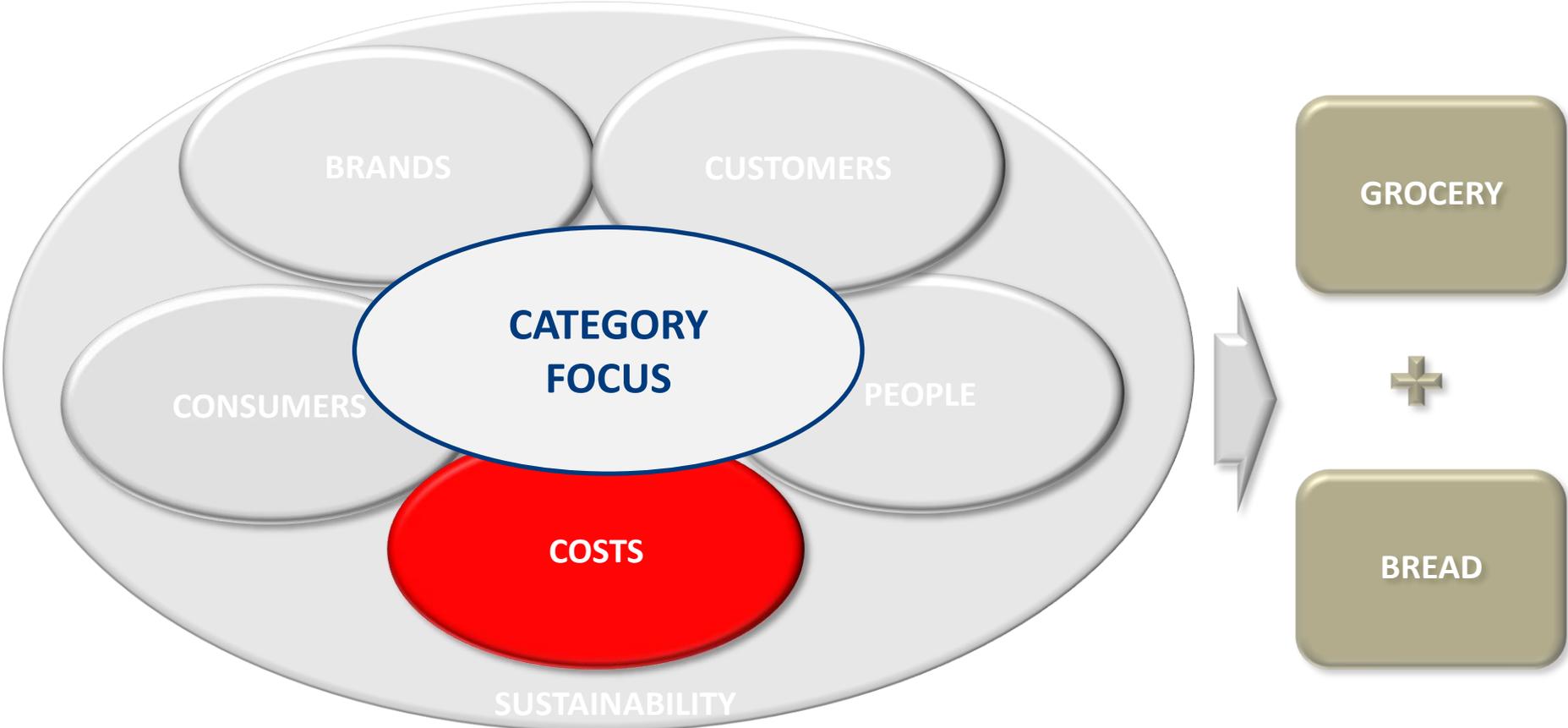
**Peter Ellis** - Director of International



**Ellie Krupa** Channel Director - Discounters



# Costs...



# Complexity savings of £10m in 2013 H2



**Grocery  
SKUs**



**1,700**

**Dough  
recipes**



**170**

**Suppliers**



**3,300**

**Packaging  
items**



**6,300**

**Catering  
suppliers**



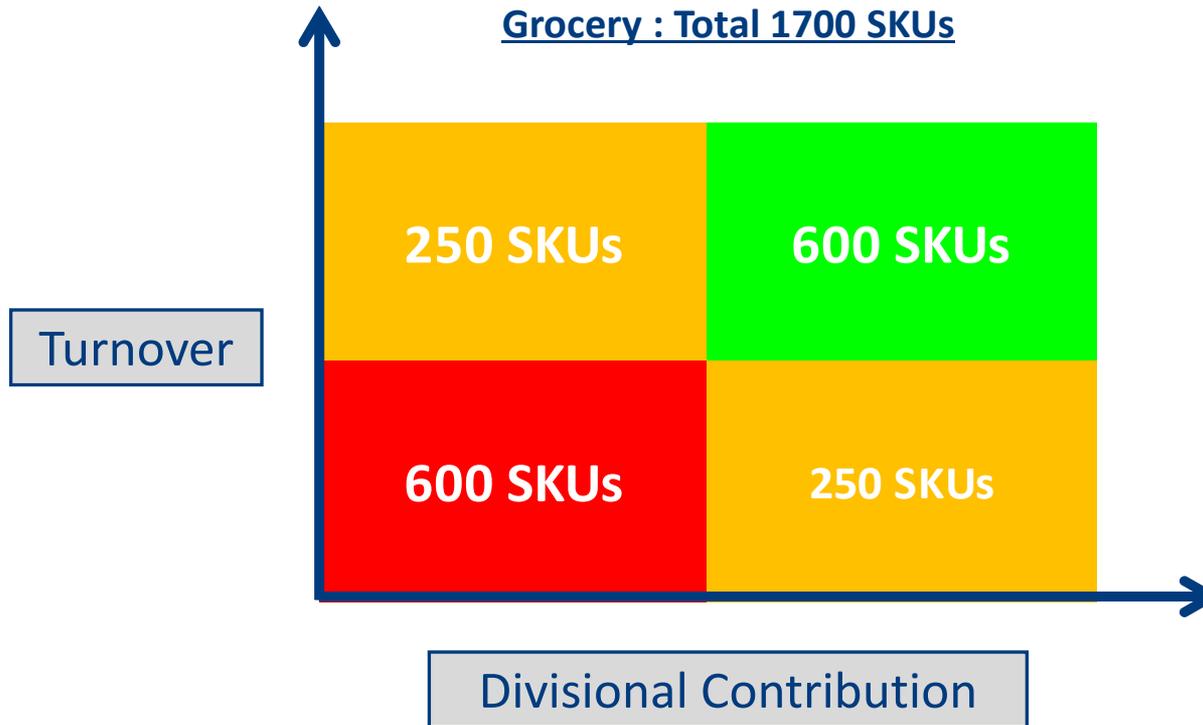
**77**

**Legal  
entities**



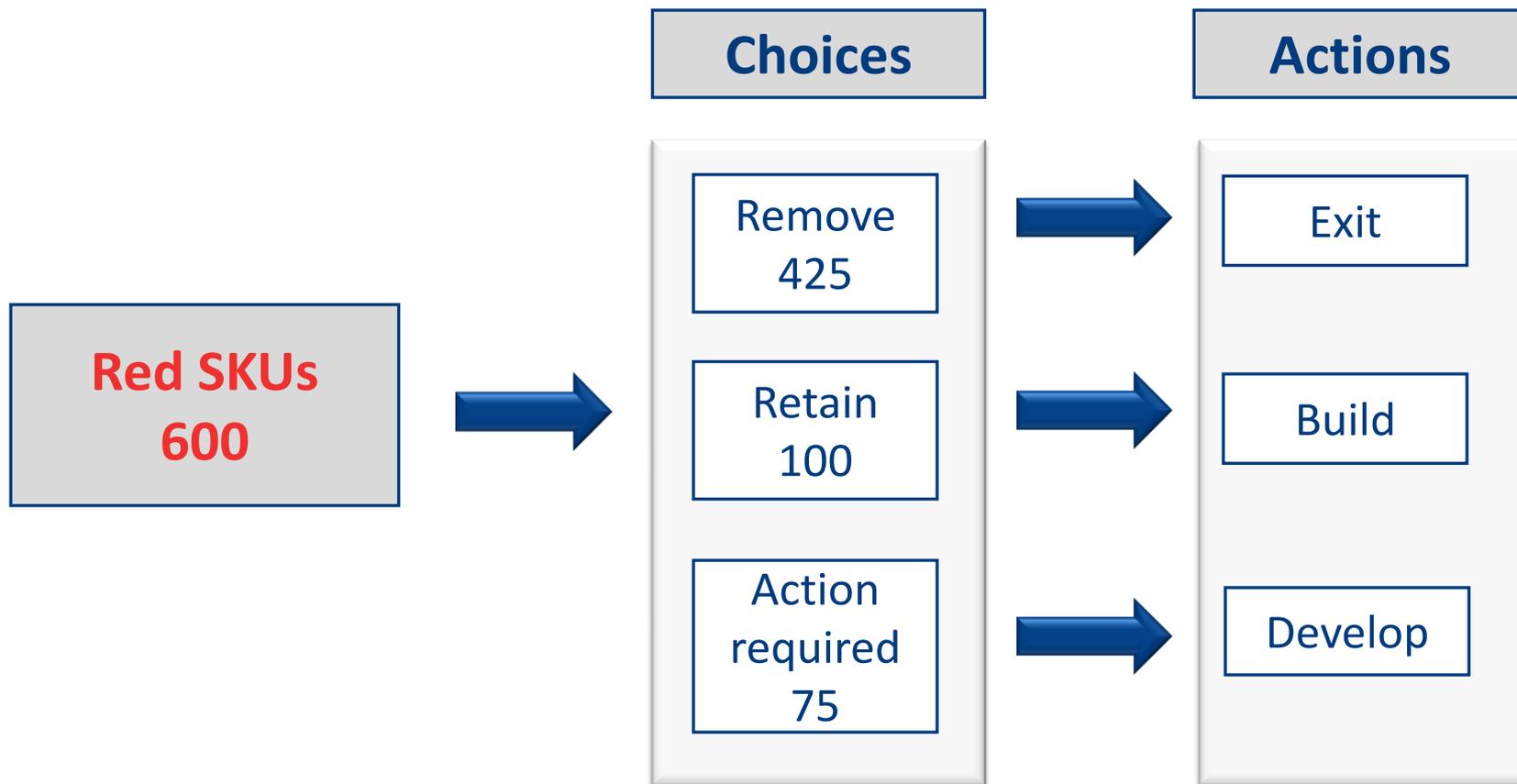
**100**

# Opportunities across the product portfolio



- Red SKUs assigned immediate focus for develop, build or exit

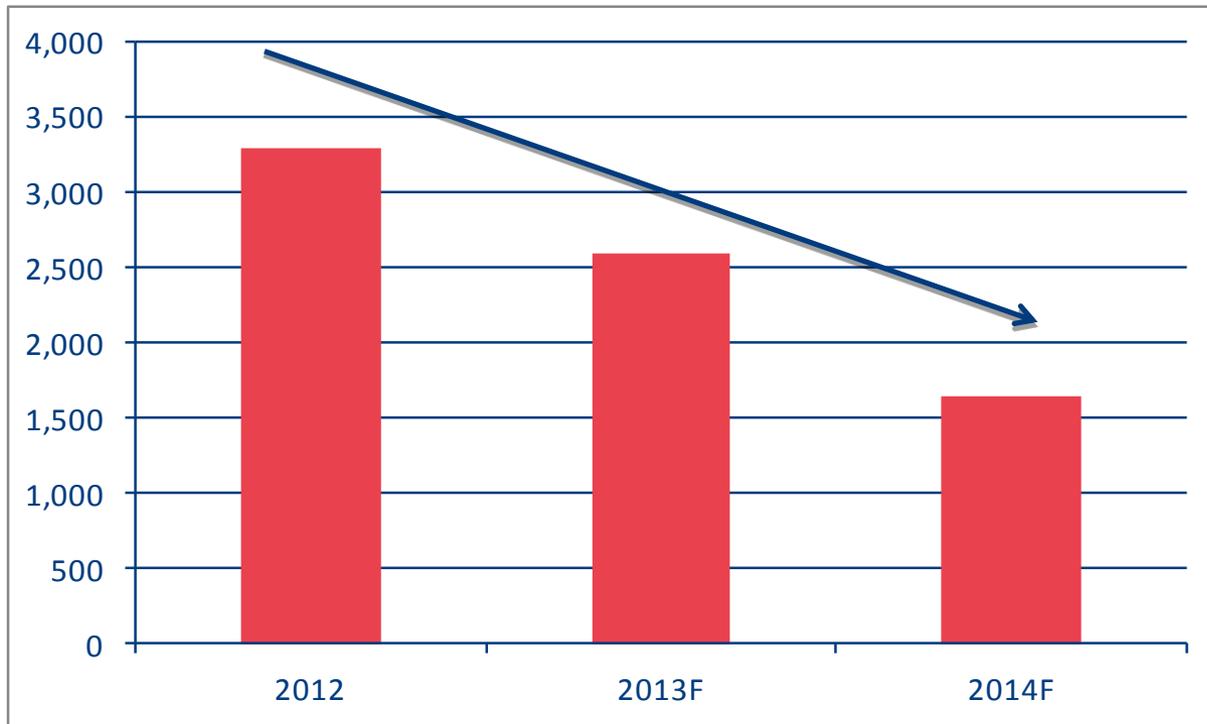
# Addressing the red quadrant will improve profitability

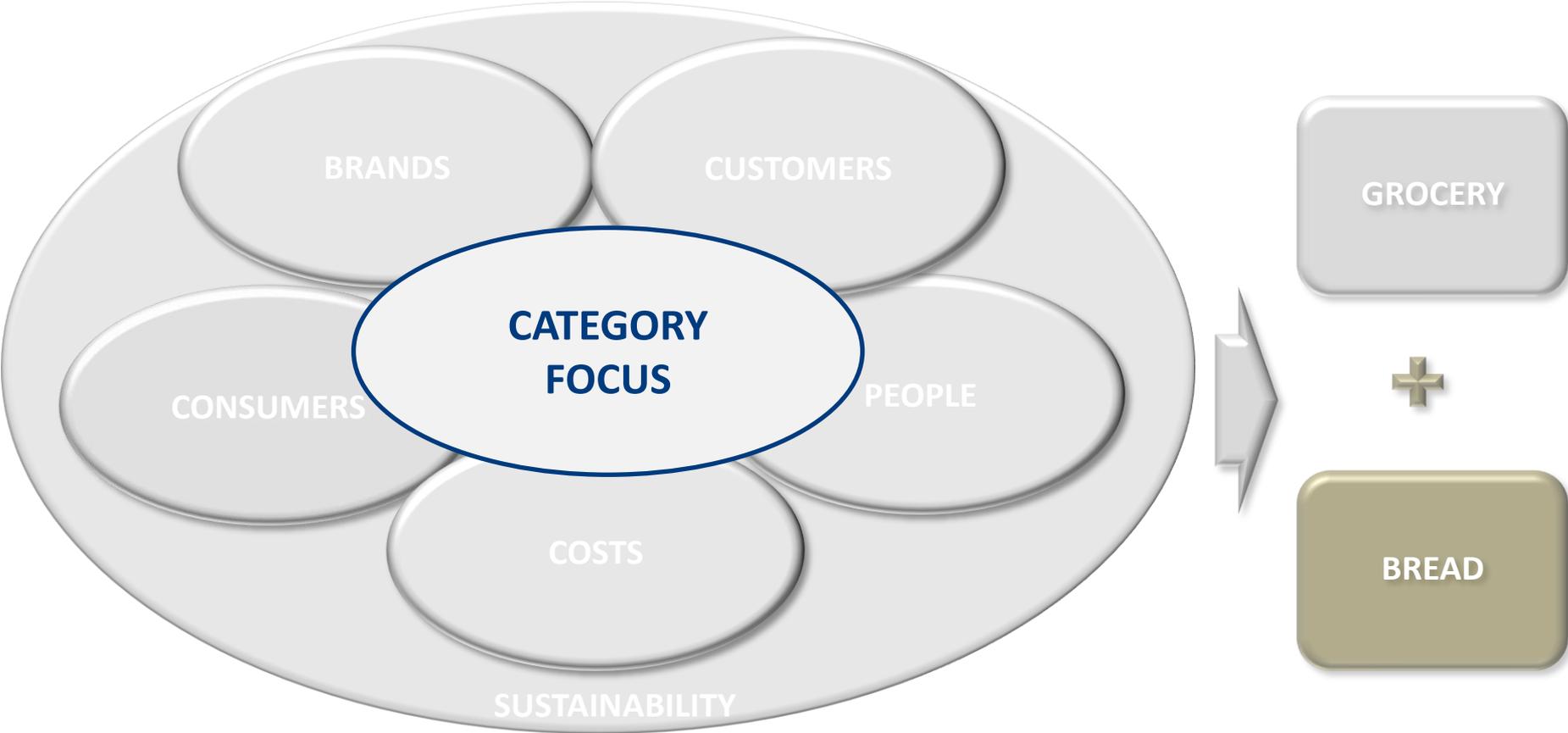


# We will grow with a smaller number of strategic suppliers who invest in our growth



Forecasting a 50% reduction in our supplier base





# Dedicated management team now in place



**Bob Spooner**

Managing Director, Bread &  
Group Supply Chain Director

- Sara Lee
- Northern Foods

**Simon Devereux**  
CBU Director Bread

**Chad Leembruggen**  
Sales Director

**Richard Whall**  
Manufacturing & Technical  
Director

**David Hunt**  
Logistics & Customer  
Services Director

**David Steele**  
Supply Chain Planning  
Director

**David Wilkinson**  
Director of HR

**Richard Capaldi**  
Director of Finance

Operating in one location at High Wycombe



# Restructuring well ahead of plan



- Focus on delivering reduced cost-to-serve and improved profitability
- Optimise Bakery & Milling footprint
  - 3 Bakery closures
  - Logistics network restructuring complete
  - 2 Mill closures <sup>1</sup>
- Dedicated focus on free trade Milling business
- Capital investment to improve Bakery efficiency
- Targeted marketing in Hovis brand with impactful new packaging



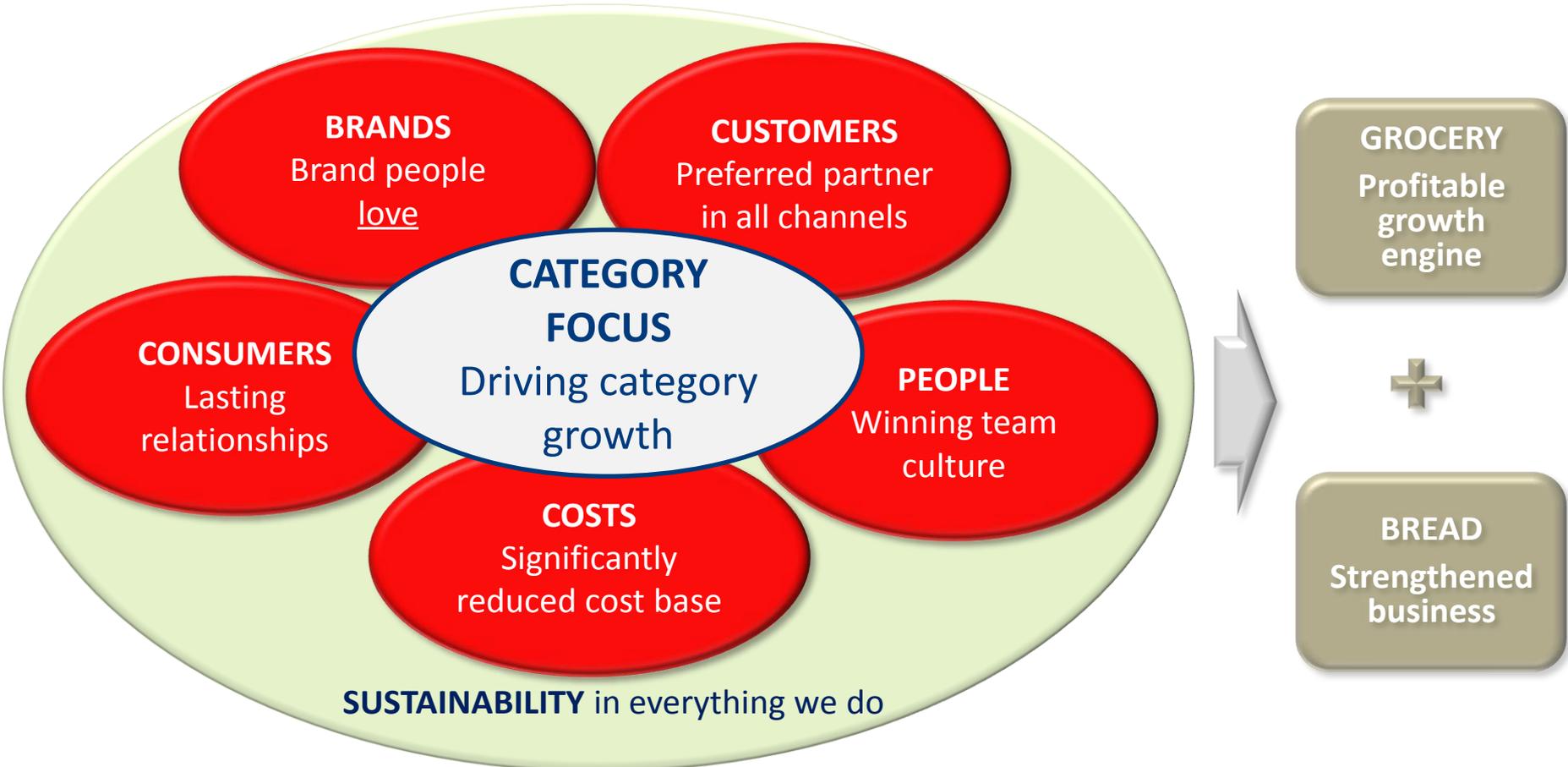
# Medium-term Bread plans



- Drive category value through focus on growth sectors e.g. premium
- Leverage 'healthy' credentials of Hovis in line with consumer trends
- Invest in marketing and innovation
- Continue to optimise demand and supply balance to improve margin mix
- Increase capital investment per bakery to drive quality and service
- Enhance efficiency and flexibility of logistics system
- Deliver value in Milling through dedicated management team



# Our 3 year destination: “The Best in British Food”



**INCREASING SHAREHOLDER VALUE**

# Medium term outlook

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- Branded revenue growth of 2-4%

# Power Brands performing strongly



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<b>Grocery Power Brands</b>	<b>253</b>	<b>244</b>	<b>4.0%</b>

# Medium term outlook

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- Branded revenue growth of 2-4%
- Steady EBITDA % margin progression
- Continued delivery of strong operating cash generation
- Address capital structure from a position of strengthening business fundamentals

# Q & A

# Appendix

# Continuing – Underlying business



£m	Continuing Business	Less: Disposals	Less: Milling sales	Less: Contract Withdrawals	Less: 2012 Other credits	Underlying Business
<b>2013 H1</b>						
Sales	742.2	(5.7)	(115.3)	-	-	<b>621.2</b>
Trading profit	48.9	(1.5)	N/A	-	-	<b>47.4</b>
EBITDA	65.3	(1.5)	N/A		-	<b>63.8</b>
<b>2012 H1</b>						
Sales	852.8	(124.5)	(86.7)	(14.8)	-	<b>626.8</b>
Trading profit	72.4	(20.8)	N/A	(1.0)	(19.0)	<b>31.6</b>
EBITDA	92.5	(23.3)	N/A	(1.0)	(19.0)	<b>49.2</b>

# Earnings per share



£m	2013 H1	2012 H1
<b>Operating (loss)/profit</b>	<b>(3)</b>	<b>15</b>
Net regular interest	(27)	(42)
Other interest	7	(19)
<b>Loss before tax</b>	<b>(23)</b>	<b>(46)</b>
Tax	8	5
<b>Net Loss</b>	<b>(15)</b>	<b>(41)</b>
Average weighted shares (millions)	239.8	239.8
<b>Basic loss per share from continuing operations</b>	<b>(6.4p)</b>	<b>(17.2p)</b>

- Tax credit in current year due to disposals and tax on loss for the period

# Interest



£m	2013 H1	2012 H1
<b>Bank debt interest</b>	<b>12</b>	<b>19</b>
Swap contract interest	3	14
Securitisation interest	2	1
	<b>17</b>	<b>34</b>
Amortisation and deferred fees	10	8
<b>Net regular interest</b>	<b>27</b>	<b>42</b>
IAS 39 – fair valuation of financial instruments	(7)	7
Write off of financing costs	-	11
Other	1	1
<b>Net finance expense</b>	<b>21</b>	<b>61</b>

- Net regular interest £15m lower due to prior year swap exit
  - Full year guidance of £60-65m maintained
- IAS 39 fair valuation positive movement of £8m in H1

- 2013 H1 credit of £8m on continuing operations
- Cash tax minimal in 2013 (£0-£3m guidance) due to:
  - Capital allowances in excess of depreciation
  - Utilisation of brought forward losses
- Cash tax for 2014 and 2015 also expected to be minimal for reasons above
- Notional corporation tax rates:
  - 2014: 21.5%
  - 2015: 20.25%
  - 2016: 20.0%

# Pensions



Key IAS 19 assumptions	30 June 2013	31 Dec 2012	Scheme Assets (£m)	30 Jun 2013	31 Dec 2012
Discount rate	4.70%	4.45%	Equities	278	411
Inflation rate (RPI/CPI)	3.3%/2.3%	3.0%/2.2%	Gov't & Corp Bonds	1,207	1,198
Expected salary increases	4.3%	3.95%	Property	137	105
Mortality assumptions	LTI +1.0%	LTI +1.0%	Absolute/Target return	773	712
			Swaps	(82)	(169)
			Cash	489	494
			Other	457	458
<b>Pension deficit (£m)</b>			<b>Total</b>	<b>3,259</b>	<b>3,209</b>
Assets	3,259	3,209			
Liabilities	(3,654)	(3,676)			
<b>Gross deficit</b>	<b>(395)</b>	<b>(467)</b>			
<b>Deficit net of deferred tax</b>	<b>(303)</b>	<b>(352)</b>			

# Balance sheet



£m	2013 H1	2012 H1
Fixed Assets – Property, plant & equipment	366	465
Fixed Assets – Intangibles / Goodwill	1,373	1,590
Fixed Assets – Deferred tax	62	-
<b>Total Fixed Assets</b>	<b>1,801</b>	<b>2,055</b>
Assets less liabilities held for sale	-	32
Working Capital		
Stock	114	149
Debtors	260	274
Creditors	(343)	(352)
<b>Total Working Capital</b>	<b>31</b>	<b>71</b>
Net debt		
Gross debt	(958)	(1,318)
Cash	68	49
<b>Total Net debt</b>	<b>(890)</b>	<b>(1,269)</b>
Other net liabilities	(489)	(389)
	<b>453</b>	<b>500</b>
Share capital & premium	1,149	1,149
Reserves	(696)	(649)
	<b>453</b>	<b>500</b>