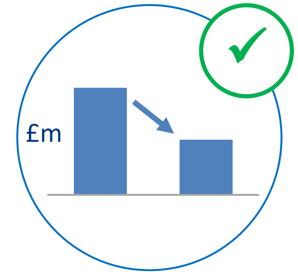
Pensions agreement & Trading update

20 April 2020

CONTENTS

OVERVIEW

Strategic review concluded with landmark pensions agreement

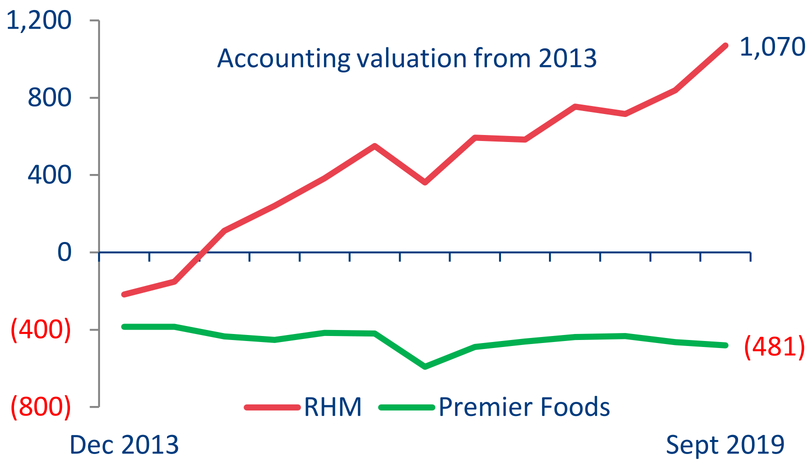
11	Top of range	<3.0	
Consecutive quarters of UK sales growth	Market expectations	Net debt/EBITDA end March 2020	Transformational pensions agreement

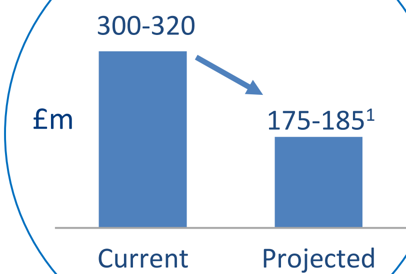
- Group's branded growth model strategy has delivered 11 consecutive quarters of UK sales growth
- Board expects to deliver Trading profit at top end of expectations for FY19/20
- Net debt/EBITDA will be comfortably lower than 3.0x at end March 2020
- Extensive strategic review concluded with landmark pensions agreement which expects to:
  - Significantly improve the Group's long standing pension funding situation
  - Provide more secure future to Premier Foods' schemes by leveraging strength of RHM scheme
- Group currently experiencing high levels of demand for its Grocery products due to COVID-19 impacts
  - Contingency planning and protocols in place across supply chain

2

BENEFITS OF THIS GROUNDBREAKING PENSIONS AGREEMENT

Set to deliver value for many stakeholders





£4m per annum administration costs saving[2]

1 Merged Trust allows PF schemes to benefit from strength of RHM scheme and successful RHM investment strategy

2 Significant projected reduction in NPV of pension deficit contributions of up to c.45%[1]

3 Scheme annual expense saving to PF

A segregated merger of RHM, Premier Foods and Premier Grocery Products pension schemes, under 'One Trust'

1 – refers to high-case assumption RHM investment strategy returns of Gilts +3.25%. For other scenarios see appendix

2 – Potential to be repaid in future following dividend payment

LANDMARK AGREEMENT TO DELIVER VALUE FOR MANY STAKEHOLDERS

Pension scheme members expected to benefit from better funding

How do the benefits work through?

1. Utilises strength of RHM scheme & successful investment strategy

+

2. RHM scheme in healthy surplus[1] and moving closer to buyout

→

3. On buyout, prospective RHM surplus[2] would transfer to fund deficits in PF schemes

→

4. Creates greater funding certainty for Premier Foods scheme members

↓

5. *Expected significant reduction in future pension deficit contributions*

1 – Surplus on the current ongoing actuarial valuation basis

2 – Currently any surplus returned to the Company would be net of 35% tax

3

FUTURE DEFICIT CONTRIBUTION PLAN SCENARIOS

Subject to scheme investment performance over time

£m	Current	Low case – Gilts +2.0%			Medium case – Gilts +2.8%			High case – Gilts +3.25%		
		FY22/23	FY23/24	FY24/25	FY22/23	FY23/24	FY24/25	FY22/23	FY23/24	FY24/25
Deficit contributions	38	36	30	31	32	22	23	28	17	17
Administration costs	8	4	4	4	4	4	4	4	4	4
Total	46	40	34	34	36	26	27	32	21	21
Reduction vs Current		**6**	**12**	**12**	**10**	**20**	**20**	**14**	**25**	**25**
3 Year savings vs current			**30**			**50**			**64**	

Subject to assumptions as set out in the appendix

4

BENEFITS SUMMARY

Landmark agreement expected to deliver value for many stakeholders

PREMIER FOODS

Pension Scheme benefits

1. More secure future for Premier Foods schemes members
2. Potential sharing of surplus on buyout across the whole trust
3. The existing £450m security which the RHM Scheme benefits from remains unchanged
4. Merged schemes to benefit from certain rights in the event of any future potential transaction of major brands
5. Strengthened governance of single trust

Agreement subject to signed legal documentation in place with all parties, including MAC clause and targeting implementation by June 2020

BENEFITS SUMMARY

Landmark agreement expected to deliver value for many stakeholders

Company benefits

1. Potential for significant reduction in pension deficit contribution payments
2. Resultant significant reduction in NPV of deficit contributions by up to c.45%[1]
3. £4m p.a. reduction in administration expenses paid by Company partly due to efficiency benefits[2]
4. Improved dividend matching arrangement
5. Strengthened governance of single trust
6. Existing upside sharing of Trading profit, as agreed in 2017, to lapse

Agreement subject to signed legal documentation in place with all parties, including MAC clause and targeting implementation by June 2020

1 - 'Up to c.45%' refers to high-case assumption RHM investment strategy returns of Gilts +3.25%. For other scenarios see appendix
2 – Applicable for next three financial years

5

TRADING UPDATE

Now expect Trading profit for FY19/20 to be at top end of market expectations

PREMIER FOODS

Branded growth model	• Branded growth model strategy is continuing to drive strong performance: – Leveraging our market leading brands – Exciting new product innovation based on consumer trends – Emotionally engaging advertising – Strategic & collaborative customer partnerships
Q4 Trading	• Previous quarters' trading momentum continued into Q4 • March seen sharp increase in demand due to COVID-19 impact on consumer buying • Q4 Group sales expected to be up +3.6% and up +7.3% in UK • March Group sales increased +10.5% and ahead 15.1% in UK • Grocery sales have seen the largest spikes in demand – Batchelors, Nissin, Cooking Sauces, Bisto, Oxo and Ambrosia saw particularly high volumes • Foodservice and B2B has been softer
Full Year outlook	• Consequently, Trading profit at top of market expectations for FY19/20

5

COVID-19 UPDATE

Additional supply chain measures implemented and demand trends

PREMIER FOODS

COVID-19

1. Colleagues health, safety & wellbeing

- Group's priority is health and wellbeing of our colleagues and other stakeholders
- A wide range of additional health, safety and hygiene protocols adopted across supply chain:
  - New measures adopted early March
  - Removal of face to face shift changeovers
  - Additional hygiene protocols implemented
  - Social distancing measures implemented per Government and WHO guidelines

2. Feeding the nation

- Group takes its responsibilities as major UK food manufacturer seriously – supplying food to the nation at a time of need
- Manufacturing and logistics operations have remained fully operational and currently operating at maximum capacity across almost all sites

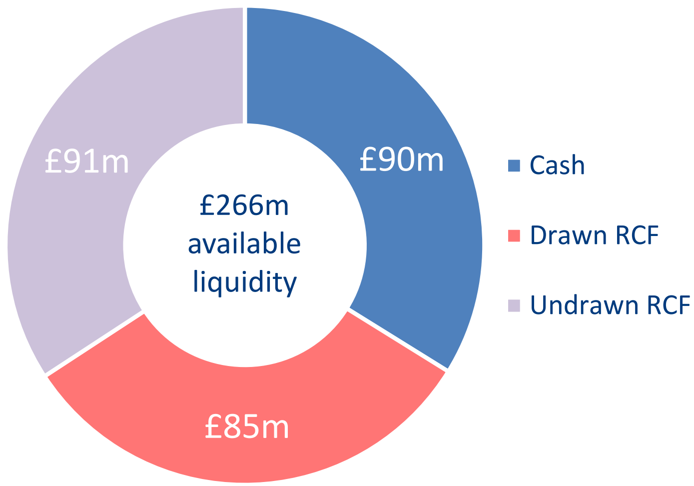
3. Volume / Demand impacts

- March saw a sharp peak in volumes throughout the month reflecting consumer panic buying
- Expecting to see volumes in FY20/21 Q1 lower than seen in March but higher than usual levels of demand reflecting increased levels of eating in home by consumers
- Also expecting softer Foodservice and B2B volumes in FY20/21 Quarter 1

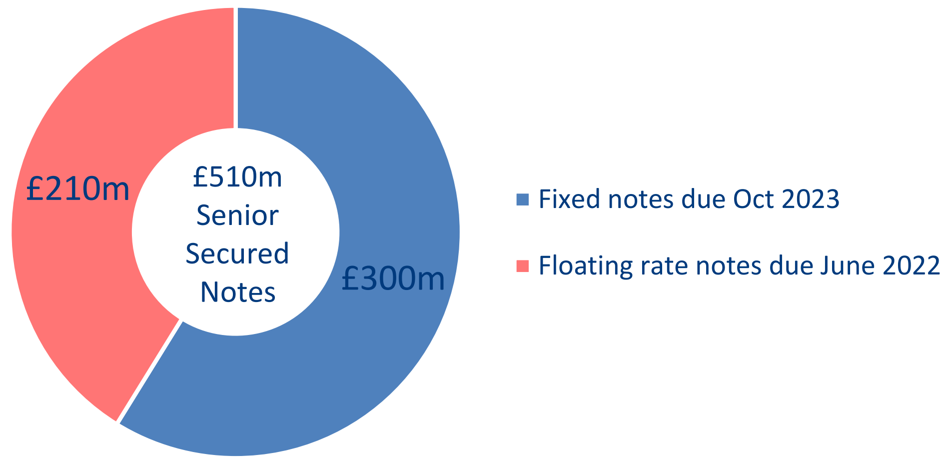
6

CASH & LIQUIDITY

Expect to comfortably beat previous 3.0x Net debt/EBITDA target at 28 March 2020



Cash and Committed RCF at 28 March 2020



Longer dated maturities

1. Continued to build cash balances in 2nd half of year. At 28 March 2020:
   - A prudent drawdown of £85m of £176.6m committed Revolving credit facility in addition to organic cash of £90m
   - Committed RCF due to mature December 2022
2. Other longer dated maturities as follows:
   - £300m Fixed rate notes due October 2023 and
   - £210m Floating rate notes due June 2022
3. Expect to comfortably beat previous 3.0x Net debt/EBITDA target at end March 2020

Appendix

McDougalls
CUP NOODLES
TERIYAKI CHICKEN
LOYD GROSSMAN
GLUTEN FREE
NEW
PAXO
Bird's
Homepride
SLOW COOKER
Sharwoods
SAXA
BISTO
GRAVY POTS
Mr Kipling
Ambrosia minis
NISSIN
Soba
Dairy Milk
Caramel
6 Cake Slices

7

BRANDED GROWTH MODEL STRATEGY IS DELIVERING

We have increased vigour, impetus and energy

Sustainable & profitable revenue growth

- Leading brand positions
- Sustained marketing investment
- Insight driven innovation
- Collaborative retail partnerships
- International markets expansion

Cost control & efficiency

- Lean SG&A cost base
- Operational Excellence
- Capital projects
- Updated senior team
- Agility, pace & energy

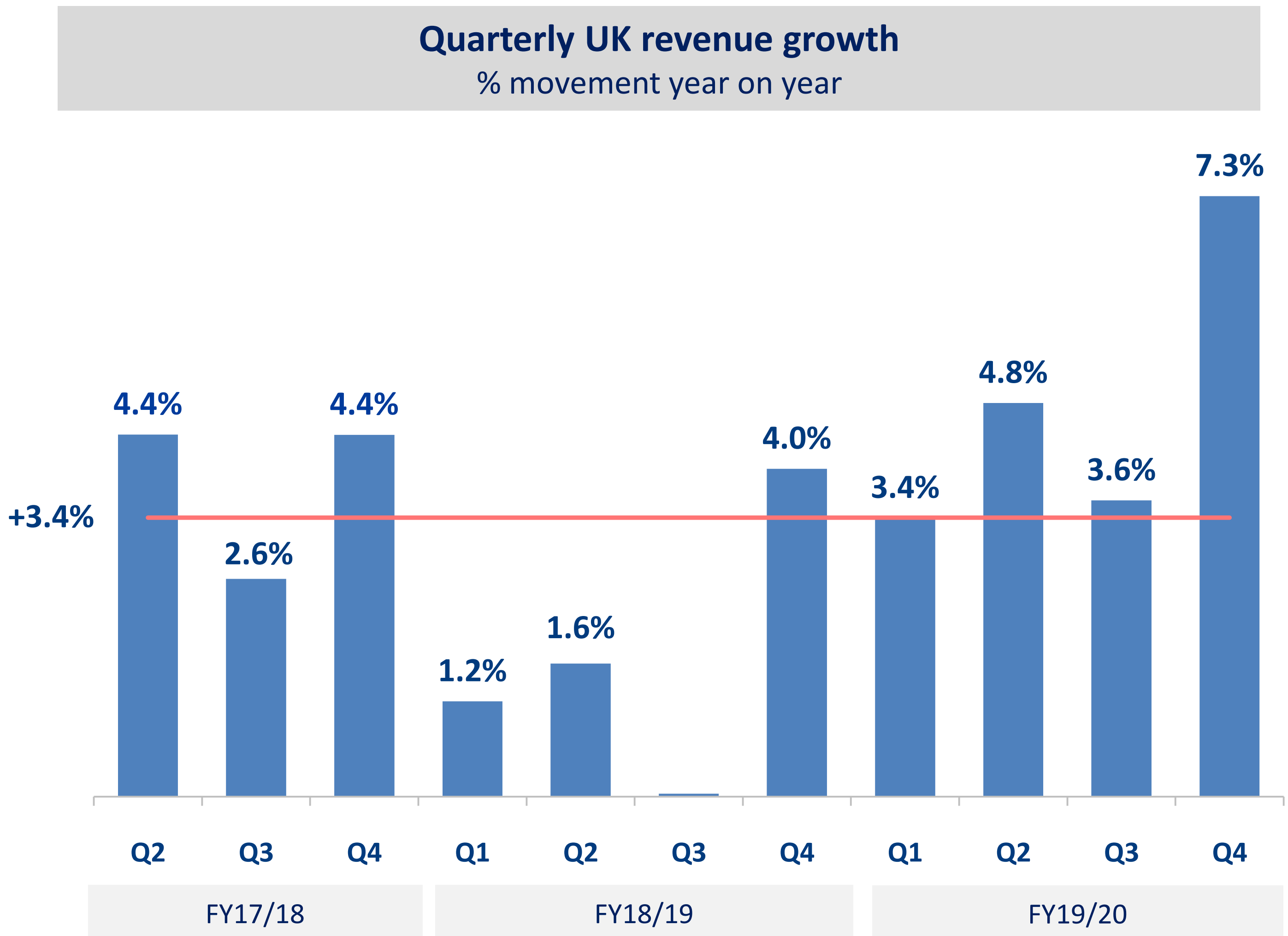
Cash generation

- Tight focus on Capex
- Disciplined working capital management
- Options for cash deployment in short and medium term

UK REVENUE PERFORMANCE

7

Track record of delivering sustainable profitable revenue growth



Sustainable & profitable revenue growth

7

INDICATIVE DEFICIT CONTRIBUTION SCHEDULE CHANGES

Investment return assumption: **LOW – GILTS +2.0%**

£m	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	
Indicative revised plan							
Deficit contributions	38	37	36	30	31	32	
Administration costs	4	4	4	4	4	4	
Total	42	41	40	34	35	36	
Current plan							
Deficit contributions	38	38	38	38	39	41	
Administration costs	8	8	8	8	8	8	
Total	46	46	46	46	47	49	
Reduction	**4**	**5**	**6**	**12**	**12**	**13**	**52**

- Above subject to following assumptions:
  - Average investment return for the RHM section at +2.0% above Gilts
  - RHM scheme shows a surplus on buyout valuation
  - No change to deficit recovery period length
- From FY23/24, deficit contributions would expect to increase by c.3% per annum
- Net Present Value of deficit contribution schedule could reduce from £300-320m by up to c.17%
- Subject to future triennial actuarial valuations and associated discussions/negotiations
- The merged scheme will manage its own investment strategy and performance, albeit in consultation with the Company

7

INDICATIVE DEFICIT CONTRIBUTION SCHEDULE CHANGES

Investment return assumption: **MEDIUM** – Gilts + 2.8%

£m	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	
Indicative revised plan							
Deficit contributions	38	35	32	22	23	23	
Administration costs	4	4	4	4	4	4	
Total	42	39	36	26	27	27	
Current plan							
Deficit contributions	38	38	38	38	39	41	
Administration costs	8	8	8	8	8	8	
Total	46	46	46	46	47	49	
Reduction	**4**	**7**	**10**	**20**	**20**	**22**	**83**

- Above subject to following assumptions:
  - Average investment return for the RHM section at +2.8% above Gilts
  - RHM scheme shows a surplus on buyout valuation
  - No change to deficit recovery period length
- From FY23/24, deficit contributions would expect to increase by c.3% per annum
- Net Present Value of deficit contribution schedule could reduce from £300-320m by up to c.33%
- Subject to future triennial actuarial valuations and associated discussions/negotiations
- The merged scheme will manage its own investment strategy and performance, albeit in consultation with the Company

7

INDICATIVE DEFICIT CONTRIBUTION SCHEDULE CHANGES

Investment return assumption: **HIGH** – GILTS +3.25%

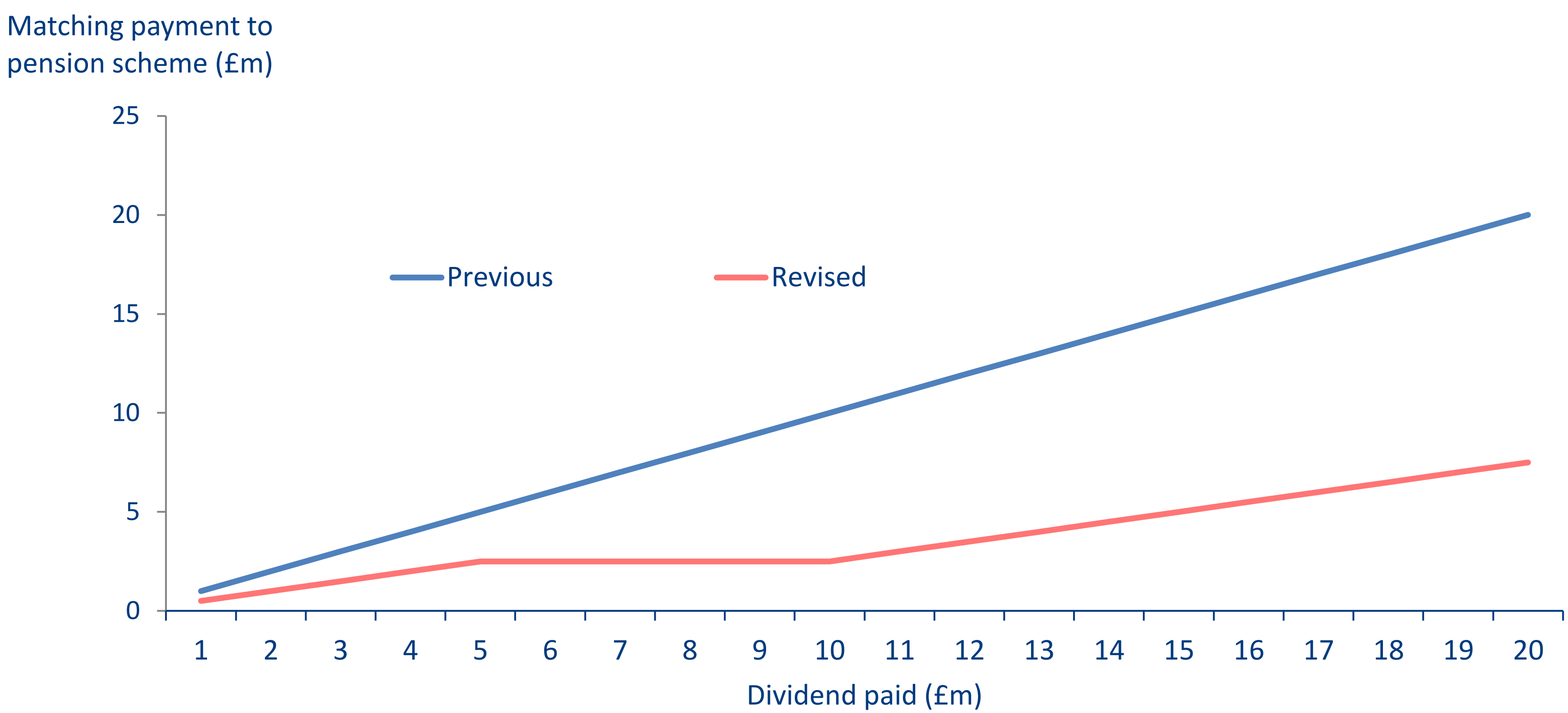
£m	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	
Indicative revised plan							
Deficit contributions	38	34	28	17	18	18	
Administration costs	4	4	4	4	4	4	
Total	42	38	32	21	22	22	
Current plan							
Deficit contributions	38	38	38	38	39	41	
Administration costs	8	8	8	8	8	8	
Total	46	46	46	46	47	49	
Reduction	**4**	**8**	**14**	**25**	**25**	**27**	**103**

- Above subject to following assumptions:
  - Average investment return for the RHM section at +3.25% above Gilts
  - RHM scheme shows a surplus on buyout valuation
  - No change to deficit recovery period length
- From FY23/24, deficit contributions would expect to increase by c.3% per annum
- Net Present Value of deficit contribution schedule could reduce from £300-320m by up to c.45%
- Subject to future triennial actuarial valuations and associated discussions/negotiations
- The merged scheme will manage its own investment strategy and performance, albeit in consultation with the Company

IMPROVED DIVIDEND MATCHING ARRANGEMENT

7

Reduced payments to pension schemes compared to previous 1:1 plan



- Up to £5m of cash dividend - for every £1 paid as dividend, a further 50 pence is payable to the PF Schemes
- Between £5m and £10m of cash dividend – 100% received by shareholders
- Above £10m - for every £1 paid as dividend, a further 50 pence is payable to the PF Schemes

Note – Dividend payment subject to certain financing agreement restrictions and Board recommendation

7

PENSIONS – COMBINED SCHEMES

Most recent accounting position as at 28 September 2019

£m	28 Sept 2019	30 March 2019
Assets	5,657	5,041
Liabilities	(5,068)	(4,668)
Surplus	**589**	**373**
Surplus net of deferred tax @ (17.0%)	**489**	**310**

Key IAS 19 assumptions	28 Sept 2019	30 March 2019
Discount rate	1.85%	2.45%
Inflation rate (RPI/CPI)	3.05%/1.95%	3.25%/2.15%
Mortality assumptions	LTI +1.0%	LTI +1.0%

- Combined schemes deficit reflects RHM schemes surplus of £1,070m partly offset by Premier schemes deficit of £481m

Scheme Assets (£m)	28 September 2019	30 March 2019
Equities	180	180
Government bonds	1,632	1,490
Corporate bonds	21	27
Property	419	437
Absolute/Target return	1,260	1,141
Cash	61	38
Infrastructure funds	303	256
Swaps	517	556
Private equity	542	446
Other	722	470
Total	**5,657**	**5,041**

EVOLUTION OF ACCOUNTING VALUATION

- RHM scheme demonstrated consistently strong performance over last 6 years
- Accounting valuation uses UK AA corporate bonds for valuing liabilities
- Hence it is ‘over-hedged’ on an accounting basis and so presents a surplus over £1 billion (at 28 September 2019)