



# **Results for the Half Year to 27 June 2009**

Wednesday, 5 August 2009



*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.*



# **Robert Schofield**

## **Chief Executive**



## Highlights

- Capital structure fixed, covenant issues removed
- Sales excluding bulk flour up 6.2% on H1 2008
  - Price up 4.7%, Volume/Mix up 1.5%
  - Q2 stronger than Q1
  - Total Group sales up 3.5% on H1 2008
- Hovis growth continues
  - Market share now at 26.3%\*\* , compares to 22.7% in July 2008
- Grocery market share growth
  - Grocery branded volume share gains in 5 of first 6 months of 2009\*\*\*
  - Achieved through innovation, advertising & promotional investment
- Trading profit\* up 5.6% on H1 2008

\* For Trading profit definition, see appendices

\*\* IRI Infoscan, Total Grocery Outlets, Pre-packaged bread, Value share 12 w/e 11 July 2009

\*\*\* IRI Infoscan, Total Grocery Outlets, Premier Grocery Categories, Volume share 4 w/e 13 June 2009



# **Paul Thomas**

## **Finance Director**

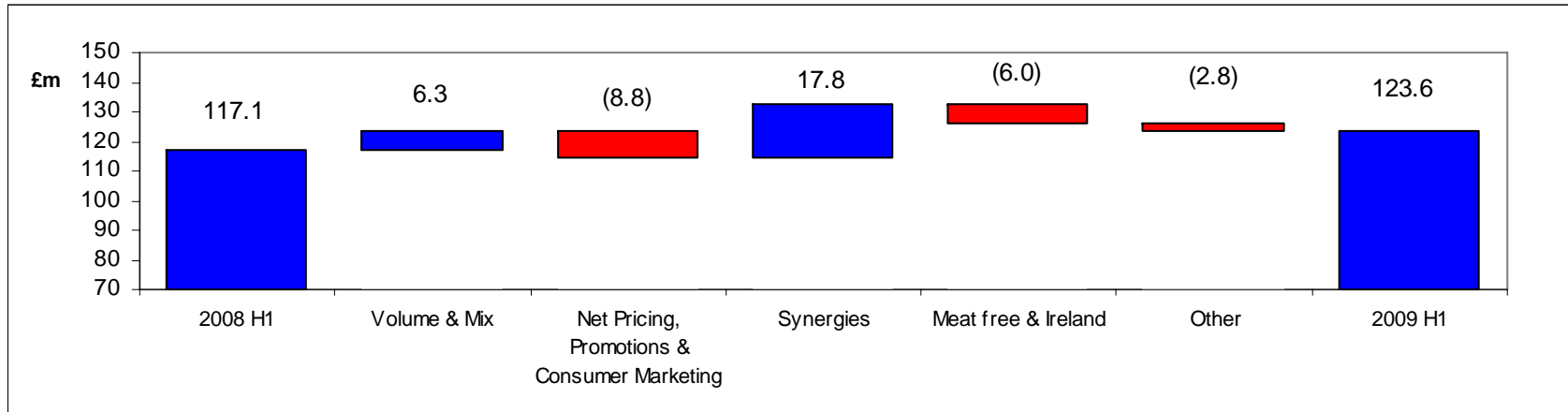


## Financial Overview

- Sales of £1,248.2m, up 6.2% excluding bulk flour
- Trading profit of £123.6m, up 5.6%\*
  - Synergies delivered in line with plan
  - Investment in marketing and promotional support
- Adjusted profit before tax £45.9m (H1 2008: £55.6m)
  - Reflects increased interest charges
- Net Debt of £1,475.3m, compared to £1,805.6m in June 2008
  - Successful re-financing
  - Seasonal working capital outflow
  - Cash spend on capex, exceptionals and pensions weighted to first half
  - Expectations for year end unchanged

\*For Trading profit definition, see appendices

## Trading Profit



- Hovis and UK Grocery developing well
- 1.6 ppts market share gain\* driven by new products, consumer marketing and promotional spend
  - UK consumer consistently looking for quality and value
- Synergy benefits from manufacturing rationalisation
- Ireland economic environment very tough
- Increased manufacturing costs and consumer investment in Meat free

**Focus Now On Organic Growth**

## Interest Charges

£m	2009 H1	2008 H1
Net cash interest payable	72.5	58.1
Amortisation of debt issuance costs	5.2	3.4
<b>Regular net interest charge</b>	<b>77.7</b>	<b>61.5</b>
Unwind of onerous lease discount	0.4	0.3
IAS 39 – valuation of financial instruments	(33.8)	(29.7)
Exceptional amortisation of debt issuance costs	12.5	12.1
<b>Reported net interest charge</b>	<b>56.8</b>	<b>44.2</b>

- IAS 39 credit reflects unwind of mark to market provision on interest rate swaps and movement in yield curve
- Amortisation of debt issuance includes deferred fees

**Financing Charges In Line With Expectations Post Re-financing**



## Exceptional Items

£m	2009 H1	2008 H1
Integration expenditure	18.7	29.6
Hovis & other restructuring projects	9.5	13.0
Chilled restructuring projects	0.4	2.3
Gain on property disposals	(3.3)	(4.6)
<b>Exceptional items excluding financing fees</b>	<b>25.3</b>	<b>40.3</b>
Financing fees*	16.8	-
<b>Total exceptional items</b>	<b>42.1</b>	<b>40.3</b>

- Manufacturing and logistics rationalisation programme nearing completion
- Shared service centre now operational
- Upgrade of Hovis systems and processes

\*See appendices for detail

**Majority Of Integration Spend Now Completed**

## Underlying Cash Flow

£m	2009 H1	2008 H1	2008 FY
<b>Cash flow from operations pre depreciation</b>	<b>119.6</b>	<b>119.4</b>	<b>320.3</b>
Depreciation	26.0	24.0	50.7
Interest	(72.0)	(52.8)	(105.4)
Taxation	0.7	2.5	0.1
Pension deficit contributions	(26.5)	(26.2)	(41.0)
Regular capital expenditure	(40.4)	(36.5)	(82.2)
Working capital	(66.4)	(92.8)	(37.5)
<b>Cash flow pre non-recurring items</b>	<b>(59.0)</b>	<b>(62.4)</b>	<b>105.0</b>

- Working capital outflow reflects normal seasonality, seasonal inflow in H2
- Pension deficit contributions H1 weighted
- Full year expectations unchanged

**Cash Flow Generation Weighted To H2**

## Cash Flow

£m	2009 H1	2008 H1	2008 FY
<b>Cash flow pre non-recurring items</b>	<b>(59.0)</b>	<b>(62.4)</b>	<b>105.0</b>
Operating exceptional cash costs	(31.1)	(60.9)	(121.8)
Integration capital expenditure	(15.7)	(44.7)	(78.8)
Disposal proceeds	54.2	24.3	26.4
<b>Operating cash flow</b>	<b>(51.6)</b>	<b>(143.7)</b>	<b>(69.2)</b>
Dividends	-	(36.3)	(54.7)
Net equity proceeds	379.6	-	-
Financing fees and discontinued operations	(36.5)	(6.9)	(24.4)
<b>Movement in net debt</b>	<b>291.5</b>	<b>(186.9)</b>	<b>(148.3)</b>

- Full year cash capital expenditure expected c.3% of Net Sales
- Full year operating exceptional cash costs expected to be c.£50m

**Year End Net Debt Expectations Unchanged**



# Capital Structure

- Re-financing
  - Net equity raised of £379.6m
  - Significant liquidity and covenant headroom
  - Banking facilities extended to 2013
  - Pension contributions agreed in principle to April 2014
- Total number of shares following capital restructure 2,398 million
  - New shares issued 1,553.4 million
  - Weighted average shares for H1 - 1,744m
  - Weighted average shares for FY - 2,079m

**Significant Covenant and Liquidity Headroom**

## Pensions

Accounting deficit (£m)	Jun 2008	Dec 2008	Jun 2009
Assets	2,484	2,528	2,313
Liabilities	(2,638)	(2,540)	(2,614)
Gross deficit	(154)	(12)	(301)
Net deficit	(111)	(10)	(216)

- Company obliged to use IAS19 mark to market measure
- Accounting valuation highly volatile in current market conditions
  - Corporate bond and gilt yields
  - Imputed future inflation rate expectations
  - Asset valuations
- IAS 19 has no relevance to funding of scheme
  - Based on actuarial valuation
- Pensions framework agreement removes uncertainty on cash contributions

**Cash Contributions Are Agreed Until April 2014**

## Other Matters

- Tax Guidance
  - P&L credit for 2009 H1 of £6.8m

Forecast tax rates	2009	2010	2011	2012
Expected P&L charge	~29%	~28%	~28%	~28%
Cash tax as % of underlying PBT	c. NIL	12-15%	18-23%	22-26%

- Discontinued Operations
  - Speciality bakery businesses net sale proceeds £41.8m
  - Sales effective 6 February (Sofrapain) and 28 February (LPC & Martine)
  - Non-cash loss on disposal in the period of £12.7m



## Summary

- Stable financial platform in place
  - Successful equity raise
  - Significant covenant and liquidity headroom
  - Pension cash contributions agreed until April 2014
- Delivering continued Trading profit growth in difficult economic environment
- Continued focus on cash generation



# **Robert Schofield**

## **Chief Executive**





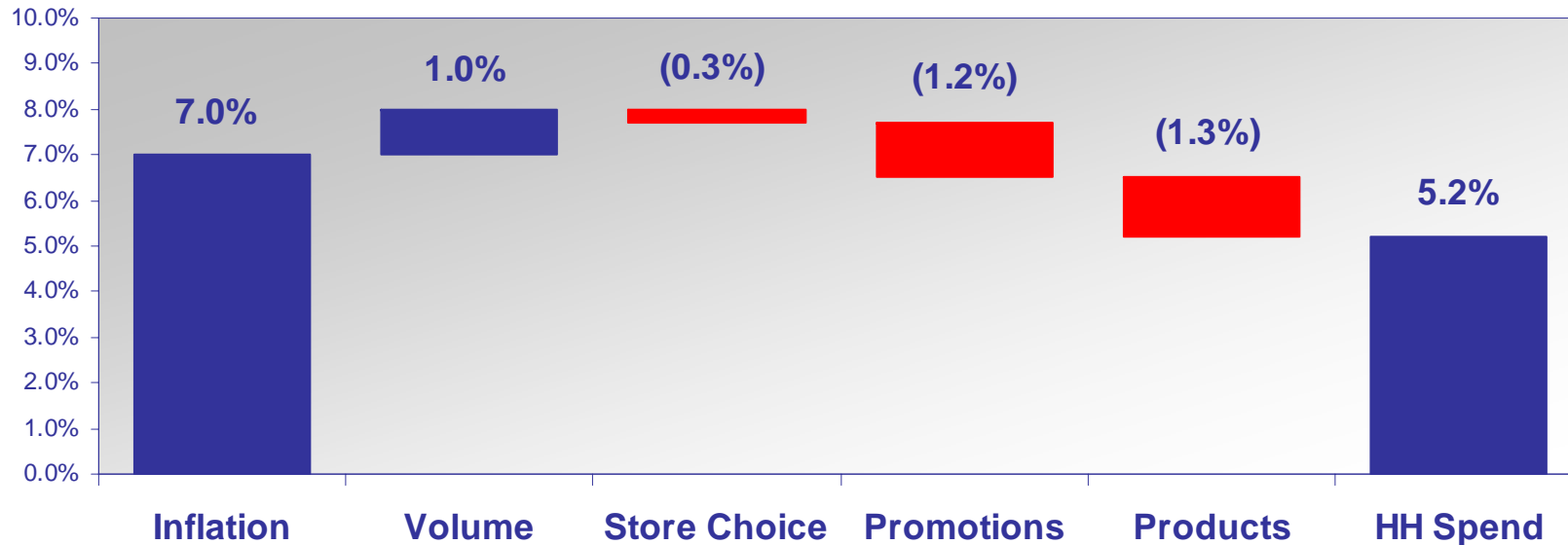
## Agenda

- Our markets
- Commercial strategy
- Premier performance
- Trading outlook



## The Grocery Market - Consumer Inflation

*Households are spending more than last year, but less than Inflation*



- Consumers buying more in volume terms
- An element of discounter store growth (but this trend is declining)
- More bought on promotion
- Some trading down - although largely within retailer brand

**Consumers Offsetting Inflation Through Focus On Value**



## The Grocery Market - Cost Inflation

- Current headline retail inflation rate for food at 7.0%\*
- Weakness of Sterling cf 2008 increasing input costs on imported commodities
- Commodity prices remain volatile
- Long term inflation unlikely to return to historically low levels
  - Global demand expected to rise post recession
- Expect to recover further inflation in H2

**Although Reduced, Inflation Is Still With Us**



## The Grocery Market - Retailer Dynamics

- Every retailer is a discounter
  - Low prices are not just the preserve of the traditional discounters
- The recent growth of traditional discounters has peaked
  - Down from 17% growth in December 2008 to 7% in June 2009\*
- Each retailer is offering value in its own distinctive way
  - Specialised ranges
  - Advertising
  - Value through brands

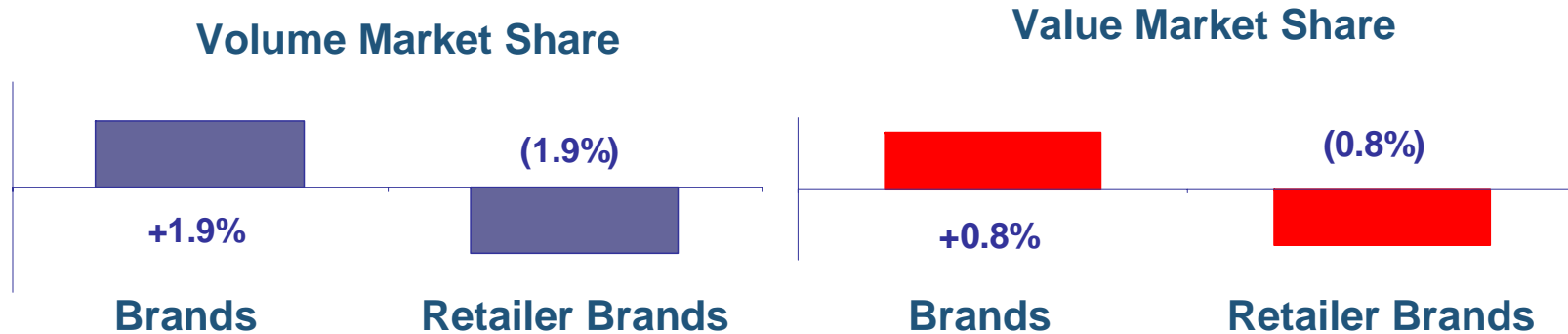
**Premier Well Positioned Across All Accounts And Channels**



# The Grocery Market – Market Shares

*The Grocery Market Movement - 2009 H1 vs 2008 H1*

**Total Market Volume Growth +1.1%**



Commercial Levers	Brands
Innovation	✓
Advertising	✓
Promotions	✓

**Brands Competing Strongly In Recessionary Environment**



## The Grocery Market – The Consumer

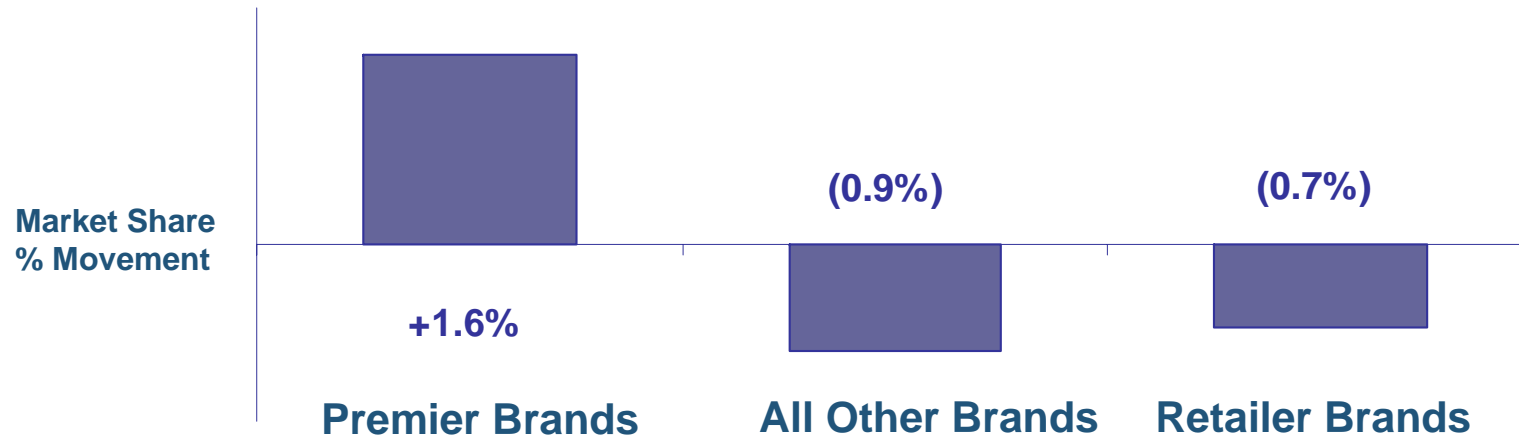
- Our consumers still want great tasting food
- In a recession consumers are eating in more
- They don't want a double compromise
- Consumers are looking for value
  - Increase in promotions and change in mechanics
- A desire to reduce food wastage
- Decline in organic foods and premium brands

**Premier Well Positioned In This Consumer Environment**



# Premier's Performance In Its Categories

2009 H1 vs 2008 H1



Market Share	2009	21.8%	48.2%	30.0%
	2008	20.2%	49.1%	30.7%

**We Are Winning In Our Categories**



## Premier's Brand Strategy

- Premier's brands operate in 15 categories
- Range from small niche brands up to RSV of £448m
- We will invest disproportionately behind a few key brands
- Criteria is simple
  - Brands that have scale
  - Brands that are in a growth category
  - Brands that have the capacity to win in their category
- Our major "Invest to Win" brands are:

- Hovis
- Mr Kipling
- Quorn
- Loyd Grossman
- Sharwoods
- Ambrosia



**We Are Investing To Win Behind The Greatest Growth Potential**





## Loyd Grossman – Consumer and Trade Investment

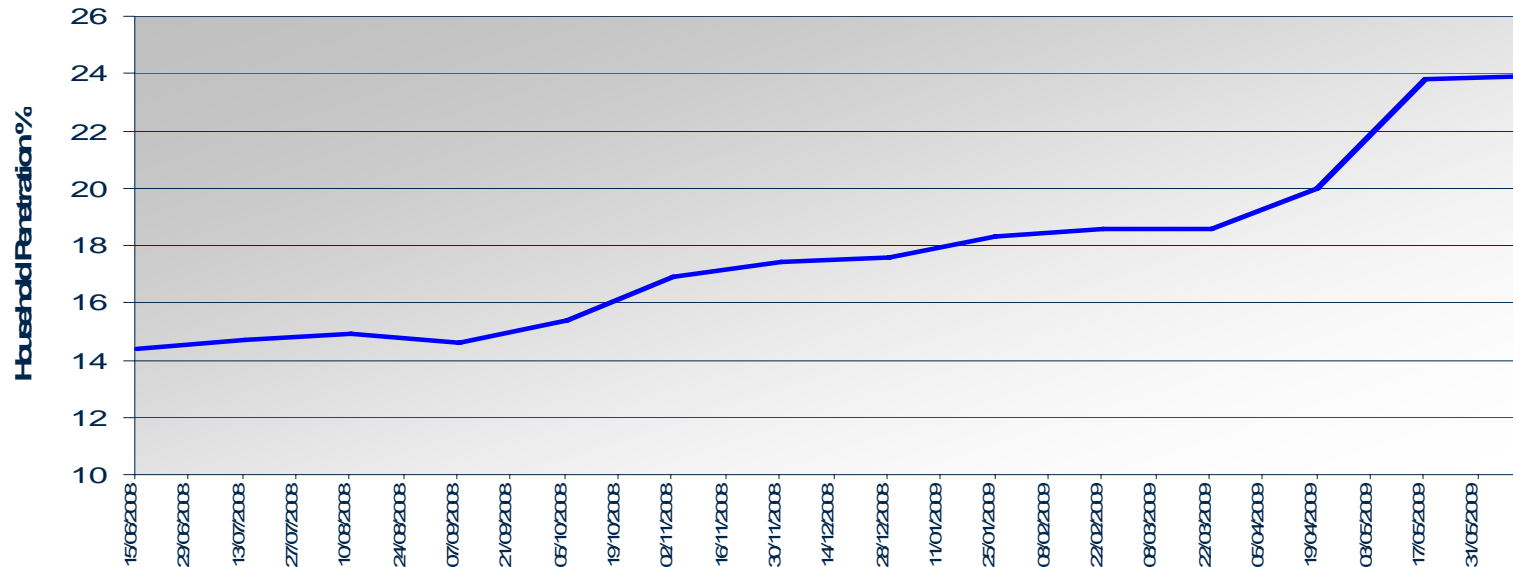
- New product ranges
- New packaging design
- TV advertising
- Co-ordinated promotional activity
- In-store display and marketing



**Extensive Marketing Campaign On Loyd**



# Lloyd Grossman Household Penetration and Market Share Gains



**Lloyd household penetration up 66% since June 2008**

- |                                   |                             |
|-----------------------------------|-----------------------------|
| <b>Branded value growth rate</b>  | <b>Up +24% year on year</b> |
| <b>Branded volume growth rate</b> | <b>Up +52% year on year</b> |
| <b>Household penetration</b>      | <b>Up +66% year on year</b> |
| <b>Market share</b>               | <b>Up +26% year on year</b> |

**Driving Step Change In Penetration And Market Share**



# Premier Trading Review



## Group Overview

- Sales excluding bulk flour ahead +6.2%
  - Price +4.7%, volume/mix +1.5%
  - Strong bread sales growth
- Bulk flour sales down 21%
  - Exit from low margin contract
  - No impact on profitability
- Strong profit development in Grocery and Hovis
  - But Irish market challenging
- Chilled performance behind last year
  - Consumer investment
  - Manufacturing costs
- Branded marketing investment up 6.3%
- Branded sales mix increased to 61.2% from 60.2%

£m	2009 H1	YoY (%)
<b>Sales</b>		
Grocery	713.5	6.6%
Hovis	372.4	(3.2%)
Chilled	162.3	6.8%
	<b>1,248.2</b>	<b>3.5%</b>
<b>Trading profit</b>		
Grocery	101.4	9.3%
Hovis	14.6	18.7%
Chilled	7.6	(36.7%)
	<b>123.6</b>	<b>5.6%</b>

**Trading Profit Growth In Line With Expectations**

## Grocery

£m	2009 H1	2008 H1	YoY %
Sales	713.5	669.1	6.6%
Trading profit	101.4	92.8	9.3%
<i>Branded sales</i>	71.1%	73.4%	(2.3%)

- UK sales up 7.6%, +6.0% price, +1.6% volume & mix
  - Branded sales mix reflects retailer brand cost inflation and increased branded promotions
- Top 10 brands up 8.3% on H1 2008
- Volume market share gains building through H1
- Promotional and in-store marketing investment increased
- Synergy development continues throughout 2009
- Irish market remains tough

**Branded Activity Driving Increased Market Share**

## Savoury Brands

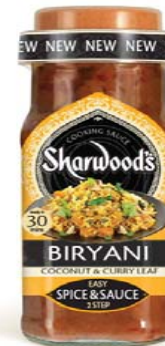
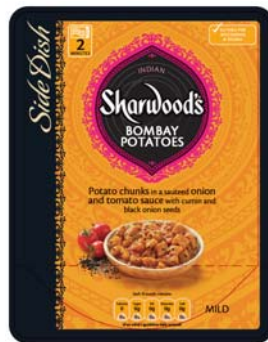
- Loyd Grossman – sales +35%
  - Household penetration – Up over 6.0 ppt since December '08
  - Pasta bake and potato bake 'Al Forno' range just launched
  - Improved recipe quality across range
- Branston – sales +41%
  - Mayo with twist now has a 6% share of mayonnaise from a standing start in 3 months
  - Relish now has 80% value share of its market
  - New seasonal variants of sweet pickle now in market



**Strong Innovation Plan Across Key Brands**

## Savoury Brands

- Sharwood's – sales + 2%
  - Successful TV advertising reflected in increased market share
  - Side dishes and Microwaveable Noodles launched in H1
  - Biryani launch for H2



- Batchelor's – sales +14%
  - Excellent sales growth from soup and noodles
  - Savoury Rice and Pasta relaunch



**Strong Innovation Plan Across Key Brands**

## Sweet Brands

- Hartley's – sales +12%
  - Low Calorie Pots continued growth
  - New Children's Fruit in Jelly launched in H1
- Ambrosia – sales +8%
  - Twin pot puddings launch in H2
  - Significant marketing campaigns



**Strong Innovation Plan Across Key Brands**



## Sweet Brands

- Mr. Kipling – sales +2%
  - New seasonal products driving market share gains
  - Promotional activity on special editions
  - Activity constrained by SAP implementation



Mr. Kipling Taking Market Share

# Hovis

£m	2009 H1	2008 H1	YoY %
Sales	372.4	384.7	(3.2%)
Trading profit	14.6	12.3	18.7%
<i>Branded sales %</i>	<i>51.0%</i>	<i>43.9%</i>	<i>7.1%</i>

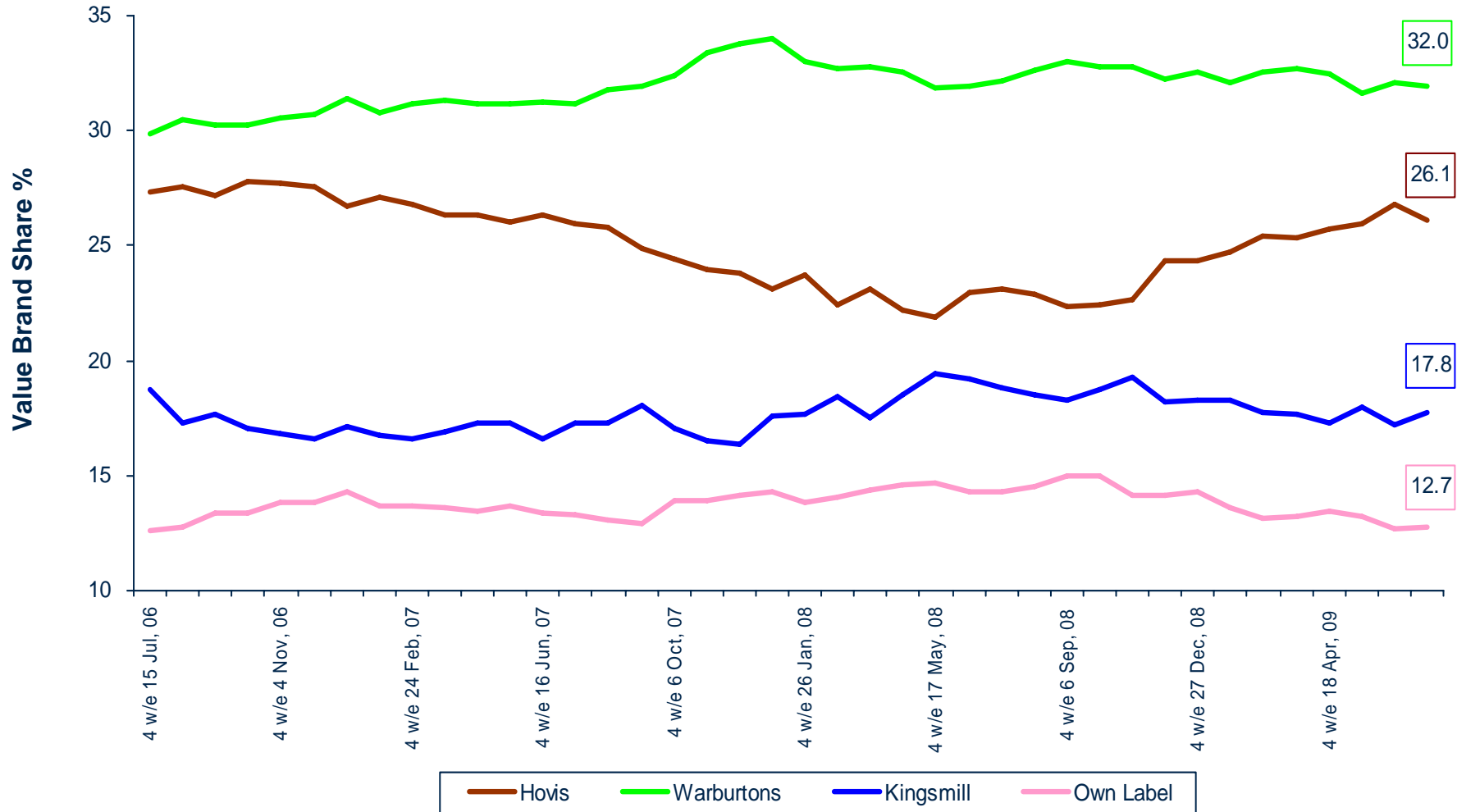
- Market share increased by 3.6 ppts year on year to 26.3%\*
  - At highest level in over 2 years
- Hovis brand sales up +17% on H1 2008
  - Marketing investment increased significantly in H1
- Total sales for Hovis division down 3.2%
  - Low margin flour contract exit - profitability unaffected
  - Sales up +4.9% excluding bulk flour
- Launch of new Hovis branded rolls



**Hovis Success Now Delivering Profit Growth**

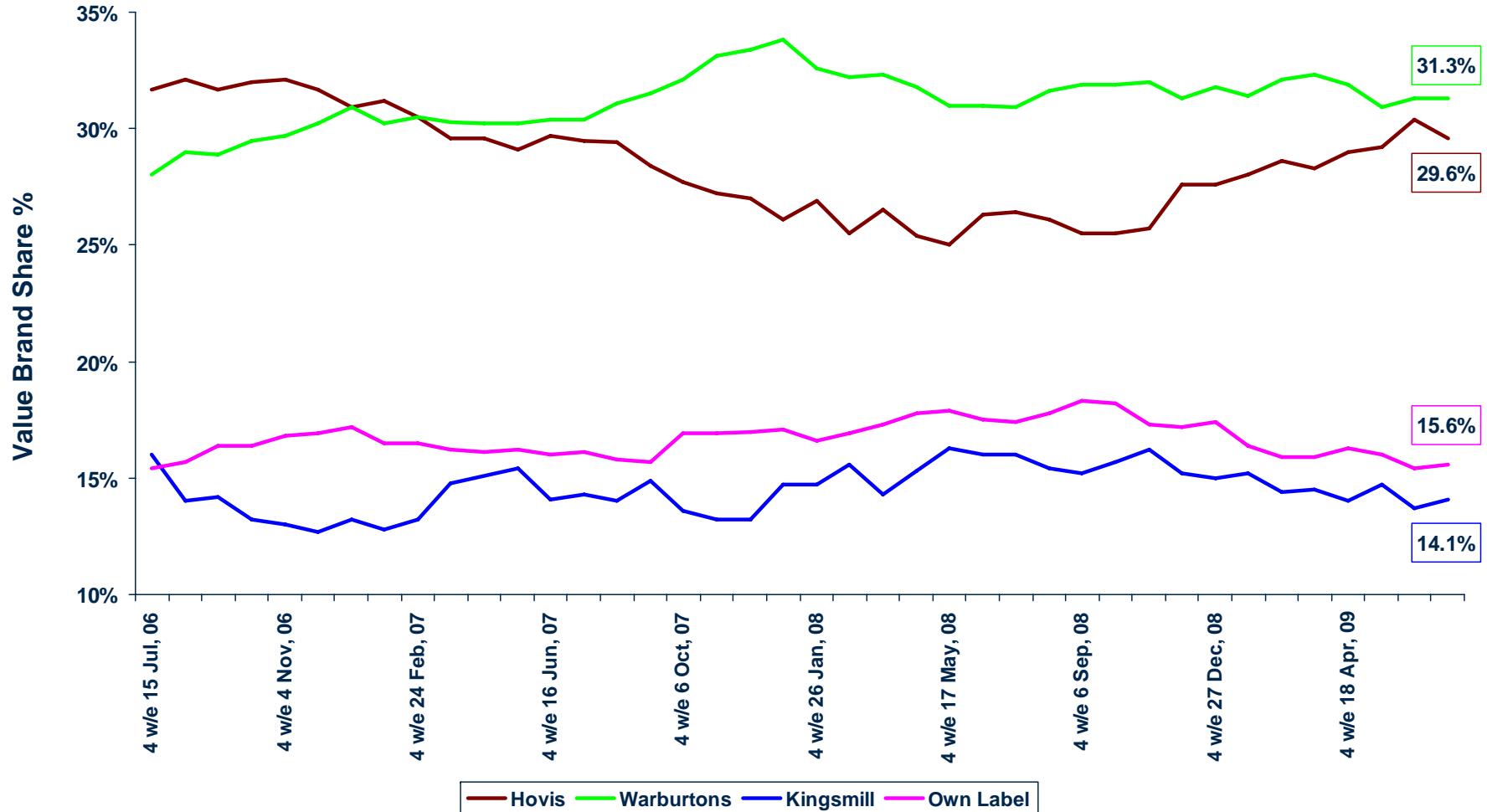


# Value Share of Pre-packaged Bread, Total Grocery Outlets



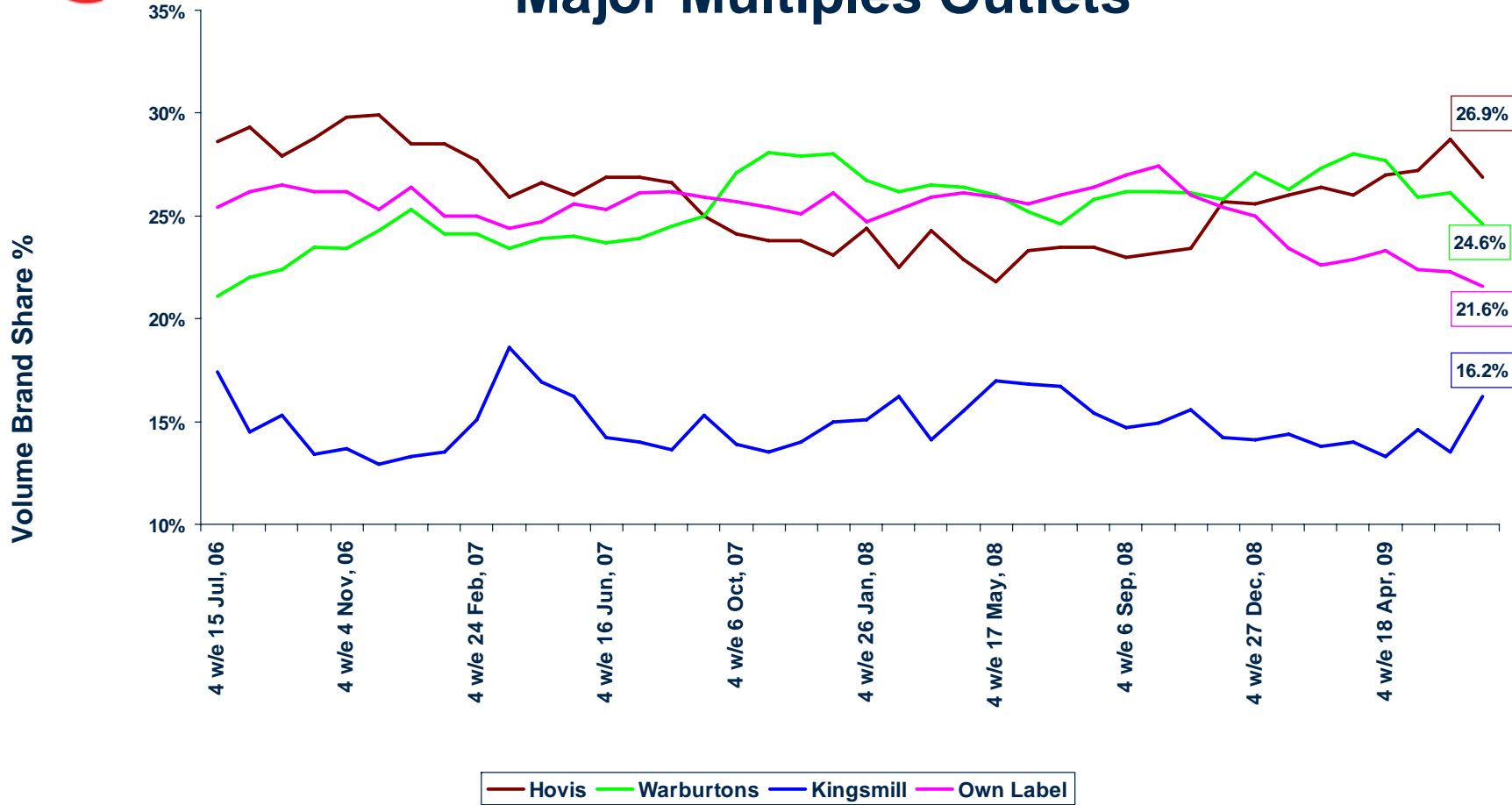


# Value Share of Pre-packaged Bread, Major Multiples Outlets





# Volume Share of Pre-packaged Bread, Major Multiples Outlets



**Hovis Making Great Progress In The Major Multiples**

## Chilled

£m	2009 H1	2008 H1	YoY %
Sales	162.3	151.9	6.8%
Trading profit	7.6	12.0	(36.7%)
<i>Branded sales</i>	41.3%	43.2%	(1.9%)

- Ready meals & cake
  - Contract wins driving sales growth
  - In line with expectations
- Meat-free
  - Quorn sales up 5%, slightly down from long-term trend
  - Snacking range performing strongly
- Division Trading profit impacted by:
  - Significant investment behind Quorn advertising campaign
  - Cauldron sales performance - difficult economic climate for organic brand
  - Increased Meat-free manufacturing costs



**Quorn Continues To Grow In Tough Market Conditions**



## Trading Outlook

- Consumer environment expected to remain challenging
- Continued marketing and promotional investment behind brands
- More innovation to be launched into market in H2
- Inflation is still with us and cost recovery still necessary
- Synergy delivery continues into H2
- Resilient brands performing well in consumer downturn
- Continued focus on cash generation and debt reduction
- Full year expectations unchanged

**Premier Well Placed In Challenging Consumer Environment**



# An Iconic Brand Portfolio



ROSE'S



FRANK COOPER'S "OXFORD"

ROBERTSON'S







# **Results for the Half Year to 27 June 2009**

Wednesday, 5 August 2009



# Appendices



## Definitions

Trading profit is defined as operating profit from continuing operations before exceptional items, amortisation of intangible assets, the revaluation of foreign exchange and other derivative contracts under IAS39 and pension credits or charges in relation to the difference between the expected return on pension assets and interest costs on pension liabilities.

Adjusted profit before tax is defined as Trading profit after charging net regular cash interest costs and regular amortisation of debt issuance costs. Adjusted profit before tax is not a measure of profitability defined under IFRS and may not be comparable from one company to another.

Adjusted earnings per share is defined as Adjusted profit before tax less tax at a notional tax rate for the Group divided by the average number of shares in issue during the period.

None of trading profit, adjusted profit before tax or adjusted earnings per share are measures of profitability defined under IFRS and may not be comparable from one company to another.

## Group Overview

£m	2009 H1	2008 H1	YoY	YoY (%)
<b>Sales</b>				
Grocery	713.5	669.1	44.4	6.6%
Hovis	372.4	384.7	(12.3)	(3.2%)
Chilled	162.3	151.9	10.4	6.8%
<b>Total</b>	<b>1,248.2</b>	<b>1,205.7</b>	<b>42.5</b>	<b>3.5%</b>
<b>Trading Profit</b>				
Grocery	101.4	92.8	8.6	9.3%
Hovis	14.6	12.3	2.3	18.7%
Chilled	7.6	12.0	(4.4)	(36.7%)
<b>Total</b>	<b>123.6</b>	<b>117.1</b>	<b>6.5</b>	<b>5.6%</b>

- Group sales excluding bulk flour +6.2%
- Hovis division sales excluding bulk flour + 4.9%



## Summary Income Statement

£m	2009 H1	2008 H1	%
Sales	1,248.2	1,205.7	3.5%
Trading profit	123.6	117.1	5.6%
Amortisation	(38.2)	(37.6)	(1.6%)
Pension financing (expense)/credit	(2.1)	8.1	-
Exceptional items*	(45.4)	(44.9)	(1.1%)
Foreign exchange valuation adjustments	(14.4)	(1.1)	-
Profit on disposal of assets	3.3	4.6	(28.3%)
Operating profit	26.8	46.2	(42.0%)
Interest	(56.8)	(44.2)	(28.5%)
(Loss)/profit before tax	(30.0)	2.0	-
Tax	6.8	(3.5)	-
Net loss – continuing operations	(23.2)	(1.5)	-
Discontinued operations	(12.7)	2.8	-
Net (loss)/profit	(35.9)	1.3	-

\*The Group defines exceptional items as those items of financial significance to be disclosed separately, in order to assist in understanding the financial performance achieved and in making projections of future results.



## Adjusted Earnings Per Share

Continuing Operations (£m)	2009 H1	2008 H1	%
Trading profit	123.6	117.1	5.6%
Regular interest charge	(77.7)	(61.5)	(26.3%)
Adjusted PBT	45.9	55.6	(17.4%)
Tax at 28%/29%	(12.9)	(16.1)	19.9%
<b>Adjusted Profit after tax</b>	<b>33.0</b>	<b>39.5</b>	<b>(16.5%)</b>
Average shares in issue	1,743.9	905.3	
<b>Adjusted eps*</b>	<b>1.9</b>	<b>4.4</b>	

- 2009 average shares in issue 2,079m
- 2009 pro forma shares in issue 2,398m



## Re-financing Fees Summary

Re-financing Fees	Classification	£m
Equity underwriting	Reserves	24.3
Advisory fees	P&L exceptional items – 2009	16.8
	P&L exceptional items – 2008	2.5
Debt issuance fees	Capitalised then amortised over term of financing facility	22.0
	P&L exceptional financing fee	2.7
		<hr/> <u>68.3</u> <hr/>

## Pension Valuation And Assumptions

Pension Deficit (£m)	31 Dec 2008	Discount Rate	Inflation Rate	Asset Values	Other	27 June 2009
Assets	2,528	-	-	(264)	49	2,313
Liabilities	(2,540)	42	(101)	-	(15)	(2,614)
Deficit	(12)	42	(101)	(264)	34	(301)

### Assumptions

Discount rate

6.4%

6.3%

Inflation (derived)

3.4%

2.8%

Future pension increases

2.2%

2.0%

Expected salary increases (RHM/Premier)

3.4%/4.4%

2.8%/3.8%

Mortality assumptions

Medium Cohort

Medium Cohort



## Interest Rate Hedging

- Interest charged on bank facilities is LIBOR plus applicable margin
- Significant derivative programme in place to manage interest rate risk
  - At June 2009 £1,670m of 3m LIBOR swapped
    - £230m at 4.6% maturing Sept 2009
    - £110m at 3.95% maturing Dec 2009
  - Weighted average swap rate for 2009: 4.7% in Q1, 5.3% Q2, 5.7% H2 assuming LIBOR at 1.19%

£m	Within 1 year	1 and 2 years	2 and 3 years	3 and 4 years	4 and 5 years	Over 5 years	Total
Fixed Rate	465.0						465.0
Cap & Floor Structure			350.0				350.0
Long dated callable swaps			450.0	125.0		25.0	600.0
Other callable swaps				255.0			255.0
	<b>465.0</b>	<b>-</b>	<b>800.0</b>	<b>380.0</b>	<b>-</b>	<b>25.0</b>	<b>1,670.0</b>