

# AG Barr

BUILDING GREAT BRANDS

## AG Barr plc INTERIM RESULTS

26 weeks ended 25 July 2020



ESTD . 1999

**FUNKIN**  
COCKTAILS

**Roger White**

**Welcome and introduction**

# Contents

- Introduction
- Market update
- Business update
- Financial review
- Summary & outlook
- Questions

Roger White  
Chief Executive

Stuart Lorimer  
Finance Director

# Overview

## Financial summary

	July 2020	July 2019	Change
Revenue	£113.2m	£122.5m	(7.6)%
Profit before tax (before exceptional items)*	£16.6m	£13.9m	19.4%
Statutory profit before tax	£5.1m	£13.5m	(62.2)%
Operating margin before exceptional items*	15.1%	11.7%	343 bps
Earnings per share before exceptional items*	10.52p	9.83p	7.0%
Net cash flow from operating activities	£24.0m	£11.7m	105.1%
Net cash at bank	£30.4m	£4.6m	+£25.8m

## Performance headlines

- Barr Soft Drinks : Value share of total UK soft drinks market up 1.2%
- Funkin : Sales decline of 34% driven by very challenging hospitality sector - within this retail and on-line sales grew by over 170%
- Pre-tax exceptional charge of £11.5m related to ongoing business re-engineering programme and impairment of Strathmore brand and assets
- Cash flow generated from operations of £30.1m
- Strong balance sheet and with £30.4m of net cash at bank
- Dividend position remains under review - dividend payments are expected to resume in 2021

# Roger White

## Market update

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# Total UK soft drinks market

## Total UK soft drinks value

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▲ 0.2%

## Carbonates value

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▲ 7.3%

## Stills value

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▼ 7.8%

## Total UK soft drinks volume

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▲ 0.6%

## Carbonates volume

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▲ 8.6%

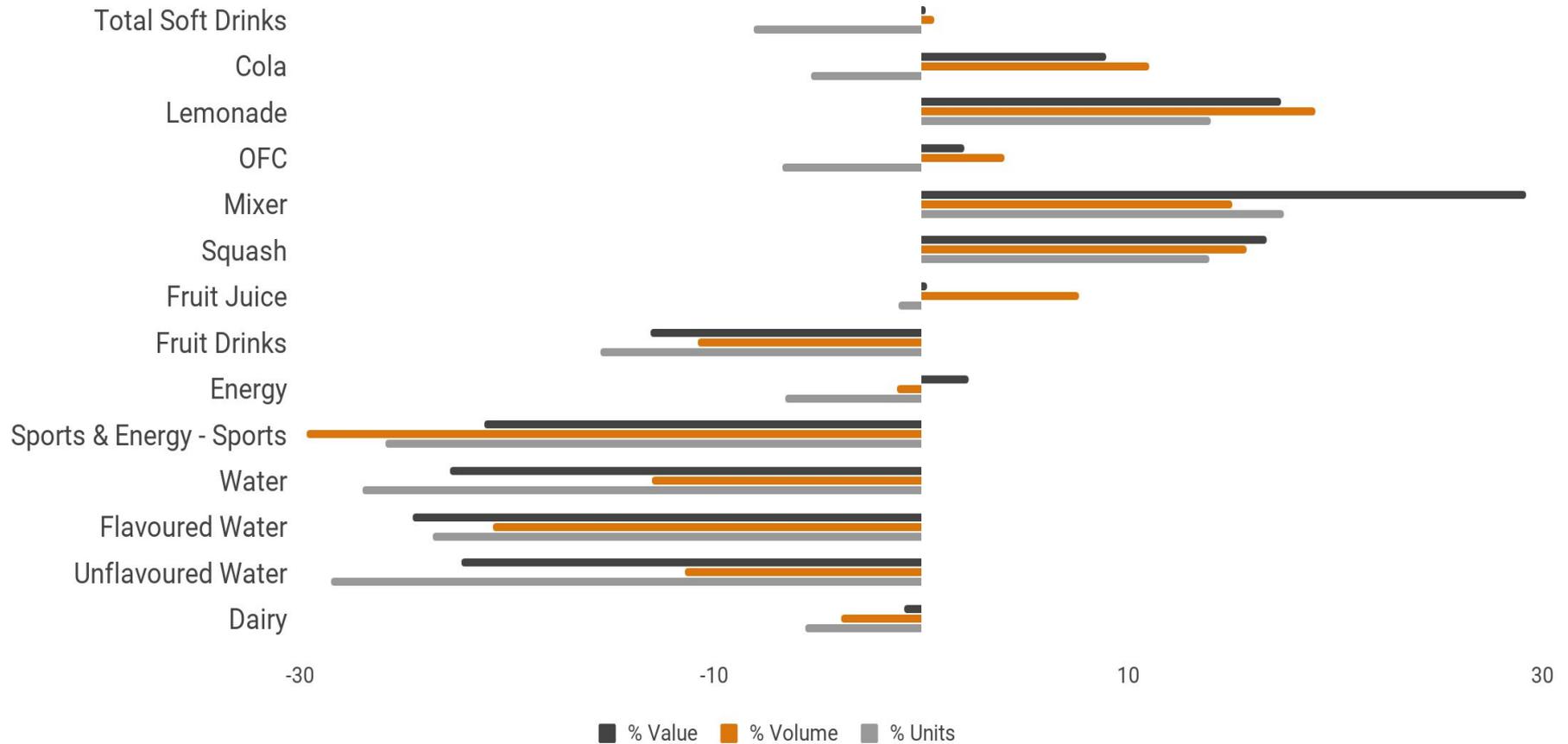
## Stills volume

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▼ 6.5%

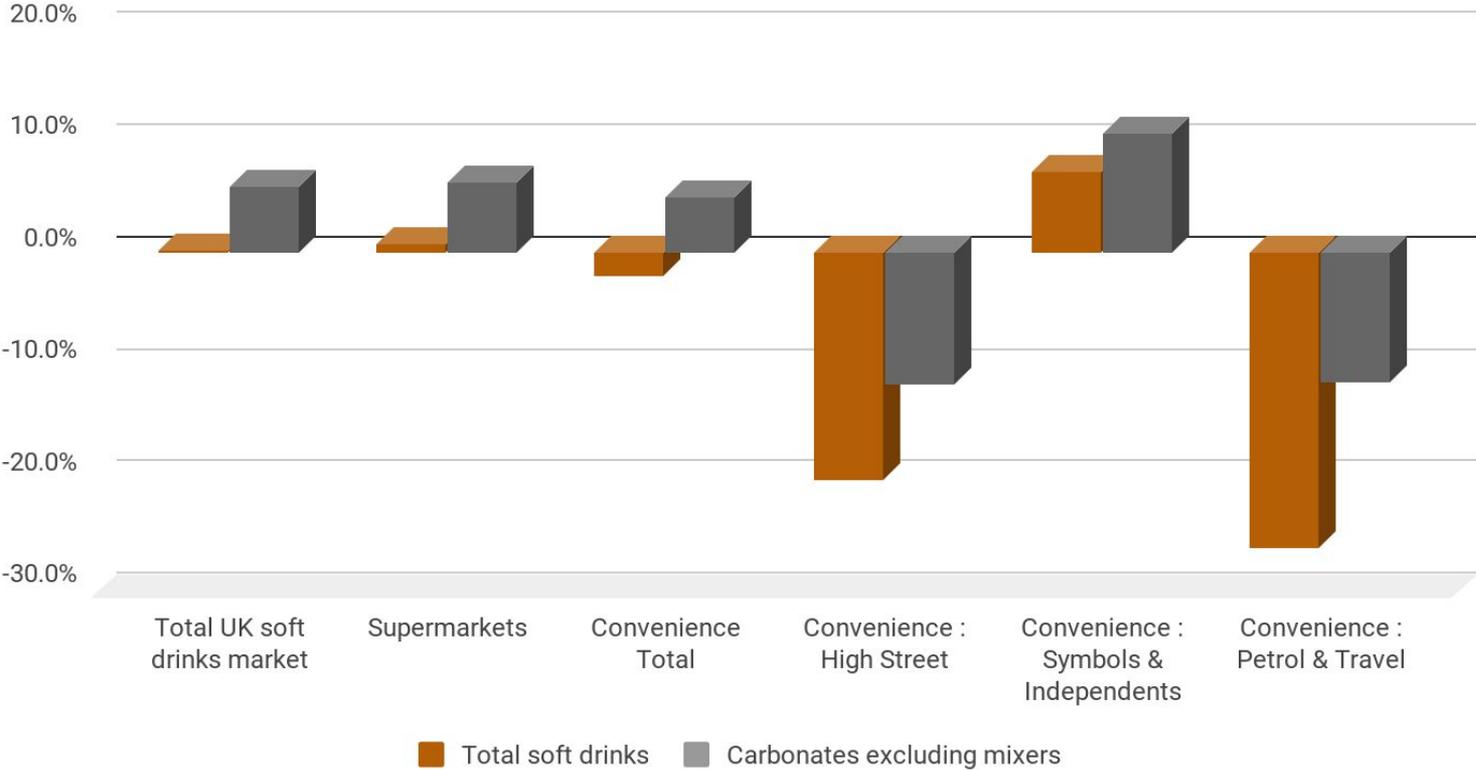
# Total UK soft drinks market - sub categories

## Value, Volume and Units %



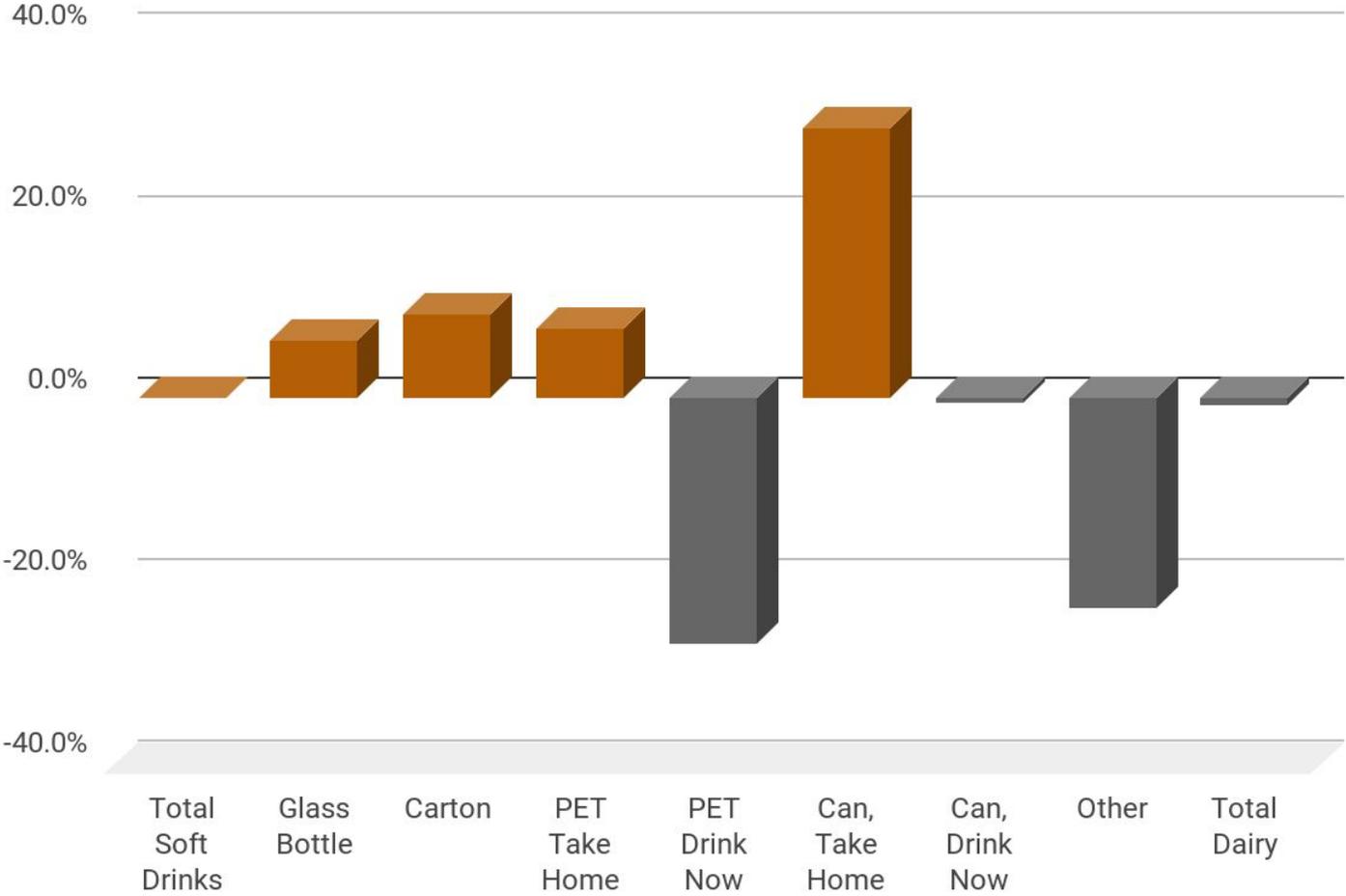
# Total UK soft drinks market - retail channels

Value growth % versus prior year



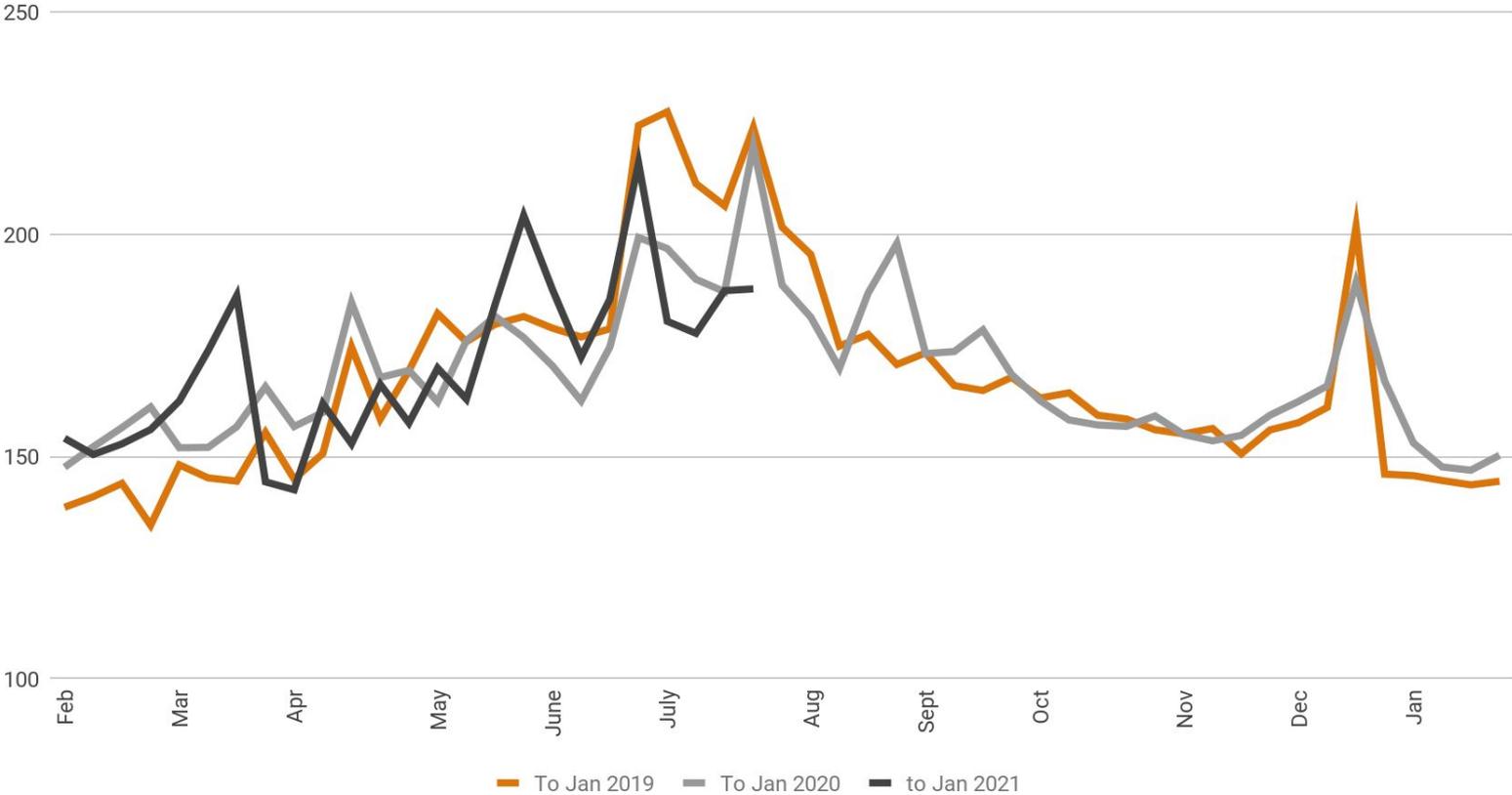
# Total UK soft drinks market - formats

Value growth % versus prior year



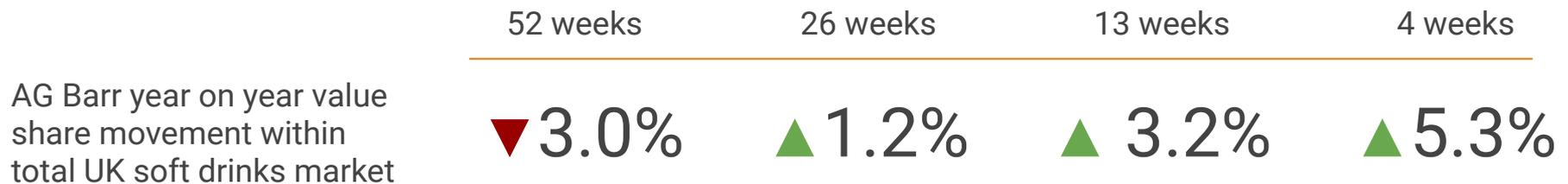
# Total UK soft drinks market

## Total soft drinks - value sales (£m) - weekly

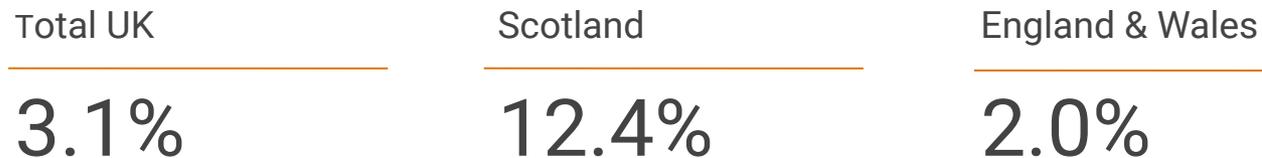


# Barr Soft Drinks market performance

## Value share performance to 26 July 2020



## Barr Soft Drinks value share of total soft drinks



# Cocktail market dynamics

## On-trade

### Value of cocktails in GB

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£624m

▲ 6.4%

### UK outlets stocking cocktails

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43.5k

▲ 3.7%

## Off-trade

### Consuming cocktails at home

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5.2m consumers

versus 3.8m pre lockdown

### Growth in ready to drink cocktails in cans

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▲ 19%

### Value of ready to drink cocktails in UK

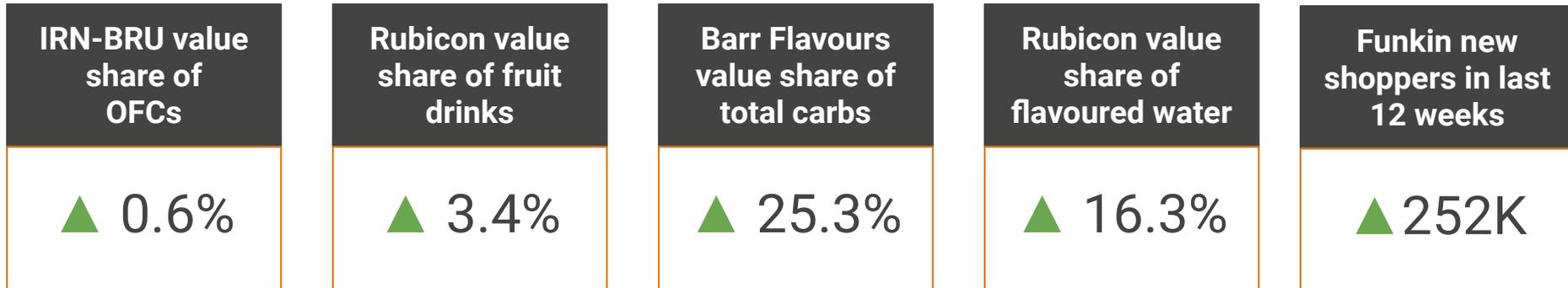
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£344m

Sources : CGA Mixed Drinks Report Q1 2020 ; Nielsen Scantrack Report MAT Week March 2020 ; CGA Analysis May 2020

# Group brand performance

## Market measures



## Revenue



Sources : IRI Marketplace 26 weeks to 26/07/20 ; AG Barr revenue 25/07/20 ;

Nielsen NGL Report Funkin Shift 12 weeks July 2020 vs year ago

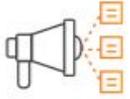
# Roger White

## Business update

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# Business fundamentals

## OUR STRATEGIC PRIORITIES:



**Connecting**  
**with consumers**



**Building**  
**brands**



**Building**  
**trust**



**Driving**  
**efficiency**

## OUR BUSINESS MODEL:

**Make** → **Move** → **Market** → **Sell** → **Behave responsibly** → **Create value**

## OUR RESPONSIBILITY COMMITMENTS:



**Act with**  
**integrity**



**Respect the**  
**environment**



**Support**  
**healthy living**



**Give**  
**back**

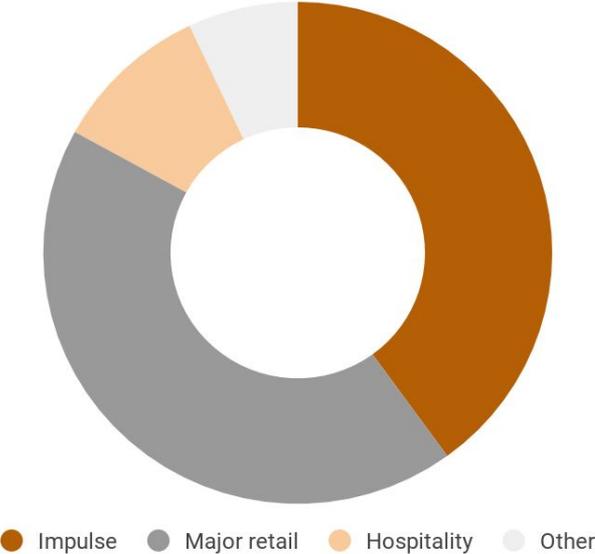
## Swift and pragmatic response

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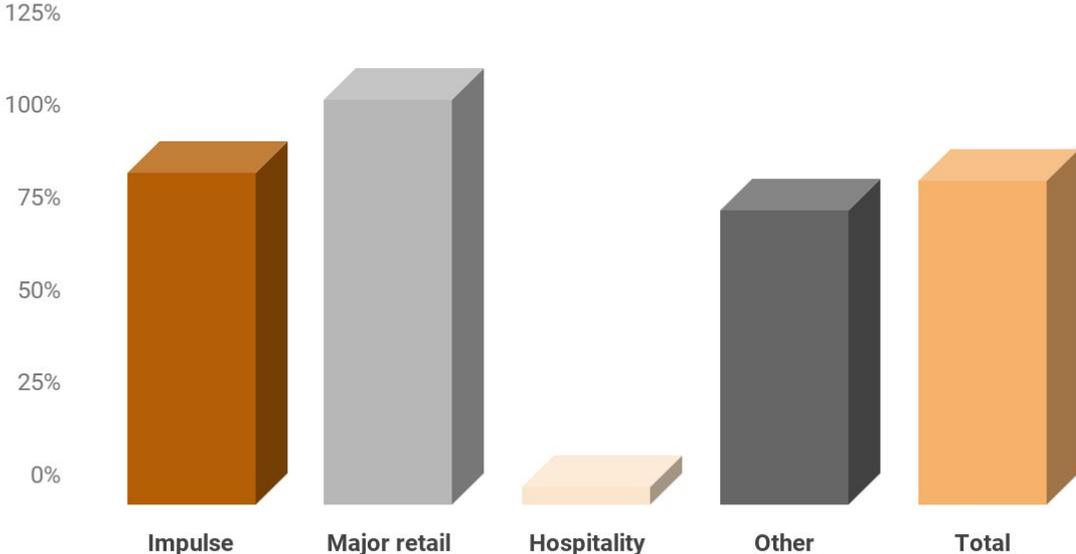
- Successfully introduced range of enhanced safety and hygiene measures across all operations
- Swift action taken to conserve cash and underpin financial stability
- Maintained continuity of production and continued to deliver high levels of service and quality
- Brought to a close use of the Government's Job Retention Scheme by end July
- Strong teamwork across the Group supporting our year to date performance
- Thanks to our colleagues and teams across the business who have worked tirelessly to support our customers and consumers in these challenging times

# COVID-19 : Channel impact

Group revenue % split for FY 19/20



Internal indicative customer channel revenue index Apr-Jun 20 versus same 3 months in prior year

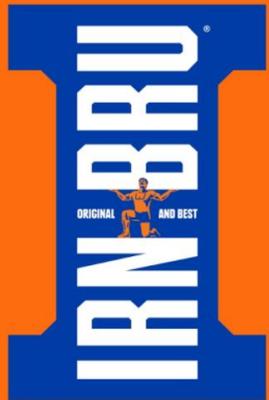


# COVID-19 : Format and price mix impact

	Average retail price per litre	Index H1 20/21 vs. H1 19/20	
<b>500ml IRN-BRU PET single</b>	£2.14	Price per litre index	99
		Volume index	83
<b>2L IRN-BRU PET single</b>	£0.69	Price per litre index	112
		Volume index	101
<b>330ml IRN-BRU can multipack</b>	£1.01	Price per litre index	109
		Volume index	103

# Connecting with consumers - H1 highlights

IRN-BRU TV, social and consumer engagement campaign during lockdown



LIFTING THE SPIRITS OF THE NATION

NEW Rubicon marketing and national TV campaign



MAKE THE UNBORING CHOICE

PLEASE RECYCLE



# Building brands - H1 highlights

IRN-BRU Energy outdoor marketing and social media campaign



ENERGY FOR  
THE REAL STUFF

Funkin Nitro Cocktails on TV for the first time in partnership with Sky

Funkin Passion Fruit Martini  
Best served with entertaining dramas



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# Driving efficiency - H1 highlights

## Business re-engineering programme

### Phase 1 complete

- portfolio simplification
- brand development prioritisation
- Commercial function reorganisation

### Phase 2

- further organisational structure changes including Forfar headcount reduction
- closure of Sheffield site complete
- product value optimisation programme underway

## Technology and system improvements

- online ordering project completed for wholesale customers - now turning to Barr Direct channel
- new suite of digital staff self service employee apps
- rolling out of online collaboration activity with key ingredient and packaging suppliers

# Building trust - H1 highlights

Playing our part  
in a time of crisis - over 250,000  
bottles donated

Thank you to [@irnbru](#) who kindly  
delivered lots to drink in [@qeuh](#)  
Critical Care [@NHSGGC](#)



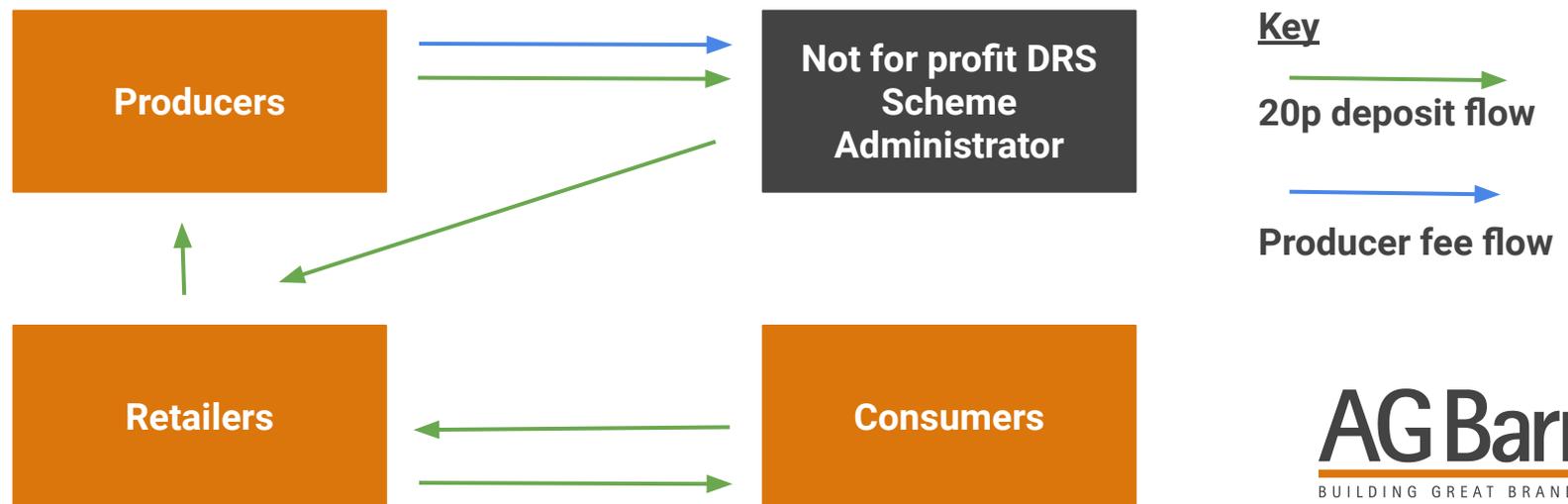
5:11 pm · 2 Apr 2020 from Glasgow,  
Scotland · [Twitter for iPhone](#)

Continued climate change  
focus

- ✓ Increased use of recycled PET  
- Rubicon Spring now in 50%  
rPET bottles
- ✓ Strong RECYCLE ME message  
now going on all PET bottle  
caps
- ✓ Continuing to work in  
partnership to facilitate  
Scottish DRS Scheme  
Administrator application to  
Government

# DRS in Scotland

- Go-live date now July 2022
- Legislation places obligations on both individual producers and retailers
- Producers can appoint not-for-profit Scheme Administrator to collectively discharge obligations
- Continuing to work collaboratively to facilitate Scheme Administrator application to Government this year
- **20p deposit** goes “full circle” - “loss” of deposit can only sit with a consumer who chooses not to return
- **Producer “responsibility” fee** per unit produced paid by producers to Scheme Administrator
- “Take back “ handling fee to recompense take back points
- Expectation the packaging handled via DRS will be exempt from current PRN system

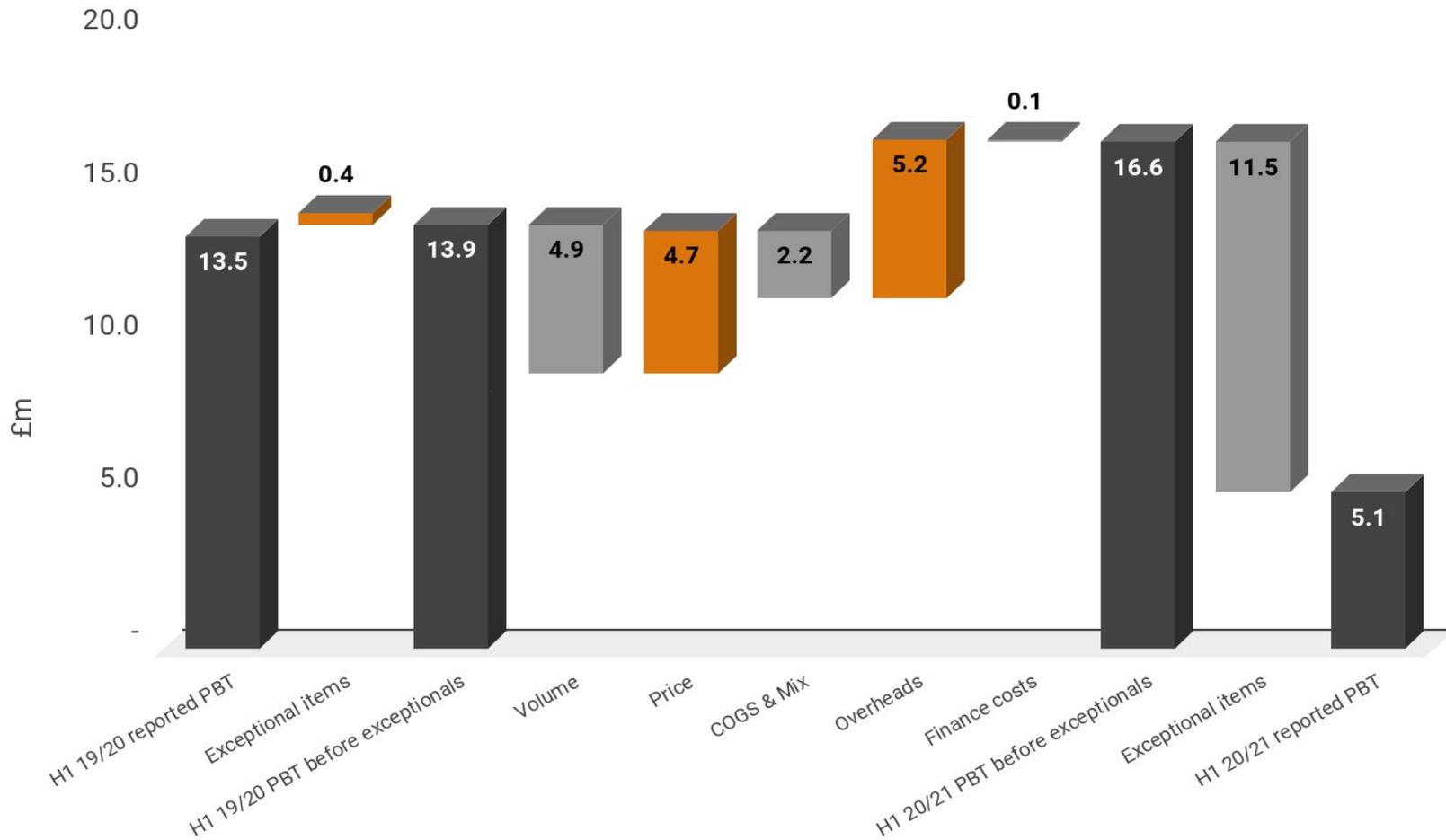


# Stuart Lorimer

## Financial review

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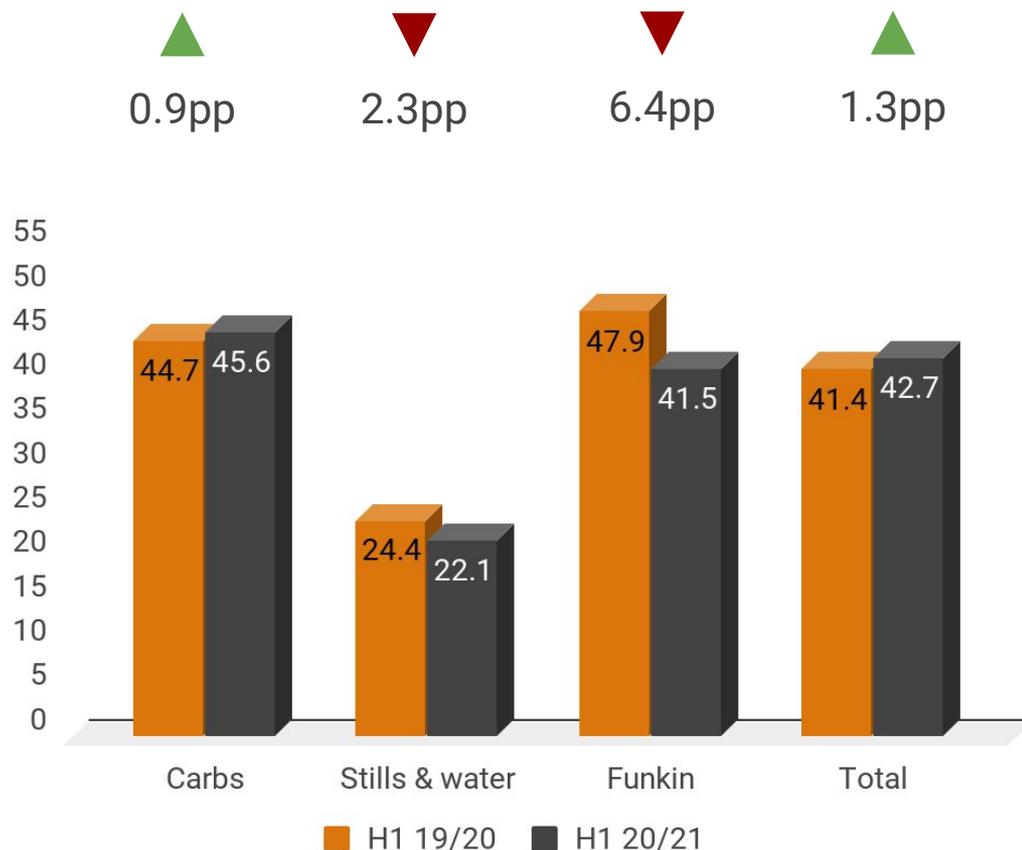
# H1 2020/21 profit overview



# Financial scorecard

	H1 20/21	v H1 19/20	% v H1 19/20
Case volumes (million cases)	24.0	(1.7)	(6.4) %
Net revenue (£m)	113.2	(9.3)	(7.6)%
Profit before tax and exceptionals (£m)	16.6	2.7	19.4%
Exceptional items before tax (£m)	(11.5)	11.1	
Statutory profit before tax (£m)	5.1	(8.4)	(62.2)%
Gross margin	42.7%		128 bps
Operating margin	15.1%		343 bps
EBITDA margin	20.4%		375 bps
Net cash at bank (£m)	30.4	25.8	560.9%
Liquidity headroom (£m)	215.4	150.8	233.4%
Net assets (£m)	209.9	5.6	2.7%
ROCE - 12 month MAT	19.0%		149 bps
Interim Dividend per share - declared	-	(4.00)	(100)%
EPS - Before exceptional items (p)	10.52	0.69	7.0%

# Gross margin (%)



## Carbonates

Strong performance in a challenging environment. Pricing gains across core brands, particularly IRN-BRU, more than offset negative format mix.

## Stills & water

Reduction in 'on the go' consumption disproportionately impacts Rubicon stills. On premise temporary closure significantly curtailed Strathmore.

## Funkin

On premise (previously over 80% of Funkin business) effectively closed for 3 months. Strong growth in RTD/grocery at slightly lower headline margin.

# Commodities and currencies

## Commodities

Largely stable costs across all commodities

Cover secured in full for current financial year and extending well into 2021 for several key categories

Focus is on mitigating Brexit disruption and ensuring supply security

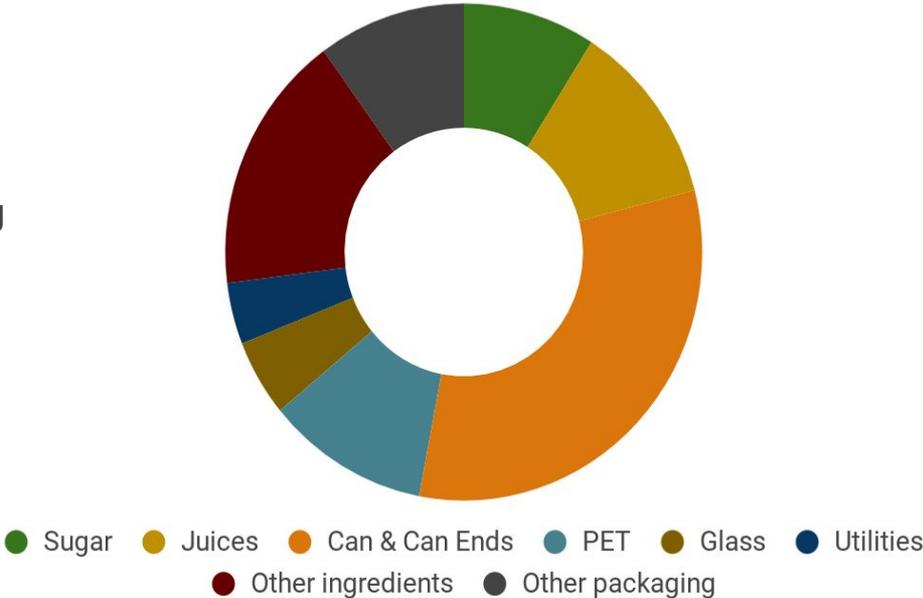
Full year outlook anticipates overall stable pricing - pressure on sugar (potential tariffs) largely offset by benefits across other categories

## Forex

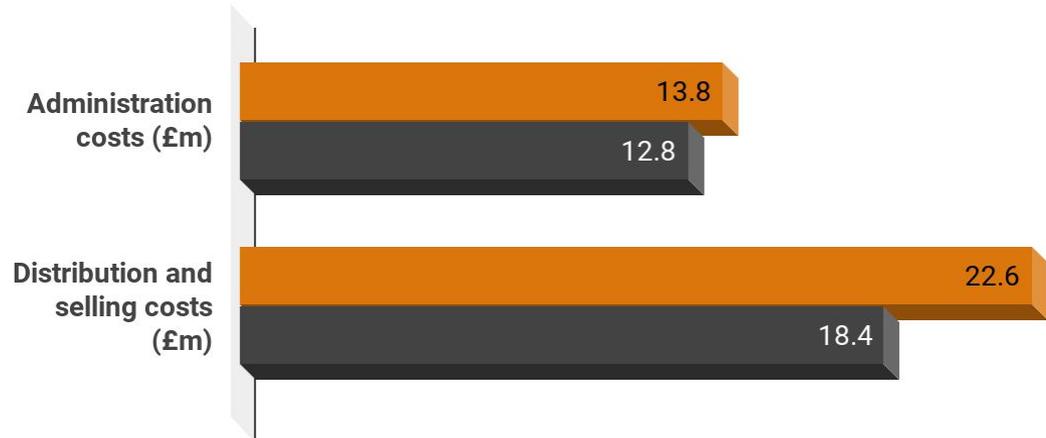
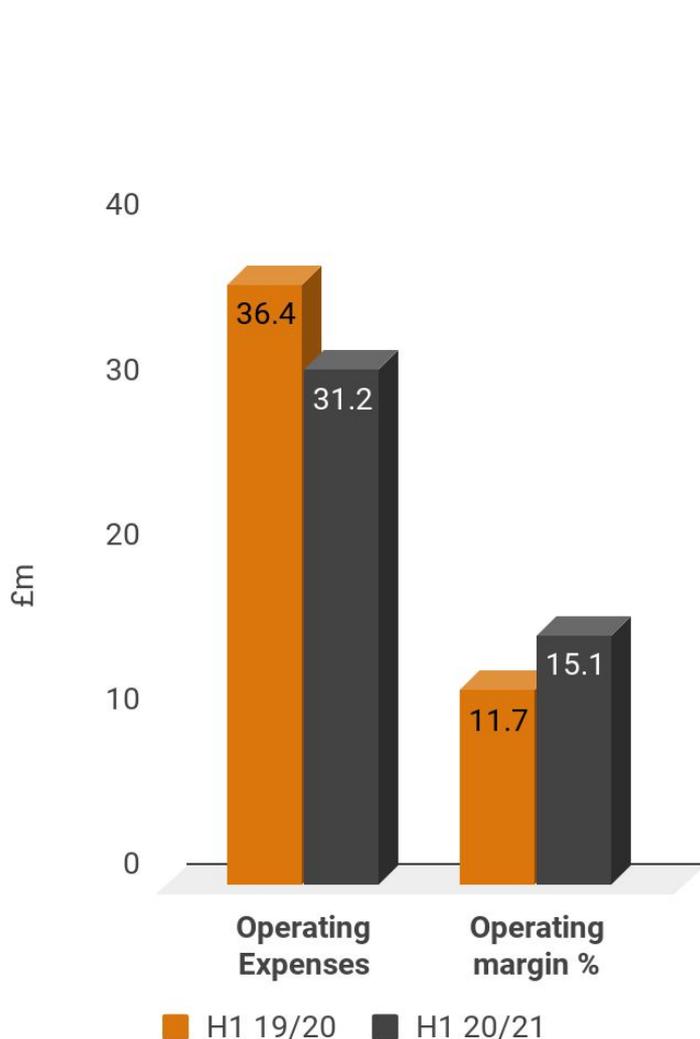
FY 20/21 95% covered with minimal P&L impact versus prior year

Rolling hedging programme continuing as normal

Commodity spend



# Operating costs and margin



## Significant cost savings :

- Logistics related - driven by volume
- Discretionary spend controls including headcount and travel & expenses
- Reduced overall marketing costs while maintaining core brand investment in IRN-BRU and Rubicon

# Exceptional costs : £11.5m

## Business re-engineering programme - cash

	FY 19/20	H1 20/21	H2 20/21	Total programme
Portfolio & RTM : simplification and rationalisation	£1.1m	-	-	£1.1m
Reorganisation	£0.7m	£1.5m	£1.5 - £2m	£3.7 - £4.2m
<b>Total spend *</b>	<b>£1.8m</b>	<b>£1.5m</b>	<b>£1.5 - £2m</b>	<b>£4.8 - £5.3m</b>

\* Excludes £1.8m one-off gain in FY 19/20 relating to compensation for removal of a wind turbine at our Cumbernauld site, and expected income relating to the Rockstar contract termination payment due H2 20/21

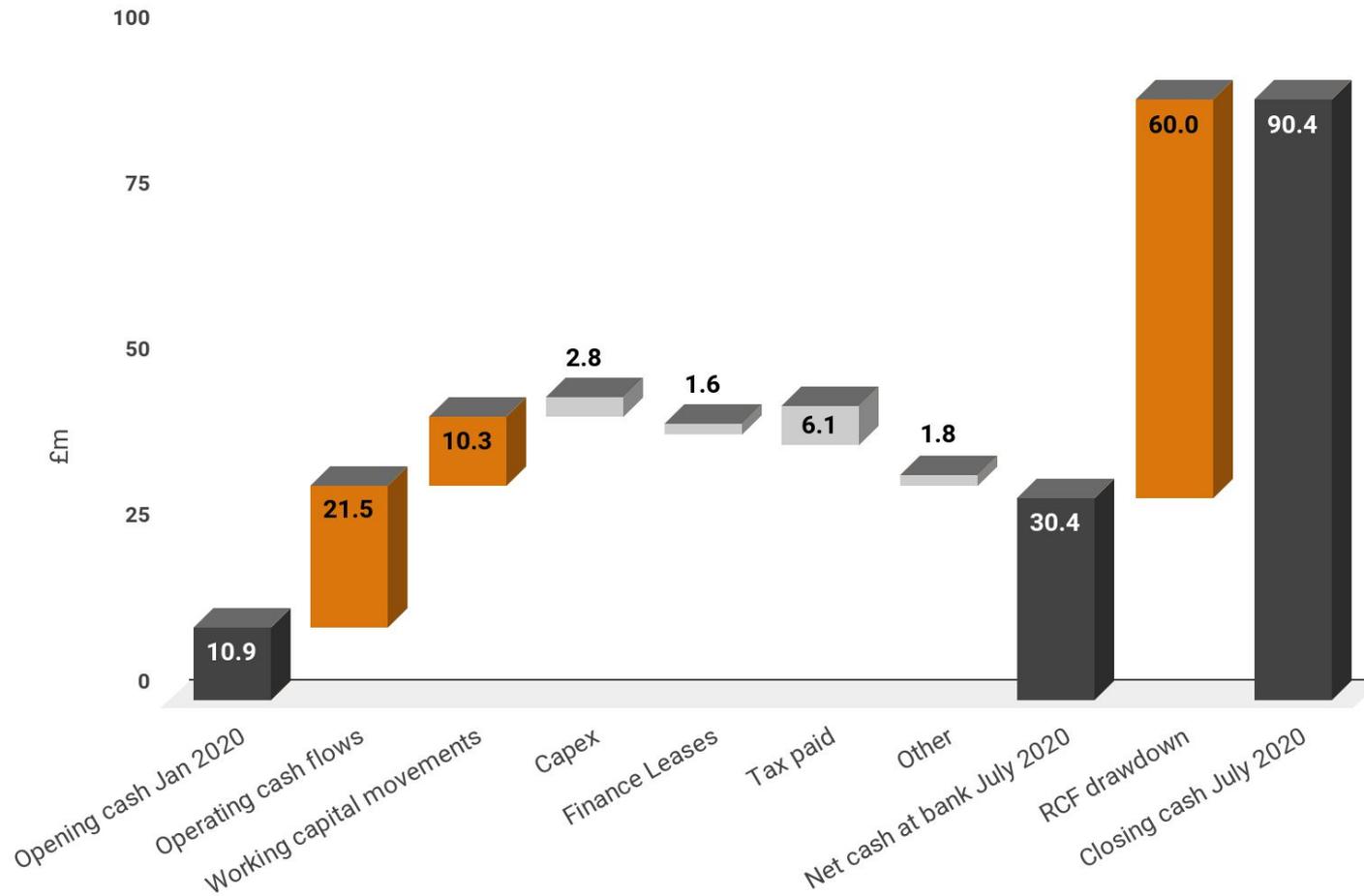
## Strathmore impairment - non cash

	Goodwill	Brand	PPE	Total
Asset value brought forward	£1.9m	£7.0m	£3.2m	£12.1m
Impairment	£(1.9)m	£(7.0)m	£(1.1)m	<b>£(10.0)m</b>
Asset value carried forward			<b>£2.1m</b>	<b>£2.1m</b>

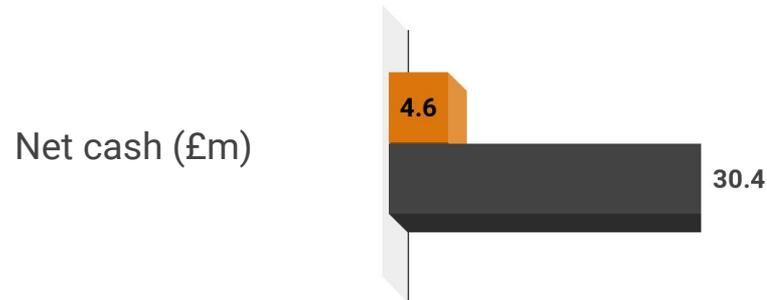
Significant headroom on other intangible assets

# Cash and cash flow

## Strong cash management in a challenging external environment



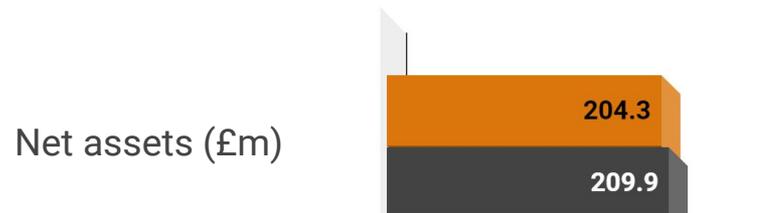
# Balance sheet : Key ratios



## Strong funding platform

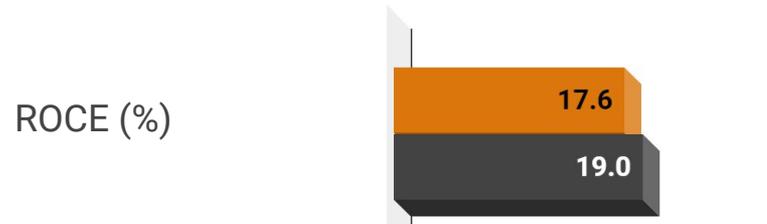
Continued cash generation with banking facilities available to 2022 (£60m) and 2024 (£20m)

CCFF funding accessible until March 2021



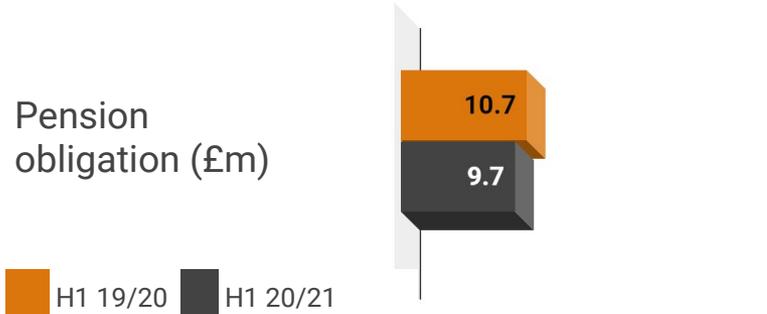
## Well invested asset base

Impact of Strathmore impairment more than offset by increase in net cash



## Clear capital allocation approach

Capex curtailed as a precautionary measure without impacting operations. Longer term planning remains in place



## Manageable pension obligations

Triennial evaluation (April 2020) currently being finalised

Small deficit expected

■ H1 19/20 ■ H1 20/21

# F20 Full year financial guidance

<b>Revenue</b>	Current scenario planning and underlying assumptions continue to indicate full year revenue c.12-15% below the prior year recognising loss of the Rockstar franchise
<b>Margins</b>	Flat gross margin in the full year however decline in operating margin from operational deleverage and normalised cost base
<b>Exceptionals</b>	H2 expectation for c.£1.5 - £2m of further reorganisation costs and the benefit of Rockstar termination payment
<b>Capex</b>	£6m - £8m
<b>Cash</b>	Ongoing improvement in net cash position. RCF repayment in H2
<b>Dividend</b>	Dividend position under review - expected to resume dividend payments in 2021

# Roger White

## Summary and outlook

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# H1 summary

- Given the difficult prevailing circumstances the business has responded well to the challenges faced - safe operations; supporting customers; financially secure
- Creditable financial performance in the first 6 months of trading, notwithstanding the relatively weaker comparatives of the prior year
- High degree of uncertainty associated with COVID-19
- Core brands proved resilient with continued investment in brands even during uncertain times
- Diverse channel and customer mix has supported our position
- Business model has allowed for flexibility and speed of action
- Confident that our business will continue to prove its resilience for the balance of this year and beyond.

# Looking forward...

- Confident we will weather this storm
- Core soft drinks brands in good health and expected to grow through rate of sale, distribution and innovation
- "Reset" activity across the business to right-size our operating/overhead base and to drive focus on margin improvement
- Funkin recovering quickly from the toughest of years in the on-trade but emerging stronger in retail and on-line as a consumer focused brand with a growing portfolio and innovation pipeline
- Accelerating momentum behind our wide ranging ESG plans
- Balance sheet remains a source of comfort and potential in difficult times
- Dividend flow expected to return in 21/22
- Operating model continues to provide optionality and flexibility
- We remain a profitable and cash generative business in a robust drinks sector and expect to return to growth

# Questions

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