



19 May 2015

PREMIER FOODS (PFD): 47p FY (15mth) numbers to 4 Apr 2015:

Group reports 'investment strategy [is] delivering results...'

| Y to end-March* | PBT# (£m) | EPS (p) | PER (x) | DPS (p) | Yield (%) |
|-----------------|--------------|------------|------------|------------|--------------|
| 5 Apr 2014 (A) | 74.9 | 15.6 | n/a | 0.0 | 0.0 |
| 4 Apr 2015 (A) | 83.2 | 8.0 | 5.9 | 0.0 | 0.0 |
| March 2016 (E) | 86.5 | 8.5 | 5.5 | 0.0 | 0.0 |
| March 2017 (E) | 89.0 | 8.7 | 5.4 | 0.0 | 0.0 |

Source: Co & Broker Ests, #pro-forma figs, *y/end to change to March post 2015, prior years now pro-forma end-March, (1) 240m shares in issue pre-rights, (2) 825m shares in issue post Rights, post placing

FY (15mth) Results: Period to 4 Apr 2015:

Premier Foods has this morning reported 15mth and pro-forma 12mth numbers to 4 Apr 2015 and our comments are set out below:

Overview of the numbers:

- **Changed year end:** A change of year-end is understandable but does make some comparisons problematic. PFD has produced pro-forma numbers for the 12mths to 4 April and has produced comps for the period to 5 April 2015
- **Sales:** Comparing numbers for the 12mths to the new year-end, revenues slipped to £767.4m from £803.3m last year
- **Profits:** EBITDA is up to £156.2m from £144.9m and PBT is up to £83.2m from £74.9m. EPS is down (on the share issue) to 8.0p from 15.6p.
- **Liabilities:** Debt is 'a little lower than expected' at £585m and the pension deficit, which admittedly is the difference between two very large numbers, has fallen from £463.0m Dec 13 to £253.6m Dec 14 to £166.5m Apr 15
- **Accounting changes:** The group is reclassifying commercial payments to customers as negative sales. It is moving to 13wk quarters & has removed the distinction between Power and Other brands

Trading in more detail:

- **Trends:** Premier Foods says sales are on a 'demonstrably improving trend' – Easter did help in the final quarter

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Three Year:



One Year:



Market Cap: £388m
12m range 26p 62p

- **Margins:** Gross margins remained solid on 1) mix changes and 2) a benign cost environment
- **Comps:** The group denied that comps are currently easy. But they will become progressively softer over the next couple of quarters

Wider trends:

- **Closer relationships.** Premier Foods has more 'category captaincy' positions with its suppliers
- **Less clutter.** It (PFD) embarked on a strategy of reducing SKU numbers some 18mths before its customers did. The actions now being undertaken by the major grocers are extremely helpful
- **Supermarket fight back:** Discounters are here to stay but the growth rate is slowing. PFD says 'there is increasing evidence that the growth in the discounter channel in particular is slowing.'
- **More shelf-space:** It goes on to say 'with a degree of momentum building in the traditional supermarket channel, the growth profile of the different sub-channels is displaying signs of converging.' This is helpful.
- **Alignment:** PFD has cut its tail end-SKU's. It is no1 or no2 in most segments. It is a natural partner for the major grocers.
- **Volume growth returning:** Deflation hit 2% in March but volume growth is back – Kantar says 2.8% end-March. In the March quarter, admittedly aided by Easter, PFD says 'volume sales...increased by 9.0% and delivered 2.0 percentage points of share, while value sales grew 3.3% taking 0.9 share points.' Despite Easter flattering cake sales, the wider market was only +1.9%.
- **Key strategic partner:** In a deflationary environment, the demonstration of growth potential, as shown above, is more important than ever to the major grocers.

The Outlook:

- **Overview:** CEO Gavin Darby says 'we feel good about the future'. The ASDA income & confidence tracker is at 6yr highs.
- **FY16:** Q1 FY16 will be tougher due to the shift of Easter
- **Payback:** Where investment has been undertaken (Kipling & Cadbury), volumes are +19% and +26% respectively. Easter helped but 1) there is low-hanging fruit for capex, innovation and marketing and 2) the group is about to focus on Ambrosia, Batchelors & Sharwoods.
- **Innovation:** Innovation spend has doubled. This takes PFD 'to the industry norm'. The idea is to now double it again.
- **Capex:** Investments, such as the £20m cake line in Barnsley, are only just kicking in. Ditto the c60 individuals who have been recruited into customer-facing roles
- **De-gearing & Pension Liability:** CFO Alastair Murray expects 'organic deleveraging' in FY16. The pension liability is somewhat hedged to rising interest rates – but the liability will still fall when rates edge up.
- **Tesco:** Tesco is currently undertaking a product review. It will announce in August. Fewer SKUs would aid PFD further. Even more shelf-space would be nice.

Langton Comment: Premier Foods' numbers are broadly in line but, in an environment in which there must have been a great deal of scepticism as to whether the group could deliver, we view this as positive news.

Market trends are moving in its favour & its interests are more aligned with those of the major supermarkets than they have been for years and there is low hanging fruit with regard to capex, innovation and marketing.

The group has shown what it can achieve with Kipling & Cadbury (admittedly aided a little by Easter) and its other brands are now the focus of renewed attention.

Deflation is mildly helpful, the discounters' growth rates are slowing, PFD's directors have been buying stock, the group is set to market its wares to the City in a way that it has not done for some time and PFD's shares are trading on <6x this year's earnings.

Appendices:

Appendix 1. Warm weather has hitherto been unhelpful. PFD prefers it chilly. UK Temperatures v 1981-2010 Average, Month by Month:

| Month | Degrees C warmer than 30yr Average | Degrees C cooler than 30yr Average |
|--------------|------------------------------------|------------------------------------|
| January 2014 | 1.1 | |
| February | 1.5 | |
| March | 1.2 | |
| April | 1.8 | |
| May | 0.9 | |
| June | 1.2 | |
| July | 1.2 | |
| August | | 1.0 |
| September | 1.3 | |
| October | 1.6 | |
| November | 1.4 | |
| December | 0.5 | |
| January 2015 | 0.4 | |
| February | | 0.1 |
| March | 0.4 | |

Source: UK Met Office- <http://www.metoffice.gov.uk/climate/uk/summaries/2014/december>

Appendix 2. A reminder of the group's brands:



More Brands People Love



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