



# SWALLOWFIELD PLC INVESTOR BRIEFING

FULL YEAR RESULTS - SEPTEMBER 2018

CEO | TIM PERMAN

GROUP FD | MATTHEW GAZZARD GROUP SALES & MARKETING DIRECTOR | JANE FLETCHER

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# AGENDA

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- FY18 HIGHLIGHTS
- FINANCIALS
- STRATEGIC REPORT
- LOOKING AHEAD
- OUTLOOK

# FY18 HIGHLIGHTS

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## Financial

- Adjusted EPS increases by 31% to 23.2p
- Increase in Adjusted PBT of 37% to £5.0m
- 52 week revenues at £71.6m down 3.6% (statutory basis £73.9m)
- Final dividend increased by 20% to 4.2p (Full Year 6.2p)
- Net Debt position up at £11.8m, incl. acquisition & LTIP payments

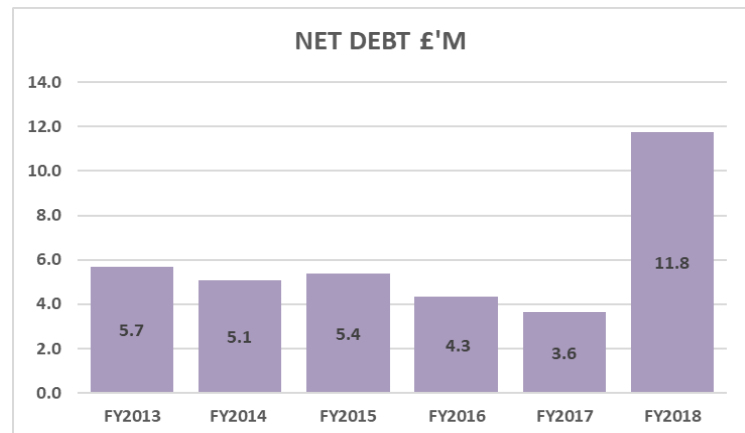
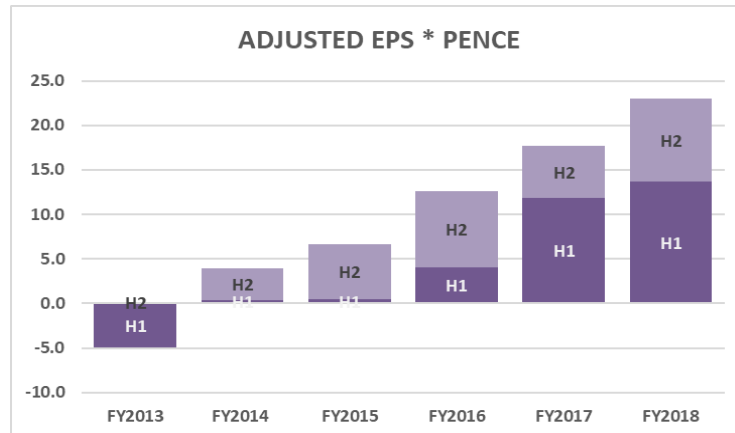
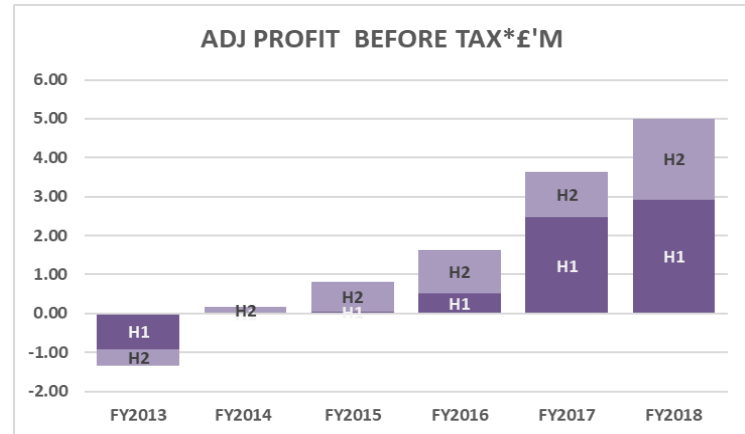
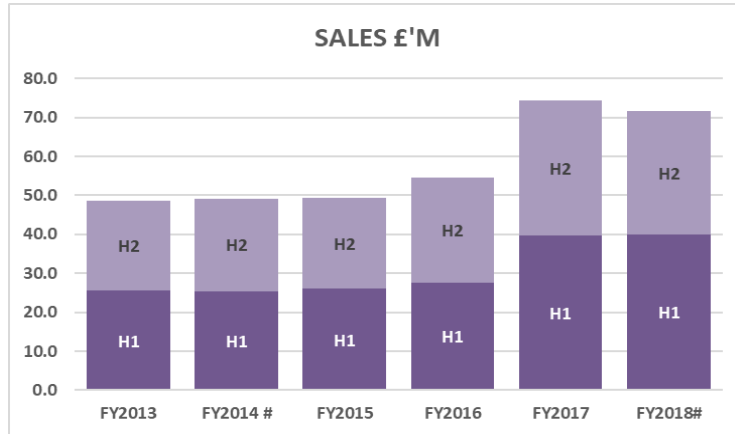
## Operational

- Brands sales up 15% driven by NPD, innovation and increased distribution
- Growth in Brands margins driven by NPD & leverage of Swallowfield resources
- Manufacturing adversely impacted by cost inflation & delays to contract wins; mitigating actions underway
- Brands now accounting for 28% of sales and 65% of underlying operating profits
- The acquired Fish brand fully integrated with NPD ready for Autumn launch
- Continued development of digital marketing

# FINANCIALS



# FINANCIAL SUMMARY



\* Adjusted PBT & earnings per share are calculated before exceptional items and amortisation of acquisition-related intangibles

# FY2014 & FY2018 revenue adjusted to 52 weeks

# FINANCIAL OVERVIEW

## Segmental Reporting

FY18 - 52 weeks (£m)	Brands	Manufacturing	Eliminations and C. Costs	Total	FY17
<b>Total revenue</b>	20.50	53.04	(1.94)	71.60	74.31
<b>Underlying profit from operations</b>	4.81	2.61	(1.95)	5.47	5.62
Charge for share-based payments & Net borrowing costs			(0.47)	(0.47)	(1.98)
<b>Adjusted Profit before tax</b>	4.81	2.61	(2.42)	5.00	3.64
Exceptional costs & amortisation of acq'n-related intangibles			(0.48)	(0.48)	(0.53)
<b>Profit before tax</b>	4.81	2.61	(2.90)	4.52	3.11
<b>Tax charge</b>			(0.89)	(0.89)	(0.54)
<b>Profit for the period</b>	4.81	2.61	(3.79)	3.63	2.57
<b>Profit Margin %</b>	23.5%	4.9%		5.1%	3.5%
Profit for the period (FY17)	2.91	4.82	(5.16)	2.57	
Profit Margin % (FY17)	16.2%	8.3%		3.5%	

# FINANCIAL OVERVIEW

## Challenges in Manufacturing

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### Challenge: Cost inflation

- Significant material / componentry price increases in H2 FY18
- Specifically steel / aluminium cans, silicon, packaging, utilities
- Impact on FY18 margin circa £1m

#### *Actions:*

- ✓ *Price increases agreed with customers*
  - ✓ *Further investment in line automation*
  - ✓ *Working closely with key suppliers*
- Positively impacts margin from H2 FY19

### Challenge: Delays to contract wins

- Tough comparative figures
- Secured 3 significant contract wins with major brand owners
- Planned to be in production during H2 FY18

#### *Actions:*

- ✓ *All 3 contracts now in production*



# FINANCIAL OVERVIEW

## Income Statement

£m	FY18	FY17	Change	Change %
<b>Revenue</b>	<b>71.60</b>	<b>74.31</b>	<b>(2.72)</b>	<b>-3.7%</b>
Gross profit	13.26	13.91	(0.65)	-4.7%
Gross Profit %	18.5%	18.7%	-0.2%	
<b>Underlying Operating Profit *</b>	<b>5.47</b>	<b>5.62</b>	<b>(0.15)</b>	<b>-2.7%</b>
Share-based payments	(0.30)	(1.76)	1.46	83.0%
Amortisation of acquisition-related int	(0.20)	(0.19)	(0.01)	
Exceptional Items	(0.28)	(0.34)	0.06	-17.6%
<b>Operating Profit</b>	<b>4.70</b>	<b>3.33</b>	<b>1.37</b>	<b>41.1%</b>
Net Finance costs	(0.02)	(0.07)	0.05	71.4%
Net Pension Scheme (non-cash)	(0.15)	(0.15)	0.00	0.0%
<b>Profit before taxation</b>	<b>4.53</b>	<b>3.12</b>	<b>1.41</b>	<b>45.2%</b>
Taxation	(0.89)	(0.54)	(0.35)	-64.8%
<b>Profit after taxation</b>	<b>3.63</b>	<b>2.57</b>	<b>1.06</b>	<b>41.2%</b>
<b>Statutory Earnings per share * pence</b>	<b>23.2</b>	<b>17.7</b>	<b>5.5</b>	<b>31.1%</b>
<b>Underlying EBITDA *</b>	<b>6.75</b>	<b>6.87</b>	<b>(0.12)</b>	<b>-1.7%</b>

\* Underlying operating profit and EBITDA is calculated by adding back the charge for share-based payments to adjusted operating profit. This measure was adopted as the charge for share-based payments is a material £0.30m (2017: £1.76m), and is intended to provide a more representative reflection of the trading performance of the Group.

# STRATEGIC REPORT



# BRANDS

- Pace of new product development continues: 89 new products launched in FY18 across 11 brands
- Emphasis on 'Drive' brands; increasing distribution, product development, digital marketing
- Acquisition of the 'Fish' brand of male hair styling products in February 2018. Strong complementary fit to portfolio and now fully integrated
- Strong progress continued in leveraging internal Manufacturing expertise
- Continued development of Digital Marketing capabilities and skills to support omni-channel sales
- Focus continues on International development centred on 'Drive' brands



# MANUFACTURING

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- Focus on driving innovation and service continues; 479 new products launched in FY18
- External environment remains tough; evidence of softening demand
- Innovation is centred on areas of core strength; particularly personal care aerosols and hot pour products
- Significant new volumes won within the aerosol & hot pour categories; 3 important wins for major brand owners
- Further investment in capacity to meet increased demand and automation to increase efficiency
- Completed a major refurbishment of our Research and Development laboratory at our Wellington site

# LOOKING AHEAD



# CEO FIRST IMPRESSIONS

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- In-depth, thorough induction to the business over last 4 months; really had the chance to get my arms around the businesses
- Impressed by category expertise & enthusiasm of team; appreciated support from the plc Board and executive colleagues
- Existing strategy has worked: Swallowfield transitioned from contract manufacturer to brand owner and significantly increased shareholder value
- See opportunities & challenges
  - Brands business offers strong potential for growth; margin accretive
  - Manufacturing business volatile and complex
- Current external context also challenging
  - Consumer spending remains sluggish
  - Inflationary pressures in low price increase environment
  - Brexit uncertainty

# FUTURE VALUE DRIVERS

- Portfolio of international, national and exclusive Brands
- Distribution expansion of Brands business
- Simplified, profitable Manufacturing business
- Category know-how: technical, formulation & regulatory expertise
- Performance culture: commercial acumen, speed, responsiveness, flexibility

# BRANDS: ACCELERATE CURRENT STRATEGY

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- Develop & optimise brand portfolio
- Increase levels of marketing investment
- Extend UK distribution in both retail and on-line channels
- New International strategy to expand footprint
- Enhanced focus on digital in marketing communications
- Appetite for further acquisitions remains strong





# MANUFACTURING: SIMPLIFY

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- Further reduce complexity and increase efficiency
- Focus on added-value product categories
- Renewed emphasis on cost base optimisation
- Leverage technical capability in innovation, formulation & regulatory to support Brands operations

# OUTLOOK

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- Strong momentum of Brands business expected to continue
- Manufacturing business to remain challenging; actions being taken to mitigate
- Appetite for further acquisition opportunities
- Confident that accelerated strategy will deliver

# APPENDICES



# FINANCIAL OVERVIEW

## Balance sheet

£m		As at 30 Jun 2018	As at 24 Jun 2017
<b>Non-current assets</b>	Tangible assets	11.44	11.08
	Intangible assets	12.71	9.49
	Other	1.85	2.32
		<b>26.00</b>	<b>22.89</b>
<b>Current assets</b>	Inventories	13.83	11.43
	Trade and other receivables	19.28	16.35
	Cash and cash equivalents	0.93	4.06
		<b>34.04</b>	<b>31.84</b>
<b>Current liabilities</b>	Trade and other payables	15.36	16.06
	Deferred consideration	-	1.85
	Borrowings - Invoice discounting	8.35	5.61
	Interest-bearing loans and borrowings	1.13	0.53
	Other	0.39	0.16
		<b>25.23</b>	<b>24.21</b>
<b>Non-current liabilities</b>	Borrowings	3.23	1.56
	Other	4.56	6.54
		<b>7.79</b>	<b>8.10</b>
<b>Net assets</b>		<b>27.02</b>	<b>22.42</b>
<b>Net Debt*</b>		<b>11.78</b>	<b>3.64</b>

\* Net Debt in line with management expectations. Company continues to trade with headroom against its working capital banking facilities of £15m.

# FINANCIAL OVERVIEW

## Cashflow Summary

£m	FY18	FY17
<b>Operating cash generated</b>	<b>6.53</b>	<b>6.46</b>
Increase in Working Capital	(4.10)	(1.30)
Share based payments *	(1.67)	-
Taxation paid	(0.80)	(1.10)
Capital expenditure	(1.60)	(1.40)
Brand acquisition *	(3.20)	-
Purchase of subsidiary * / **	(1.85)	(1.20)
Dividends paid	(0.93)	(0.67)
Finance costs & other items	(0.51)	(0.10)
<b>Total cash activities</b>	<b>(8.13)</b>	<b>0.69</b>
Opening debt	(3.64)	(4.33)
<b>Closing debt</b>	<b>(11.77)</b>	<b>(3.64)</b>

\* Total of 'exceptional' payments in FY18 equals £6.72m

\*\* FY17 Net cash outflow after fund raise

# NEW EXEC TEAM

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## **TIM PERMAN** CHIEF EXECUTIVE OFFICER

Tim joined the Company as Chief Executive on 1 July, 2018. He has extensive experience in the consumer products industry, with over 20 years in the beauty and personal care sector, and has held senior General Management and Marketing positions at PZ Cussons, Seven Seas, Campbells Grocery Products and Clairol. In his last role at Cussons, Tim was Group Category & Brand Director and Global Beauty Director, and prior to that he was Area Director, Europe. Tim has previously been Managing Director UK & Ireland at Seven Seas, Managing Director at Campbells and occupied senior roles in the US and EMEA at Clairol.

## **MATTHEW GAZZARD** FCCA | GROUP FINANCE DIRECTOR

Matthew joined the company in January 2018 as Group Finance Director. Matthew has extensive experience in financial, commercial and management roles from across a range of manufacturing businesses in various industrial sectors. Matthew has previously held senior roles in Autologic Holdings plc, Invensys plc, British Ceramic Tile Ltd and Thatchers Cider Company Ltd.

## **JANE FLETCHER** BSC (HONS) | GROUP SALES AND MARKETING DIRECTOR

Jane joined the Company in 1996. She started her career in textile buying and gained valuable experience at Marks and Spencer buying clothing, household goods and beauty products. She joined Swallowfield as a Business Development Manager on the retail side and progressed to a Sales Director role in 1999 covering both brands and retail. Jane was promoted to the Board in October 2004. Jane has over 20 years' experience in the industry. She is a specialist in beauty & personal care and has extensive experience of the product development process, working with both brands and retailers in the domestic and international markets.

# STRONG, EXPERIENCED NON-EXEC TEAM

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## **BRENDAN HYNES** MBA, FCMA | NON-EXECUTIVE CHAIRMAN

Brendan joined the Company as Non-Executive Chairman on 1st July 2013. He is also currently the Senior Independent Non-Executive Director and Chairman of the Audit Committee of Churchill China plc, Non-Executive Director of private, online education business “Webexaminer”; and a member of the Criticaleye Advisory Board. He was CEO of Nichols plc from 2007 to 2013 having previously been Group Finance Director. He has plc main board experience across a range of other sectors including TMT, retail, consumer goods, buildings and automotive. Previous roles have included Executive Director at Knowledge Management Software plc and Group Finance Director at William Baird plc a branded clothing business and Director of the Consumer, Retail and Distribution (CRD) practice of PricewaterhouseCoopers advising Times 100 companies. Brendan chairs the Nomination Committee and is a member of the Audit and Remuneration Committees.

## **ROGER MCDOWELL** | NON-EXECUTIVE DIRECTOR

Roger was reappointed to the Board in March 2012 having previously served as a Non-Executive Director from July 2011 to January 2012. Roger is an experienced director of over 30 years' standing: he led the Oliver Ashworth Group through dramatic growth, main market listing and sale to St. Gobain, following which he was appointed to a number of non-executive roles, including chairmanships in both public and private equity backed businesses. He is currently Chairman of Avingtrans plc, and is Senior Non-Executive Director of Servelec Group plc and Tribal Group plc. He is also a Non-Executive Director of D4T4 Solutions plc and Proteome Sciences plc. Roger chairs the Remuneration Committee and is a member of the Audit and Nomination Committees.

## **EDWARD BEALE** | NON-EXECUTIVE DIRECTOR

Edward joined the Company as a Non-Executive Director on 1 July 2014. Mr Beale is a Chartered Accountant and is the Finance Director of Marshall Monteagle plc. He is a member, previously chairman, of the Corporate Governance Committee of the Quoted Companies Alliance. He was a member of the Accounting Standards Board of the Financial Reporting Council for six years to 31st August 2013. He is a non-executive director of London Finance & Investment Group P.L.C., Western Selection P.L.C., Heartstone Inns Limited, and some of their subsidiary and associated companies. Edward chairs the Audit Committee and is a member of the Remuneration Committee.

## **FRANKLIN BERREBI** | NON-EXECUTIVE DIRECTOR

Franklin joined the Company in July 2010 and brings a wealth of international experience in the consumer goods market having spent 33 years with L'Oréal, latterly as the Managing Director of L'Oréal Consumer Goods Europe. Since retiring from L'Oréal in 2004 Franklin has worked with AXA Private Equity (now Ardian) and Activa Capital, and sits on the Board of a number of companies. Franklin is a member of the Audit, Remuneration and Nomination Committees.

