



## CRANSWICK plc: PRELIMINARY RESULTS

### A platform for future growth

21 May 2019

CranSwick plc (“CranSwick” or “the Company” or “the Group”), a leading UK food producer, today announces its audited preliminary results for the year ended 31 March 2019.

#### Commercial and strategic progress:

- Record capital expenditure of £79 million to add capacity, extend capability and drive efficiencies
- Construction of the new world-class poultry primary processing facility in Eye, Suffolk is progressing to plan
- New long term supply agreement secured to supply fresh poultry from the new Eye facility
- New Continental Foods facility in Bury, Lancashire completed and commissioned
- Like-for-like Far East export volumes 16.1% ahead

#### Financial highlights\*:

	2019 52 weeks	2018 53 weeks	Change (Reported)	Change 52 weeks (Like-for-like†)
Revenue	<b>£1,437.1m</b>	£1,464.5m	-1.9%	<b>-0.2%</b>
Adjusted Group Operating Profit	<b>£92.3m</b>	£92.8m	-0.5%	<b>+1.8%</b>
Adjusted Group Operating Margin	<b>6.4%</b>	6.3%	+9bps	<b>+12bps</b>
Adjusted Profit before tax	<b>£92.0m</b>	£92.4m	-0.4%	<b>+2.0%</b>
Adjusted earnings per share	<b>144.3p</b>	145.0p	-0.5%	<b>+1.9%</b>

- Statutory profit before tax at £86.5m (2018: £88.0m)
- Statutory earnings per share of 135.5p (2018: 137.8p)
- Return on capital employed<sup>‡</sup> of 18.4% (2018: 20.3%)
- Full year dividend increased by 4.1% to 55.9p (2018: 53.7p)
- Net funds of £6.3m (2018: £20.6m)

#### Adam Couch, CranSwick’s Chief Executive Officer commented:

“The last year was one of consolidation following three years of very strong growth. We delivered this year’s results against a backdrop of highly competitive market conditions and ongoing, Brexit related, political and economic uncertainty.

“We invested at record levels across our asset base and made further strong progress against our strategic objectives. We continue to build a platform and lay down the pipeline for future growth.

“I am confident that continued focus on the strengths of our business, which include its long-standing customer relationships, breadth and quality of products, robust financial position and industry leading infrastructure, will support the further successful development of CranSwick over the longer term”.

\* Adjusted and like-for-like references throughout this statement refer to non-IFRS measures or Alternative Performance Measures (“APMs”). Definitions and reconciliations of the APMs to IFRS measures are provided in Note 10.

† 2018 was a 53 week accounting period. For comparative purposes, like-for-like references exclude the 53<sup>rd</sup> week in the prior year.

‡ Return on capital employed is defined as adjusted operating profit divided by the sum of average opening and closing net assets, net (debt)/funds, pension liabilities and deferred tax.

## **Presentation**

A presentation of the results will be made to analysts and institutional investors today at 10.00am at The Lincoln Centre, 18 Lincoln's Inn Fields, London, WC2A 3ED.

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Note to Editors:

Cranswick is a leading and innovative supplier of premium, fresh and added value food products. The business employs over 10,000 people and operates from fifteen well invested, highly efficient production facilities in the UK.

Cranswick was formed in the early 1970s by farmers in East Yorkshire to produce animal feed and has since evolved into a business which produces a range of high quality, predominantly fresh food, including fresh pork, poultry, convenience and gourmet products. Through the Group's four primary processing and eleven added value processing facilities the business develops innovative, great tasting food products to the highest standards of food safety and traceability. The Group supplies the major grocery multiples as well as the growing premium and discounter retail channels. Cranswick also has a strong presence in the 'food-to-go' sector and a rapidly growing export business.

# Summary

The past year was particularly encouraging considering the competitive trading environment. Cranswick showed resilience against the changeable economic and political background and is strongly positioned both financially and commercially to continue its long-term success.

## Results

Revenue at £1.44 billion was in line with the prior year after adjusting for the 53<sup>rd</sup> week.

Adjusted profit before tax came in at £92.0 million which, when compared on a like-for-like basis with the previous year, indicates further progress in what was a challenging trading environment.

Adjusted earnings per share were 144.3 pence compared to 145.0 pence previously. On a comparable 52-week period, adjusted earnings per share were 1.9 per cent ahead.

A record level of investment was made in the asset base. The year saw the commissioning of the new Continental Foods site at Bury and commencement of the construction of the new Poultry facility at Eye in Suffolk. Other projects were undertaken elsewhere in the business to improve efficiency, expand capacity and enhance the resources available for product development.

Cranswick has a significant unsecured banking facility and the balance sheet remains in robust shape. At the year end, after a year of record investment, the Group was in a net funds position of £6.3 million.

## Dividend

The Board is proposing an increase in the final dividend to 40.0 pence per share from 38.6 pence previously, an increase of 3.6 per cent. Together with the interim dividend of 15.9 pence per share this gives a total dividend for the year of 55.9 pence per share, an increase of 4.1 per cent on the 53.7 pence per share paid previously. This is the 29<sup>th</sup> consecutive year of dividend growth.

The final dividend, if approved by Shareholders, will be paid on 6 September 2019 to Shareholders on the register at the close of business on 19 July 2019. Shareholders will again have the option to receive the dividend by way of scrip issue.

## Outlook

The past year has seen the business make further strategic and commercial progress which has strengthened the base from which to deliver the ongoing plans of the Group.

Over the longer term, success has been achieved despite occasional periods of more intense commercial challenges. The new financial year is expected to be such a period as outlined in the announcement released on 7 February 2019. This highlighted that the Group's operating margin is likely to decline, reflecting the potentially challenging commercial landscape, together with start-up and commissioning costs associated with the new Eye Facility, only partly offset by management actions.

Trading since then has been as anticipated and the Board's expectations for the Group's performance in the new financial year remain unchanged.

Notwithstanding these short-term challenges, the new Eye and existing added value, poultry facilities and the Group's broadening customer base, provide a solid platform to further develop the poultry business and drive future growth in this attractive and expanding protein category.

Longer term, the Group is well positioned to continue its successful record of development.

# Operating and Financial review

## Operating review

### Revenue and Adjusted operating profit

	2019 52 weeks	2018 53 weeks	Change (Reported)	Change 52 weeks (Like-for-like*)
Revenue	<b>£1,437.1m</b>	£1,464.5m	-1.9%	<b>-0.2%</b>
Adjusted Group Operating Profit*	<b>£92.3m</b>	£92.8m	-0.5%	<b>+1.8%</b>
Adjusted Group Operating Margin*	<b>6.4%</b>	6.3%	+9bps	<b>+12bps</b>

\* See Note 10

### Revenue

Reported revenue decreased by 1.9 per cent to £1,437.1 million.

Like-for-like revenues were 0.2 per cent lower, with corresponding volumes down 0.5 per cent. Strong revenue growth from poultry, sausages and continental products partly offset lower year-on-year revenue in other pork related categories. Poultry and continental products significantly outperformed overall category market growth throughout the year.

Like-for-like export revenues increased by 3.1 per cent year on year, with Far East export volumes 16.1 per cent ahead on an equivalent basis.

### Adjusted Group operating profit

Like-for-like adjusted Group operating profit increased by 1.8 per cent to £92.3 million and like-for-like adjusted Group operating margin at 6.4 per cent was 12 basis points higher than in the prior year.

## Category Review

### Fresh Pork

Fresh Pork includes our three primary processing facilities and associated farming operations and represented 32 per cent of Group revenue. Like-for-like Fresh Pork revenue fell by 3.8 per cent reflecting lower wholesale and export demand through the first half of the year, with the average number of pigs processed during the year falling to 56,000 per week, from 59,000 in the prior year. However, retail volumes increased by 0.7 per cent, as the World Cup and summer weather combined to deliver a strong barbecue season as well as growth in added value convenience ranges launched with our key customers. This growth was offset by lower sales of roasting joints and other more traditional products. Overall our retail sales growth was ahead of the wider Fresh Pork retail market performance.

We invested £11 million across the three pork primary processing facilities during the year, including £3 million spent on phase 1 of the extension to the Hull facility, which included increasing lairage capacity from 600 to 1,600 pigs and chiller capacity from 4,800 to 7,000 carcasses. We are upgrading the refrigeration systems at our Hull facility and we have commissioned a combined heat and power plant which provides 40 per cent of the site's electricity requirements. The plant has improved energy efficiency and reduced the site's environmental impact. Following the successful implementation of the Deboflex shoulder deboning system in the previous financial year we are now working with the same equipment provider to develop further automated deboning capability.

Like-for-like export revenues increased by 3.1 per cent. Export volumes to our key Far Eastern markets were 16.1 per cent higher as we continue to build our e-commerce business and strong, direct relationships with large scale processing customers in China through our Shanghai office. We secured approval for direct export to China from our Ballymena site, plus additional product lines from our Hull processing facility in the second half of the prior year and we now export in excess of 50 product lines to the Far East. Softer prices for Far East exports in the early part of the year gradually improved as the year progressed moving ahead of the prior year in the final quarter. Stronger pricing towards the end of the year reflected supply tightening in the Chinese market due to a material contraction in the local herd resulting from the developing African Swine Fever (ASF) epidemic. Prices are expected to stabilise over the coming months before firming in advance of the Chinese New Year. We are also continuing to increase sales into our other export markets, with sales of prime cuts to Japan, Australia and Canada delivering particularly strong growth.

ASF has now spread to every province in China and throughout Southeast Asia, disrupting the local pork industry. It is estimated that between 10 and 35 per cent of the Chinese herd has been lost, resulting in a potential pork supply shortfall of 16 million tonnes per year, with export prices strengthening considerably in the second half of the year as a direct result. It is anticipated that the impact of ASF on China and surrounding countries may extend beyond three years due to limited biosecurity and the slow replenishment of pig herds in the region. ASF was also detected in the feral pig population in Belgium in mid-September. The region was quarantined and intensive efforts to eradicate ASF sources have so far been successful. However, the UK pork industry remains vigilant with increased levels of biosecurity in place.

During the year we invested £8 million in our farming infrastructure, mainly through the Wayland Farms operation in East Anglia. This included the purchase of the assets of Woodlark Farms and expansion of existing operations to increase breeding and finishing capacity. We invested a further £2 million in a joint venture with one of our key commercial pig producers to increase capability in this sector. In addition, our Wold Farms operation in Yorkshire has more than doubled the size of its outdoor reared, RSPCA Freedom Foods assured herd during the year through organic growth.

The average UK pig price (EU-spec SPP) was 7 per cent lower year-on-year. The UK pig price ended the year 6 per cent lower than at the start of the year, rising steadily through to the end of July before falling back consistently through to the end of the year. The EU reference pig price increased by 1 per cent during the year, but with the average price down 11 per cent year-on-year. During April 2019 the EU price increased by 14 per cent to 147p/kg, lifting it above the equivalent UK price, driven by a significant uplift in demand from China. It is anticipated that the UK price may start to rise as a consequence of this shift.

### **Convenience**

Convenience, which comprises Cooked Meats and Continental Products, represented 35 per cent of Group revenue. Like-for-like Convenience revenue decreased by 1.2 per cent reflecting strong growth in Continental Products offset by lower Cooked Meats sales.

Cooked Meats sales were lower than the prior year due primarily to reduced promotional activity. The premium tier, which is our key area of focus, continues to outperform the wider category, with discount customers continuing to develop and broaden their premium ranges. We have further developed our “Sous Vide” and “Slow Cook” ranges and, looking forward, we anticipate further growth and penetration in this attractive sector. We spent a further £17 million across the three Cooked Meats facilities during the year on cooking, cooling and slicing equipment to add capacity and further improve efficiencies. An energy efficient combined heat and power (CHP) plant was commissioned at the Milton Keynes facility early in the year with the site spearheading the Group’s ‘Second Nature’ sustainability initiative. Following the successful commissioning of CHP plants at Milton Keynes and Hull we plan to replicate this capability at other Group sites, including the new Eye facility, during this next financial year.

Continental Products revenue grew strongly, with the new facility providing additional capacity for new olive business, sales growth with our discount retail customers and increased sales of pre-pack corned beef. The new facility in Bury, which increased capacity by approximately 70 per cent, was commissioned in May, as planned, with capital expenditure of £3 million during the year to complete the £27 million project. Although commissioning costs were higher than anticipated and expected efficiency improvements were not delivered immediately, the business is now making good progress towards achieving planned returns and revenue growth is ahead of expectations.

### **Gourmet Products**

Gourmet Products, which comprise Sausage, Bacon and Pastry, represented 19 per cent of Group revenue. Like-for-like Gourmet Products revenue fell 3.3 per cent compared to the prior year. Sausage sales growth was offset by lower sales of bacon and pastry products.

The improvement in sausage sales reflected a strong promotional pipeline and extended summer barbecue season. We secured additional business with our discount retail customers as they continue to expand their premium ranges and we also secured a long-term supply agreement with our largest food service customer. The peak Christmas trading period was well executed with strong sales of premium festive products.

Lower bacon sales reflected reduced levels of promotional activity by one of our key retail customers, particularly during the first half, and the effect of the hot summer when customers tend to switch to alternative protein formats. Stronger second half revenues reflected improving levels of promotional activity and a Christmas trading period boosted by seasonal gammon sales and strong growth in premium festive ranges.

Pastry sales were lower than the prior year reflecting a range review by the anchor customer for this category. However, new listings with two of the business' forecourt operators highlight the potential for our Pastry business to participate in the growing "food-to-go" market. A strong Christmas and new product listings with the anchor customer from November delivered an improved second half performance. A robust growth pipeline for the Pastry business leaves it well placed heading into the new financial year.

## **Poultry**

Poultry, which includes Fresh and Cooked Poultry, represented 14 per cent of Group revenue. Like-for-like poultry revenue increased by 18.0 per cent year-on-year. The "Ready to Eat" chicken category continues to grow ahead of the wider UK meat protein sector and Fresh Chicken also continues to outperform, with market volumes ahead by 2.7 and 3.9 per cent respectively over the last year.

Our Fresh Chicken business operated at full capacity during the year, processing approximately 500,000 birds per week. The business was affected during the exceptionally warm summer by reduced bird growth and increased mortality. In addition, higher soft commodity prices resulting in increased feed costs and lower wholesale chicken prices impacted the overall performance of the business, reflecting the challenging conditions faced by the wider industry.

The £75 million investment in a new poultry processing facility in Eye, Suffolk, is progressing to plan as is the additional investment in the business' downstream agricultural operations, including the leasing and development of a second milling operation in Hoxne, Suffolk. Capital expenditure of £31 million across the category included £29 million on the new processing facility, with the building works now nearing completion and the fit out underway. The factory, which will be capable of processing 1.2 million birds per week, is expected to be operational towards the end of the new financial year, with the project being fast-tracked to support the anchor customer for the new site (Wm Morrison Supermarkets plc (Morrison's)). The facility will be the first new primary poultry plant to be constructed in the UK for almost 30 years and will, when fully commissioned, be the most technologically advanced and efficient facility in the UK industry. Ahead of the move, we are recruiting and upskilling additional staff and we have started supplying Morrison's with a limited range of products from the existing Weybread operation.

Sales of premium Cooked Poultry grew strongly reflecting the full year contribution from business wins with two of the Group's principal retail customers in the prior year and the launch of new lateral sliced products with one of those customers during the year. The site continues to expand its retail business with a new range being launched with a third major retail customer from the start of the new financial year.

## **Finance review**

### **Revenue**

Reported revenue at £1,437.1 million (2018: £1,464.5 million) decreased by 1.9 per cent compared to the previous year. On a like-for-like basis revenues were 0.2 per cent lower.

### **Adjusted Group operating profit**

Adjusted Group operating profit of £92.3 million (2018: £92.8 million), decreased by 0.5 per cent, but was 1.8 per cent ahead like-for-like. Adjusted Group operating margin was 6.4 per cent of sales compared to 6.3 per cent last year.

### **Share of loss of joint venture**

Share of loss of joint venture of £0.1m (2018: £nil) represents the start up losses of White Rose Farms during the year. The business is part of the Group's longer term strategy to secure commercial pig supply and current year losses are in line with the business plan.

### **Finance costs**

Net financing costs at £0.2 million were £0.2 million lower than the prior year, reflecting lower average year on year borrowings and capitalisation of bank interest incurred on funding the investment in the new Eye poultry processing facility.

The Group's banking facility is unsecured, runs to November 2023 and comprises a revolving credit facility of £160 million (falling to £120 million from November 2022), including a committed overdraft of £20 million. It also includes the option to access a further £40 million on the same terms at any point during the term of the agreement. The facility provides the business with generous headroom for the future.

### **Adjusted profit before tax**

Adjusted profit before tax was 0.4 per cent lower at £92.0 million (2018: £92.4 million), but was 2.0 per cent ahead on a like-for-like basis.

### **Taxation**

The tax charge of £16.9 million (2018: £18.0m) was 19.5 per cent of profit before tax (2018: 20.5 per cent). The standard rate of UK corporation tax was 19.0 per cent (2018: 19.0 per cent). The effective corporation tax rate in both years was higher than the standard rate due to disallowable expenses.

### **Adjusted earnings per share**

Adjusted earnings per share fell by 0.5 per cent to 144.3 pence (2018: 145.0 pence), but were 1.9 per cent higher on a comparable 52 week basis. The average number of shares in issue was 51,385,000 (2018: 50,787,000).

### **Statutory profit measures**

Statutory profit before tax was £86.5 million (2018: £88.0 million), with statutory Group operating profit at £86.8 million (2018: £88.4 million) and statutory earnings per share of 135.5 pence (2018: 137.8 pence). Full reconciliations of these results to the adjusted measures can be found in Note 10.

### **Cash flow and net debt**

The net cash inflow from operating activities in the year was £87.7 million (2018: £112.1 million) reflecting a higher working capital outflow of £17.8 million (2018: £4.0 million) due to the Group's significant investment in biological assets during the year and strategic holdings of inventory at the year end. Net funds at the end of the year were £6.3 million (2018: £20.6 million) with the inflow from operating activities offset by a net £78.0 million invested in our asset base and £22.1 million of dividends paid to our Shareholders.

### **IFRS 16: 'Leases'**

The Group has evaluated the effect of IFRS 16 on its current lease arrangements and does not expect it to have a material impact on the net assets or profit before tax of the Group. Further details are provided in Note 2.

### **Pensions**

The Group operates defined contribution pension schemes whereby contributions are made to schemes administered by major insurance companies. Contributions to these schemes are determined as a percentage of employees' earnings.

The Group also operates a defined benefit pension scheme which has been closed to further benefit accrual since 2004. The deficit on this scheme at 31 March 2019 was £6.5 million, compared to £8.1 million at 31 March 2018, reflecting our commitment to increased funding for the scheme. Cash contributions to the scheme during the year, as part of the programme to reduce the deficit, were £1.8 million. The present value of funded obligations was £39.7 million, and the fair value of plan assets was £33.2 million.

During the year, the High Court ruled on the case of Lloyds Banking Group Pensions Trustees Ltd v Lloyds Bank plc and others. The ruling that Lloyds Bank plc must amend its three defined benefit pension schemes in order to equalise Guaranteed Minimum Pensions (GMPs) between males and females impacts how companies account for pension schemes under IAS 19. The Group's year end pension valuation under IAS 19 includes the impact of equalising GMPs, resulting in a £0.4 million past service cost which has been recognised in the income statement within staff costs.

### **UK Referendum on EU Membership**

The continued uncertainty over the nature of the UK's exit from the EU drives volatility in currency markets and uncertainty within the European labour market. The Group therefore continues to monitor and manage its business risks in these areas with the key issues facing the Group being: access to and cost of labour; the potential for import tariffs on EU pork and continental food products; and the valuation of Sterling versus the Euro and other world currencies.

In response to these business risks the Group set up a Brexit taskforce made up of key internal stakeholders who have met regularly to review Brexit related risks and develop mitigating plans. In February 2019 an external review of the Group's Brexit plan was completed which has helped to further inform the Group's strategy in this area.

As political negotiations continue, the Board will monitor outcomes, seek to assess the possible impact on its stakeholders and implement appropriate responses.

# Group income statement

For the year ended 31 March 2019

	<i>Notes</i>	<b>2019</b> <b>£'m</b>	<b>2018</b> <b>£'m</b>
<b>Revenue</b>		<b>1,437.1</b>	<b>1,464.5</b>
<b>Adjusted Group operating profit</b>		<b>92.3</b>	<b>92.8</b>
Net IAS 41 valuation movement on biological assets		<b>(2.8)</b>	<b>(2.2)</b>
Amortisation of customer relationship intangible assets		<b>(2.7)</b>	<b>(2.2)</b>
<b>Group operating profit</b>	<b>4</b>	<b>86.8</b>	<b>88.4</b>
Share of loss of joint venture		<b>(0.1)</b>	<b>-</b>
Finance costs		<b>(0.2)</b>	<b>(0.4)</b>
<b>Profit before tax</b>		<b>86.5</b>	<b>88.0</b>
Taxation		<b>(16.9)</b>	<b>(18.0)</b>
<b>Profit for the year</b>		<b>69.6</b>	<b>70.0</b>
<b>Earnings per share (pence)</b>			
<b>On profit for the year:</b>			
Basic	<b>5</b>	<b>135.5p</b>	<b>137.8p</b>
Diluted	<b>5</b>	<b>134.9p</b>	<b>137.1p</b>



# Group statement of comprehensive income

For the year ended 31 March 2019

	2019	2018
	£'m	£'m
<b>Profit for the year</b>	<b>69.6</b>	<b>70.0</b>
<b>Other comprehensive income</b>		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Cash flow hedges		
Gains arising in the year	-	0.1
Reclassification adjustments for gains included in the income statement	(0.5)	(0.3)
Income tax effect	0.1	-
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>	<b>(0.4)</b>	<b>(0.2)</b>
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>		
Actuarial gains/(losses) on defined benefit pension scheme	0.3	(0.2)
Income tax effect	0.4	0.1
<b>Net other comprehensive income not to be reclassified to profit or loss in subsequent periods</b>	<b>0.7</b>	<b>(0.1)</b>
<b>Other comprehensive income, net of tax</b>	<b>0.3</b>	<b>(0.3)</b>
<b>Total comprehensive income, net of tax</b>	<b>69.9</b>	<b>69.7</b>

# Group balance sheet

At 31 March 2019

	<i>Notes</i>	<b>2019</b> £'m	2018 £'m
<b>Non-current assets</b>			
Intangible assets		153.5	156.2
Property, plant and equipment		291.2	237.3
Biological assets		0.7	0.8
<b>Total non-current assets</b>		<b>445.4</b>	<b>394.3</b>
<b>Current assets</b>			
Biological assets		20.6	17.0
Inventories		67.4	59.2
Trade and other receivables		161.7	160.1
Financial assets		2.3	0.1
Cash and short-term deposits	7	20.5	20.6
<b>Total current assets</b>		<b>272.5</b>	<b>257.0</b>
<b>Total assets</b>		<b>717.9</b>	<b>651.3</b>
<b>Current liabilities</b>			
Trade and other payables		(150.2)	(147.8)
Financial liabilities		(0.6)	(0.9)
Provisions		(0.2)	(0.2)
Income tax payable		(7.7)	(10.2)
<b>Total current liabilities</b>		<b>(158.7)</b>	<b>(159.1)</b>
<b>Non-current liabilities</b>			
Other payables		(0.7)	(0.9)
Financial liabilities	7	(14.2)	-
Deferred tax liabilities		(0.8)	(1.0)
Provisions		(2.0)	(2.3)
Share of joint venture		(0.1)	-
Defined benefit pension scheme deficit		(6.5)	(8.1)
<b>Total non-current liabilities</b>		<b>(24.3)</b>	<b>(12.3)</b>
<b>Total liabilities</b>		<b>(183.0)</b>	<b>(171.4)</b>
<b>Net assets</b>		<b>534.9</b>	<b>479.9</b>
<b>Equity</b>			
Called-up share capital		5.2	5.1
Share premium account		89.1	81.5
Share-based payments		25.8	21.0
Hedging reserve		(0.4)	-
Retained earnings		415.2	372.3
<b>Equity attributable to owners of the parent</b>		<b>534.9</b>	<b>479.9</b>

# Group statement of cash flows

For the year ended 31 March 2019

	<i>Notes</i>	<b>2019</b>	2018
		<b>£'m</b>	£'m
<b>Operating activities</b>			
Profit for the year		69.6	70.0
<i>Adjustments to reconcile Group profit for the year to net cash inflows from operating activities:</i>			
Share of loss of joint venture		0.1	-
Income tax expense		16.9	18.0
Net finance costs		0.2	0.4
(Gain)/loss on sale of property, plant and equipment		(0.2)	0.8
Depreciation of property, plant and equipment		28.9	35.7
Amortisation of intangible assets		2.7	2.2
Share-based payments		4.8	4.3
Difference between pension contributions paid and amounts recognised in the income statement		(1.3)	(1.7)
Release of government grants		(0.2)	(0.2)
Net IAS 41 valuation movement on biological assets		2.8	2.2
Increase in biological assets		(6.3)	(0.4)
(Increase)/decrease in inventories		(8.2)	3.0
Increase in trade and other receivables		(1.1)	(9.0)
(Decrease)/increase in trade and other payables		(2.2)	2.4
Cash generated from operations		106.5	127.7
Tax paid		(18.8)	(15.6)
<b>Net cash from operating activities</b>		<b>87.7</b>	<b>112.1</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries, net of cash acquired	9	(0.8)	(5.3)
Loan to joint venture		(2.2)	-
Purchase of property, plant and equipment		(79.2)	(58.7)
Proceeds from sale of property, plant and equipment		0.8	0.7
Receipt of government grants		0.4	-
<b>Net cash used in investing activities</b>		<b>(81.0)</b>	<b>(63.3)</b>
<b>Cash flows from financing activities</b>			
Interest paid		(0.4)	(0.4)
Proceeds from issue of share capital		1.8	1.6
Issue costs of long-term borrowings		(0.1)	(0.2)
Proceeds from/(repayment of) borrowings		14.0	(15.0)
Dividends paid		(22.1)	(18.2)
Repayment of capital element of finance leases and hire purchase contracts		-	(0.1)
<b>Net cash used in financing activities</b>		<b>(6.8)</b>	<b>(32.3)</b>
Net (decrease)/increase in cash and cash equivalents	7	(0.1)	16.5
Cash and cash equivalents at beginning of year	7	20.6	4.1
<b>Cash and cash equivalents at end of year</b>	<b>7</b>	<b>20.5</b>	<b>20.6</b>

# Group statement of changes in equity

For the year ended 31 March 2019

	Share capital £'m	Share premium £'m	Share- based payments £'m	Hedging reserve £'m	Retained earnings £'m	Total equity £'m
At 31 March 2017	5.0	74.8	16.7	0.2	324.7	421.4
Profit for the year	-	-	-	-	70.0	70.0
Other comprehensive income	-	-	-	(0.2)	(0.1)	(0.3)
Total comprehensive income	-	-	-	(0.2)	69.9	69.7
Share-based payments	-	-	4.3	-	-	4.3
Scrip dividend	-	5.2	-	-	-	5.2
Share options exercised (proceeds)	0.1	1.5	-	-	-	1.6
Dividends	-	-	-	-	(23.4)	(23.4)
Deferred tax related to changes in equity	-	-	-	-	(0.3)	(0.3)
Current tax related to changes in equity	-	-	-	-	1.4	1.4
At 31 March 2018	5.1	81.5	21.0	-	372.3	479.9
Profit for the year	-	-	-	-	69.6	69.6
Other comprehensive income	-	-	-	(0.4)	0.7	0.3
Total comprehensive income	-	-	-	(0.4)	70.3	69.9
Share-based payments	-	-	4.8	-	-	4.8
Scrip dividend	-	5.9	-	-	-	5.9
Share options exercised (proceeds)	0.1	1.7	-	-	-	1.8
Dividends	-	-	-	-	(28.0)	(28.0)
Deferred tax related to changes in equity	-	-	-	-	(0.7)	(0.7)
Current tax related to changes in equity	-	-	-	-	1.3	1.3
<b>At 31 March 2019</b>	<b>5.2</b>	<b>89.1</b>	<b>25.8</b>	<b>(0.4)</b>	<b>415.2</b>	<b>534.9</b>

# Notes to the accounts

## 1. Basis of preparation

The results comprise those of Cranswick plc and its subsidiaries for the year ended 31 March 2019. This preliminary announcement has been prepared on the basis of accounting policies as set out in the statutory accounts for the year ended 31 March 2018 (except as detailed in note 2) and International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board as adopted by the European Union ("IFRS") and does not constitute the Company's statutory accounts within the meaning of Section 435 of the Companies Act 2006.

Statutory accounts for the years ended 31 March 2019 and 31 March 2018 have been reported on by the auditors who issued an unqualified opinion in respect of both years and the auditors' reports for 2019 and 2018 did not contain statements under 498(2) or 498(3) of the Companies Act 2006. Statutory accounts for the year ended 31 March 2018 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 March 2019, which were approved by the Board on 21 May 2019, will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

### Principal risks and uncertainties

There are a number of risks and uncertainties which could impact the business in the future. The Board considers, with the exception of the additional risk detailed below, these risks and uncertainties to be the same as those described in the Report & Accounts for the year ended 31 March 2018, dated 22 May 2018, a copy of which is available on the Group's website at [www.cranswick.plc.uk](http://www.cranswick.plc.uk). The principal risks and uncertainties are:

#### Strategic risks

- Competitor activity
- Growth and change

#### Commercial risks

- Consumer demand
- Reliance on key customers and exports
- Pig meat – availability and price

#### Financial risks

- Interest rate, currency, liquidity and credit risk

#### Operational risks

- Disruption to Group operations
- Recruitment and retention of workforce
- Health and safety
- Disease and infection within livestock
- Food scares and product contamination
- IT systems and cyber security

### Additional risk

#### Labour availability and cost

##### Description of risk

Due to political and economic pressures, including those associated with Brexit, there is a risk that the Group's operations could be adversely impacted by either the lack of availability of labour or the associated increased cost. The issue is particularly prevalent with lower skilled agency labour or specialist skill sets e.g. butchery.

##### Mitigation and net risk rating

The Group is continually reviewing and improving its recruitment processes and relationships with third party agency providers to reflect changing market conditions. Regarding Brexit, the Group has used a specialist advisor to support the actions of the Brexit Taskforce to understand and mitigate risks related to Brexit and develop our overarching Brexit plan. In addition, the Group is actively progressing options to employ more permanent members of staff and to consider alternative methods of production which embrace emerging technological developments.

##### Risk level and risk trend

Given the on-going uncertainty associated with Brexit, the risk has increased as the availability and cost of agency labour becomes impacted.

## 2. Accounting policies

The accounting policies applied by the Group in this preliminary announcement are the same as those applied by the Group in the financial statements for the year ended 31 March 2018, except for the new standards and interpretations explained below.

## New standards and interpretations applied

The following accounting standards and interpretations became effective for the current reporting period:

International Accounting Standards (IAS/IFRSs)	Effective date
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments	1 January 2018

The application of these standards has not had a material effect on the net assets, results and disclosures of the Group.

- 'IFRS 15: Revenue from Contracts with Customers' supersedes IAS 18 Revenue and IAS 11 Construction Contracts and related interpretations, and was effective for annual periods beginning on or after 1 January 2018. The standard deals with revenue recognition and establishes principles for reporting useful information about the nature, amount, timing and uncertainty of revenues and cash flows arising from the Group's contracts with its customers. The standard provides clarification about when control of goods is passed to customers and contains more guidance about the measurement of revenue contracts which include discounts, rebates and other payments to customers. During the prior year, the Group completed a review of the requirements of IFRS 15 against previous accounting policies. The areas considered by the Group included payments to customers and the timing of revenue recognition based on control of goods. Adoption of IFRS 15 for the year ended 31 March 2019 has not resulted in a material impact to the financial statements of the Group. The Group has adopted IFRS 15 using the cumulative effective method. Accordingly, the information presented for 2018 has not been restated and is therefore presented as previously reported under IAS 18, IAS 11 and related interpretations. Following the adoption of IFRS 15, the Group has also reviewed its accounting practice in respect of commercial accruals and has introduced a maximum holding period for aged balances, under normal circumstances, of three years.
- 'IFRS 9: Financial Instruments' was effective for annual periods beginning on or after 1 January 2018. The standard includes requirements for classification and measurement, impairment and hedge accounting. The Group has evaluated the impact of IFRS 9 and concluded that the impact on the recognition and measurement of income and costs in the Income Statement or of assets and liabilities in the Balance Sheet is not material. The Group has assessed the classification and measurement of certain financial assets on the Balance Sheet and concluded that there is no significant change as a result of this. Further, the nature of the Group's current hedging activities and the quantum of its bad debt risk means that the impact of IFRS 9 is immaterial in respect of these items. The Group has calculated its impairment provision on financial assets measured at amortised costs (such as trade and other receivables) under the expected credit loss model in accordance with IFRS 9. The difference in provision between that determined by this model compared to that calculated by the incurred loss model required by IAS 39 is not material and therefore, there is no change to the opening balances within equity.

## New and revised standards and interpretations not applied

In these Financial Statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- 'IFRS 16: Leases' will be effective for annual periods beginning on or after 1 January 2019. The standard changes the principles for the recognition, measurement, presentation and disclosure of leases. It eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model where the lessee is required to recognise lease liabilities and 'right of use' assets on the Balance Sheet, with exemptions for low value and short-term leases. The Group has evaluated the impact of IFRS 16 on its current lease arrangements, which mainly consist of agricultural properties, and concluded that there will not be a material effect on the net assets of the Group or the Company. The Group intends to adopt the modified retrospective approach. The estimated impact on the Group's financial statements for the year ended 31 March 2020 is as follows:

	<b>£m</b>
Decrease in operating lease cost	7.8
<b>Effect on EBITDA</b>	<b>7.8</b>
Increase in depreciation	(7.0)
<b>Effect on operating profit</b>	<b>0.8</b>
Increase in interest charge	(1.0)
<b>Effect on PBT</b>	<b>(0.2)</b>
Increase in assets at transition date	40.0
Increase in liabilities at transition date	(40.0)
<b>Overall effect on net assets</b>	<b>-</b>

### 3. Business and geographical segments

IFRS 8 requires operating segments to be identified on the basis of the internal financial information reported to the Chief Operating Decision Maker (CODM). The Group's CODM is deemed to be the Executive Directors on the Board, who are primarily responsible for the allocation of resources to segments and the assessment of performance of the segments.

The CODM assesses profit performance principally through adjusted profit measures consistent with those disclosed in the Annual Report and Accounts.

For the purposes of managing the business, the Group is organised into one reportable segment, being Food: manufacture and supply of food products to UK grocery retailers, the food service sector and other UK and global food producers.

The reportable segment 'Food' represents the aggregation of four operating segments which are aligned to the product categories of the Group; Fresh Pork, Convenience, Gourmet Products and Poultry, all of which manufacture and supply food products through the channels described above. These operating segments have been aggregated into one reportable segment as they share similar economic characteristics. The economic indicators which have been assessed in concluding that these operating segments should be aggregated include the similarity of long-term average margins; expected future financial performance; and operating and competitive risks. In addition, the operating segments are similar with regard to the nature of the products and production process, the type and class of customer, the method of distribution and the regulatory environment.

### 4. Group operating profit

Group operating costs comprise:

	2019 £'m	2018 £'m
Cost of sales excluding net IAS 41 valuation movement on biological assets	1,250.6	1,277.7
Net IAS 41 valuation movement on biological assets*	2.8	2.2
Cost of sales	1,253.4	1,279.9
<b>Gross profit</b>	<b>183.7</b>	<b>184.6</b>
Selling and distribution costs	55.4	55.7
Administrative expenses excluding amortisation of customer relationship intangible assets	38.8	38.3
Amortisation of customer relationship intangible assets	2.7	2.2
Administrative expenses	41.5	40.5
<b>Total operating costs</b>	<b>1,350.3</b>	<b>1,376.1</b>

\* This represents the difference between operating profit prepared under IAS 41 and operating profit prepared under historical cost accounting, which forms part of the reconciliation to adjusted operating profit.

## 5. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to members of the parent company of £69.6 million (2018: £70.0 million) by the weighted average number of shares outstanding during the year. In calculating diluted earnings per share amounts, the weighted average number of shares is adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

The weighted average number of ordinary shares for both basic and diluted amounts was as per the table below:

	<b>2019</b>	2018
	<b>Thousands</b>	Thousands
Basic weighted average number of shares	<b>51,385</b>	50,787
Dilutive potential ordinary shares – share options	<b>222</b>	238
	<b>51,607</b>	51,025

Adjusted earnings per share are calculated using the weighted average number of shares for both basic and diluted amounts as detailed above (see Note 10).

## 6. Dividends

Subject to Shareholders' approval the final dividend will be paid on 6 September 2019 to Shareholders on the register at the close of business on 19 July 2019.

## 7. Analysis of changes in net funds

<b>Group</b>	At 31 March 2018 £'m	Cash flow £'m	Other non-cash changes £'m	At 31 March 2019 £'m
Cash and cash equivalents	20.6	(0.1)	-	<b>20.5</b>
Revolving credit	-	(13.9)	(0.3)	<b>(14.2)</b>
Net funds	20.6	(14.0)	(0.3)	<b>6.3</b>

Net funds are defined as cash and cash equivalents less interest-bearing liabilities net of unamortised issue costs.

## 8. Related party transactions

During the year the Group and Company entered into transactions, in the ordinary course of business, with related parties, including transactions between the Company and its subsidiary undertakings. In the Group accounts transactions between the Company and its subsidiaries are eliminated on consolidation.

## 9. Acquisitions

### Contingent consideration

During the year £0.8 million of contingent consideration was paid in relation to previous acquisitions. This amount was provided in full at 31 March 2018.



## 10. Alternative performance measures

The Board monitors performance principally through adjusted and like-for-like performance measures. Adjusted profit and earnings per share measures exclude certain non-cash items including the net IAS 41 valuation movement on biological assets, amortisation of acquired intangible assets, profit on sale of a business and goodwill impairment charges. Free cash flow is defined as net cash from operating activities less net interest paid and like-for-like revenue excludes the impact of the 53<sup>rd</sup> week in the prior year.

The Board believes that such alternative measures are useful as they exclude volatile (net IAS 41 valuation movement on biological assets), one-off (impairment of goodwill and profit on sale of a business) and non-cash (amortisation of intangible assets) items which are normally disregarded by investors, analysts and brokers in gaining a clearer understanding of the underlying performance of the Group when making investment and other decisions. Equally, like-for-like revenue provides these same stakeholders with a clearer understanding of the organic sales growth of the business.

### Like-for-like revenue

	2019 £'m	2018 £'m	Change
Revenue	1,437.1	1,464.5	-1.9%
Impact of 53 <sup>rd</sup> week	-	(24.5)	
Like-for-like revenue	1,437.1	1,440.0	-0.2%

### Adjusted operating profit

	2019 £'m	2018 £'m	Change
Group operating profit	86.8	88.4	-1.8%
Net IAS 41 valuation movement	2.8	2.2	
Amortisation of customer relationship intangible assets	2.7	2.2	
Adjusted Group operating profit	92.3	92.8	-0.5%

### Adjusted profit before tax

	2019 £'m	2018 £'m	Change
Profit before tax	86.5	88.0	-1.7%
Net IAS 41 valuation movement	2.8	2.2	
Amortisation of customer relationship intangible assets	2.7	2.2	
Adjusted profit before tax	92.0	92.4	-0.4%

### Adjusted earnings per share

	2019 £'m	2019 Basic pence	2019 Diluted pence	2018 £'m	2018 Basic Pence	2018 Diluted pence
On profit for the year	69.6	135.5	134.9	70.0	137.8	137.1
Amortisation of customer relationship intangible assets	2.7	5.4	5.4	2.2	4.3	4.3
Tax on amortisation of customer relationship intangible assets	(0.5)	(1.0)	(1.0)	(0.4)	(0.7)	(0.7)
Net IAS 41 valuation movement	2.8	5.4	5.4	2.2	4.3	4.3
Tax on net IAS 41 valuation movement	(0.5)	(1.0)	(1.0)	(0.4)	(0.7)	(0.7)
On adjusted profit for the year	74.1	144.3	143.7	73.6	145.0	144.3

## Free cash flow

	2019	2018	Change
	£'m	£'m	
Net cash from operating activities	87.7	112.1	-21.8%
Net interest paid	(0.4)	(0.4)	
Free cash flow	87.3	111.7	-21.8%

## 11. Report and accounts

The Report and Accounts will be available on the Company's website at [www.cranswick.plc.uk](http://www.cranswick.plc.uk) on 28 June 2019. Further copies will be available upon request from the Company Secretary, Cranswick plc, Crane Court, Hesslewood Country Office Park, Ferriby Road, Hessle, HU13 0PA.