GREGGS

The home of fresh baking™

# 2010 Preliminary Results

## for the 52 weeks ended 1st January 2011

March 2011

# Highlights - 2010

- Record pre-tax profit: up 7.7% to £52.5m
- 52 week turnover up 2.1%
- Like-for-like sales up 0.2%
- Operating margin up 50bps to 7.9%
- Diluted EPS up 9.7% to 37.3p
- Record shop openings: 68 net new
- Record number of refits: 130
- Dividend increased to 18.2p

# Richard Hutton
# Finance Director

# Group sales and profits

| | 2010 £m | 2009 £m | change |
|---|---|---|---|
| **Sales** | **£662.3** | **£658.2** | 0.6%* |
| *Gross margin %* | *61.9%* | *61.7%* | |
| *Distribution & selling %* | *48.6%* | *48.9%* | |
| *Admin %* | *5.4%* | *5.4%* | |
| **Operating profit** | **52.4** | **48.4** | 8.1% |
| *Operating margin %* | *7.9%* | *7.4%* | |
| Finance income | 0.1 | 0.4 | |
| Profit before taxation | 52.5 | 48.8 | 7.7% |

**Total sales growth on a comparable 52 week basis 2.1%*

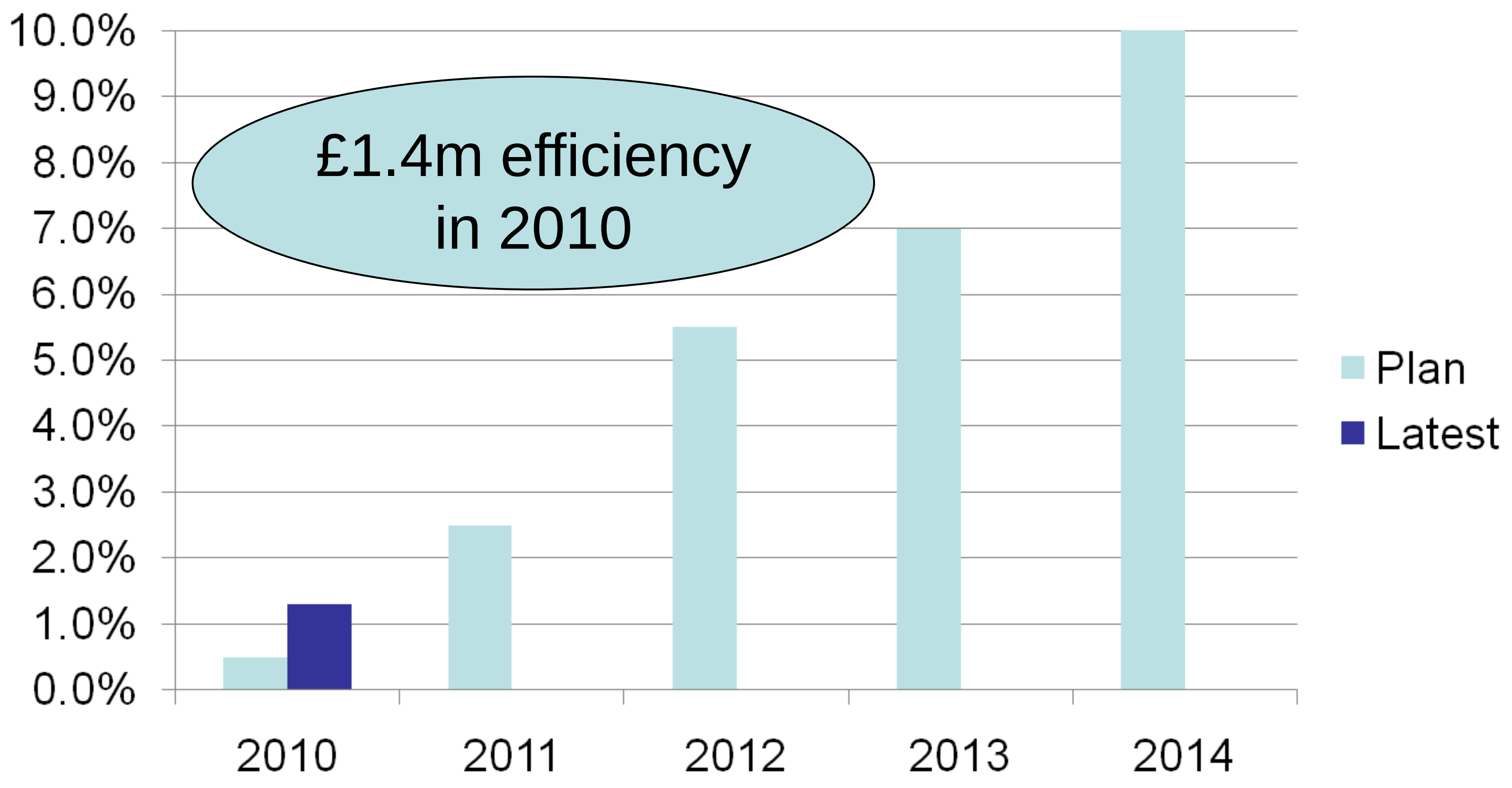
# Strong margin progress

- Operating margin increase to 7.9%:
  - Supply chain savings as strategy implemented
  - Improved labour scheduling
  - Better buying
  - Reduction in waste
  - Realising benefits of 2009 restructuring
- Margin in 2009 subdued by 0.2% due to 53rd week impact

# 2009 plan: supply chain efficiencies

| | 2010 £m | 2011 £m | 2012 £m | 2013 £m | 2014 £m |
|---|---|---|---|---|---|
| Bakery closure | - | - | 1.0 | 1.0 | 1.0 |
| Modernisation of older sites | - | 0.5 | 1.5 | 1.5 | 2.0 |
| Drag from new investment | - | - | (0.5) | (1.0) | (0.5) |
| Greater site productivity (more shops per bakery) | 0.5 | 2.0 | 3.5 | 5.5 | 7.5 |
| | **0.5** | **2.5** | **5.5** | **7.0** | **10.0** |

# Supply chain savings ahead of plan



# Earnings and taxation

| | 2010 | 2009 | change |
|---|---|---|---|
| **Diluted earnings per share** | **37.3p** | **34.0p** | **9.7%** |
| Tax charge | *27.8%* | *29.5%* | |

- Positive settlement of outstanding capital allowance claims and revaluation of deferred tax liability to 27 per cent
- Now expect circa 28% tax charge in 2011, reducing to circa 26% by 2013 <u>if</u> further reductions in corporation tax rate enacted
- Share buyback contribution to earnings growth +1%

# Capital expenditure £m

| | E 2011 | 2010 | 2009 |
|---|---|---|---|
| New shops & resites | 12.7 | 11.9 | 5.8 |
| Shops refits & equipment | 16.7 | 13.8 | 12.1 |
| Supply chain capacity | 18.1 | 7.9 | 2.1 |
| Other expenditure | 12.5 | 12.0 | 10.3 |
| Total capital expenditure | 60.0 | 45.6 | 30.3 |
| | | | |
| *Number of gross new shops opened* | *c.100* | *93* | *49* |

# New shop returns

- Target ROC >20% by third year
- Ensures return on both retail <u>and</u> supply chain capital
- Maturity in 2-3 years, depending on brand awareness
- Marketing support in early months to establish sales
- Fast (2 year) cash payback on marginal basis

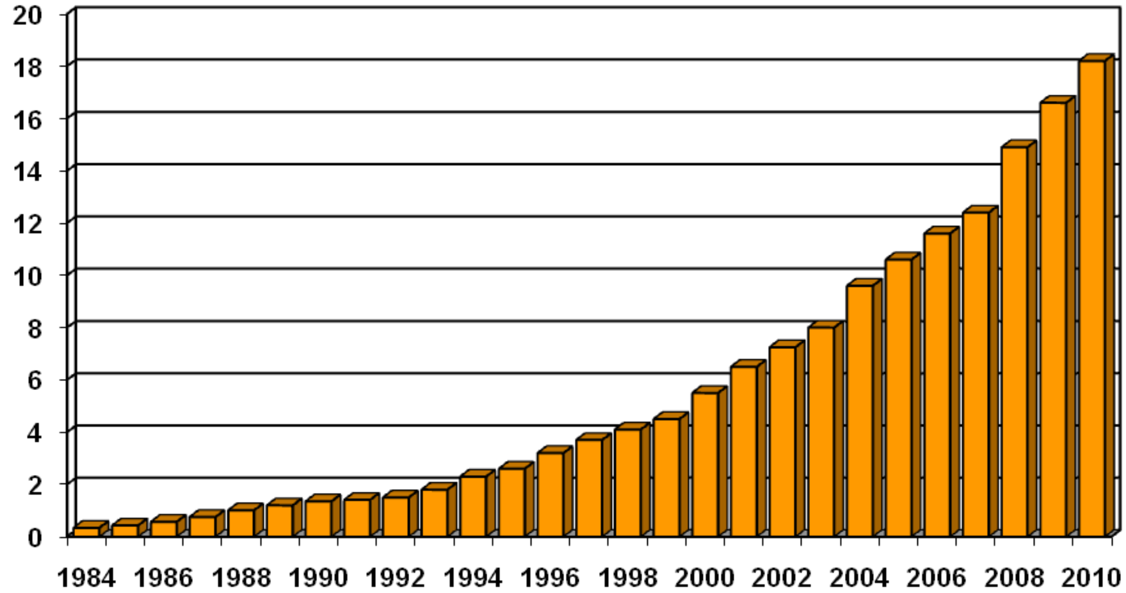
# Shop refit returns

- Target ROC on average 12.5%
- Refit capital drives both maintenance & growth requirements
- 3 models:
  - New concept c.£120k
  - Traditional refit c.£60k
  - Mini upgrade c.£10k
- 135 refits completed in 2010
- Incremental growth targets set to deliver ROC
- 2011 focus on new concept & mini upgrades

# Cash flow and balance sheet

- Continued strong cash generation supporting investment for growth and shareholder returns
- Net cash at year end £23.8m (2009: £34.6m)
- £12.9m return in 2010 via share buybacks (total cash returned in 2010 including dividend £29.9m)
- Cash position now appropriate given growth plans and inherent gearing.

# 26th year of dividend growth




| | 2010 | 2009 | |
|---|---|---|---|
| Dividend per share | 18.2p | 16.6p | 9.6% |
| Dividend cover | 2.0x | 2.0x | |

# Financial outlook 2011

- Rising cost pressure within all major ingredient and energy areas
- Work to unlock further efficiencies under way
- Extra bank holidays vs. 2010 will impact first half results
- Potential one-off charge of c.£1m in H2 relating to closure of Gosforth bakery

# Summary

- Record profit in 2010
- Solid margin improvement
- Benefits from centralisation starting to accrue
- Increased cost control in a low growth environment
- Close monitoring of capital to ensure healthy returns

# Ken McMeikan
# Chief Executive

# Delivering Growth – our 5 year plan

- Accelerated expansion & renewal of shops
- Increasing supply chain efficiencies
- Centrally run business delivering cost benefits
- Dedicated teams to identify further cost savings
- Growth financed from on-going cash generation
- Maintaining strong reputation for value
- A successful 1st year

# Accelerated growth and renewal

- New structures enabling acceleration
- Increasing availability of more attractive sites
- 30% of new shops where customers work and travel in 2010
- Concept design expanding beyond London



# Growth opportunity across the UK

- 600+ new shops
- 68 net delivered in 2010
- c. 80 net planned for 2011


*denotes potential locations*

# Supply chain efficiencies in 2010

- Further progress in harmonising bakery operations, including:
  - Consolidation of manufacturing
  - Automation
  - Pick by light usage
  - Transport initiatives

# Benefits of centralisation

- More agile and responsive business
- Economies of scale
- Better buying
- Improved central manpower planning
- Speed of decision making
- National promotions
- Reduction in waste
- Operational consistency

# Further planned changes

- Three major change programmes:
  – Ranging
  – Format development
  – Customer experience
- 14 key cross functional projects identified for 2011
  – 9 projects focused on top line sales
  – 5 projects  to deliver efficiency savings
- Dedicated project leaders

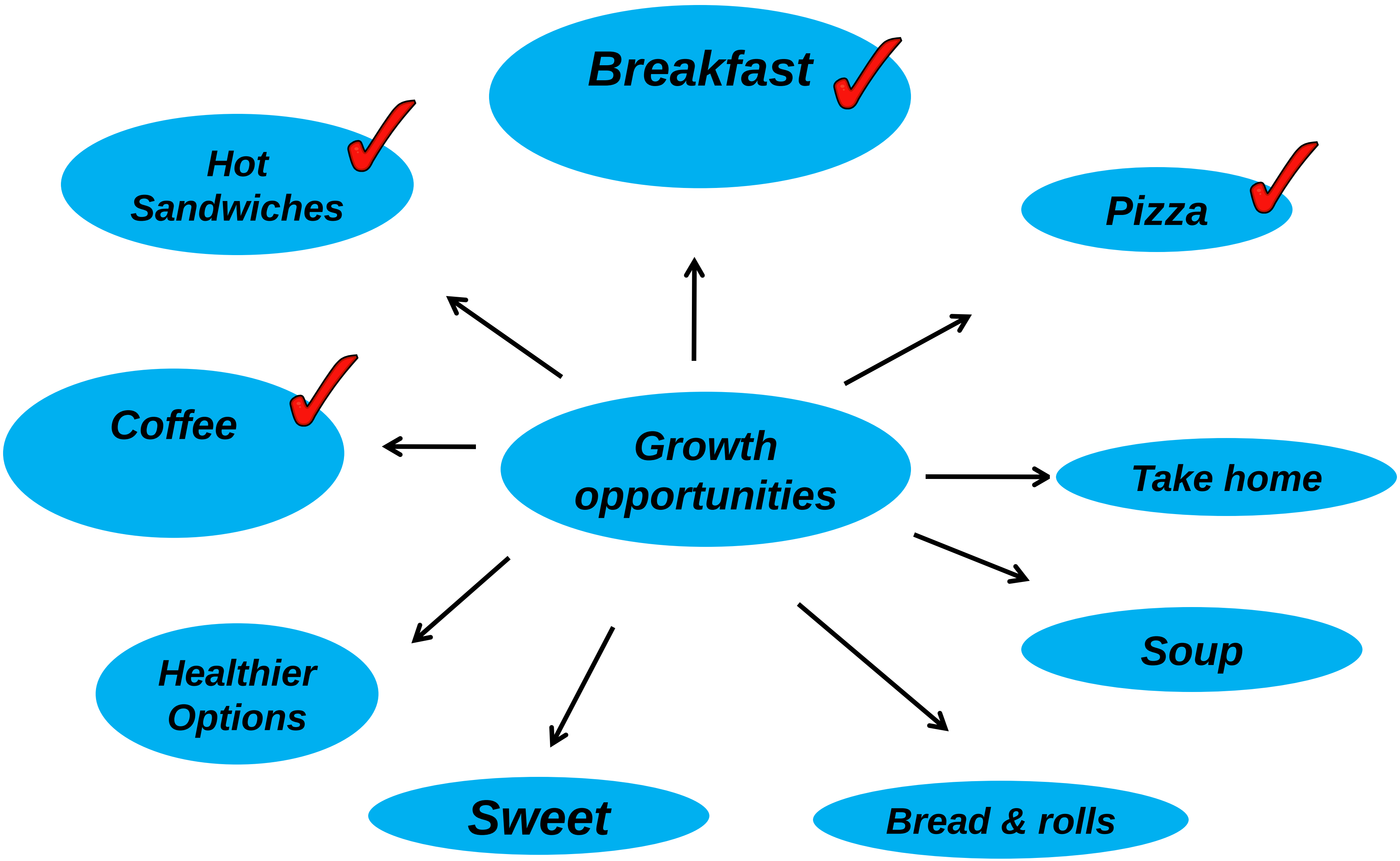
# We have a strong value reputation


Value & quality breakfast offer


Investment in promotions

14.6m cups sold up 28% in 2010

Exceptional value coffee vs. competitors


Breakfast
Hot Sandwiches
Pizza
Coffee
Growth opportunities
Take home
Soup
Healthier Options
Sweet
Bread & rolls

# Marketing activity

- In 2010, focused on brand building through ‘Home of Fresh Baking’ campaign
- In 2011, focus on tactical campaigns:
  - radio
  - newspaper
  - social media
  - local shop marketing

# Outlook for 2011

- A challenging year ahead
- Sales growth from further new shop openings and refits
- Planning for marginally positive like-for-like sales
- Cost inflation rising higher than anticipated
- Tight cost control essential
- Value will remain important for UK consumer
- Well positioned to deal with the challenging environment

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Questions