Annual Report and Accounts 2020

Financial and Business Review

1 Underlying Income Statement and reconciliation to IFRS

	FY 2020 €m	FY 2019 €m	% Change	% Change before IFRS 16
Group revenue	2,930.9	3,383.4	(13.4)%	(13.4)%
Underlying EBITDA[1]	260.2	307.5	(15.4)%	(33.0)%
Underlying EBITDA margin	8.9%	9.1%	(20) bps	(210) bps
Depreciation and ERP amortisation	(184.8)	(137.6)	(34.3)%	(1.1)%
Underlying EBITA[1]	75.4	169.9	(55.6)%	(60.6)%
Joint ventures underlying profit, net of interest and tax	18.4	27.6	(33.3)%	(33.4)%
Underlying EBITA including joint ventures	93.8	197.5	(52.5)%	(56.8)%
Finance cost, net	(42.6)	(50.7)	16.0%	36.8%
Hybrid instrument dividend	(46.1)	(38.9)	(18.5)%	(18.6)%
Pre-tax profits	5.1	107.9	(95.3)%	(93.4)%
Income tax	(23.1)	(33.6)	31.3%	31.3%
Underlying net (loss)/profit[1]	**(18.0)**	**74.3**	**(124.2)%**	**(121.5)%**
Underlying diluted EPS (cent)[2]	**(1.8)**	**9.0**	**(120.0)%**	**(117.8)%**

1 Certain financial alternative performance measures, that are not defined by IFRS, are used by management to assess the financial and operational performance of ARYZTA. See glossary in section 20 for definitions of financial terms and references used in the financial and business review, including a reconciliation of Underlying EBITDA movements by segment before and after the impact from adoption of IFRS 16 – Leases.

2 The 1 August 2020 weighted average number of ordinary shares used to calculate underlying earnings per share is 990,860,563 (2019: 822,720,246).

	FY 2020 €m	FY 2019 €m
Underlying EBITDA	**260.2**	307.5
Depreciation	**(168.6)**	(120.8)
ERP amortisation	**(16.2)**	(16.8)
Underlying EBITA	**75.4**	169.9
Amortisation of other intangible assets	**(122.9)**	(135.9)
Net loss on disposal of businesses and impairment of disposal groups held-for-sale	**(164.6)**	(7.0)
Impairment of goodwill	**(502.1)**	–
Impairment of intangible assets	**(28.3)**	–
Net gain/(loss) on fixed asset disposals and impairments	**4.4**	(4.8)
Restructuring-related costs	**(9.7)**	(17.1)
COVID-19 related costs	**(25.6)**	–
IFRS operating (loss)/profit	**(773.4)**	5.1
Share of profit after interest and tax of joint ventures	**16.1**	27.6
Net loss on disposal of joint venture	**(297.1)**	–
Finance cost, net	**(42.6)**	(50.7)
Loss before income tax	**(1,097.0)**	(18.0)
Income tax credit/(expense)	**5.5**	(11.2)
IFRS loss for the period	**(1,091.5)**	(29.2)
Hybrid instrument dividend	**(46.1)**	(38.9)
Loss used to determine basic EPS	**(1,137.6)**	(68.1)
IFRS diluted loss per share (cent)[3]	**(114.8) cent**	(8.3) cent

3 The 1 August 2020 weighted average number of ordinary shares used to calculate IFRS diluted loss per share is 990,860,563 (2019: 822,613,220).

Financial and Business Review (continued)

2 Organic revenue

	ARYZTA Europe €m	ARYZTA North America €m	ARYZTA Rest of World €m	ARYZTA Group €m
Revenue	**1,418.3**	**1,261.9**	**250.7**	**2,930.9**
Organic movement[1]	(12.7)%	(11.8)%	(3.5)%	(11.6)%
Disposals movement	(4.8)%	-	-	(2.4)%
Currency movement	0.3%	2.1%	(4.4)%	0.6%
Total revenue movement	**(17.2)%**	**(9.7)%**	**(7.9)%**	**(13.4)%**

1 Fiscal year 2020 comprised of the 53 week period ended 1 August 2020, and fiscal year 2019 comprised of the 52 week period ended 27 July 2019. Please refer to glossary in section 20 for further information.

Quarterly organic revenue

	Q1 2020	Q2 2020	Q3 2020	Q4 2020[1]	FY 2020
ARYZTA Europe					
Volume %	(2.0)%	(3.7)%	(22.2)%	(28.3)%	(12.5)%
Price/Mix %	1.1%	0.7%	(1.4)%	(1.0)%	(0.2)%
Organic movement %	**(0.9)%**	**(3.0)%**	**(23.6)%**	**(29.3)%**	**(12.7)%**
ARYZTA North America					
Volume %	(6.0)%	(6.0)%	(20.4)%	(18.7)%	(11.1)%
Price/Mix %	(0.1)%	1.5%	0.0%	(4.2)%	(0.7)%
Organic movement %	**(6.1)%**	**(4.5)%**	**(20.4)%**	**(22.9)%**	**(11.8)%**
ARYZTA Rest of World					
Volume %	2.0%	6.2%	(18.0)%	(26.0)%	(7.4)%
Price/Mix %	5.5%	3.5%	3.7%	3.1%	3.9%
Organic movement %	**7.5%**	**9.7%**	**(14.3)%**	**(22.9)%**	**(3.5)%**
ARYZTA Group					
Volume %	(3.4)%	(3.8)%	(21.1)%	(24.3)%	(11.5)%
Price/Mix %	0.9%	1.2%	(0.4)%	(1.9)%	(0.1)%
Organic movement %	**(2.5)%**	**(2.6)%**	**(21.5)%**	**(26.2)%**	**(11.6)%**

1 Fiscal year 2020 comprised of the 53 week period ended 1 August 2020 and 2019 comprised of the 52 weeks ended 27 July 2019. Q4 2020 organic growth is based on 13 weeks in 2020 vs. 13 weeks in 2019. Please refer to glossary in section 20 for further information.

Financial and Business Review (continued)

3 Segmental Underlying EBITDA

Underlying EBITDA	FY 2020 €m[1]	FY 2019 €m	% Change	% Change before effects of IFRS 16
ARYZTA Europe	158.3	167.7	(5.6)%	(24.3)%
ARYZTA North America	66.7	98.0	(31.9)%	(49.9)%
ARYZTA Rest of World	35.2	41.8	(15.8)%	(28.5)%
Total ARYZTA Group	**260.2**	**307.5**	**(15.4)%**	**(33.0)%**

Underlying EBITDA margin	FY 2020	FY 2019	Movement (bps)	Movement (bps) before effects of IFRS 16
ARYZTA Europe	11.2%	9.8%	140 bps	(80) bps
ARYZTA North America	5.3%	7.0%	(170) bps	(310) bps
ARYZTA Rest of World	14.0%	15.4%	(140) bps	(350) bps
Total ARYZTA Group	**8.9%**	**9.1%**	**(20) bps**	**(210) bps**

1 The current financial period includes the effects of the adoption of IFRS 16 Leases; the comparatives have not been restated in accordance with transitional guidelines. To enable analysis versus prior year the FY 2020 figures are presented before and after the effects of IFRS 16. See glossary in section 20 for further information.

2 See glossary in section 20 for definitions of financial terms and references used in the financial and business review, including a reconciliation of Underlying EBITDA movements by segment before and after the impact from adoption of IFRS 16 – Leases.

4 Our business

ARYZTA is the world's leading global, frozen B2B baking solutions provider, operating in the frozen bakery segment of the overall bakery market. ARYZTA's customer channels consist of a mix of Large Retail, Convenience and Independent Retail, Quick Service Restaurants ('QSR') and other Foodservice categories.

Across all of ARYZTA's markets, the effects of COVID-19 in the second half of the year materially impacted revenue. Total revenue decreased by (13.4)% to €2.9bn from FY 2019 to FY 2020. Organic revenue declined by (11.6)%, with volume losses of (11.5)% and a price/mix impact of (0.1)%. Disposals reduced revenue by (2.4)% and currency had a favourable impact of 0.6%.

Group Underlying EBITDA for FY 2020 was €260.2m, which represents a decrease of (15.4)% compared to FY 2019, while EBITDA margins decreased by (20) bps to 8.9%. Excluding the effects of IFRS 16, Underlying EBITDA decreased (33.0)%, with EBITDA margins decreasing by (210) bps compared to FY 2019. Please refer to the table in the glossary in section 20 providing a reconciliation of pre- and post-IFRS 16 EBITDA movements.

The COVID-19 crisis materially impacted the performance of the Group in all channels and geographies. This has had a particularly strong impact on our Foodservice and to a lesser extent, QSR channels. The Retail channel showed robust performance throughout the period. Despite the challenges faced during the crisis, ARYZTA has responded rapidly to the changed consumer environment through closely supporting its customers and efficiently calibrating its operational needs. This has led to an improved sequential performance in the final months of the year.

Financial and Business Review (continued)

5 ARYZTA Europe

ARYZTA Europe has leading market positions in the frozen B2B bakery markets in Germany, Switzerland, France, Ireland, the UK, the Netherlands, Hungary, Poland, Denmark, Spain, Sweden, Romania and other European countries.

ARYZTA Europe revenue decreased by (17.2)% to €1,418.3m from FY 2019 to FY 2020. Organic revenue decline of (12.7)% was a result of a (12.5)% decline in volumes and a decline of (0.2)% in price/mix movements.

ARYZTA Europe Underlying EBITDA for FY 2020 was €158.3m, which represents a decrease of (5.6)% compared to FY 2019, while EBITDA margins increased by 140 bps to 11.2%. Excluding the effects of IFRS 16, Underlying EBITDA decreased (24.3)%, with EBITDA margins decreasing by (80) bps compared to the prior year.

All key markets in Europe were impacted by the COVID-19 crisis in the second half of the year, with countries with a large exposure to the Foodservice channel most severely impacted. Due to the pandemic and consequent lockdown restrictions imposed by European governments, the Foodservice channel was effectively shuttered for a six week window in the third quarter, followed by a very gradual phased re-opening across all markets. The QSR channel was also adversely impacted by the crisis, but the ability to offer drive-thru and take-out options and the phased re-opening of dine-in helped to boost performance. ARYZTA Europe's largest channel, the Retail channel, had a more robust performance, but revenue has been impacted by social distancing regulations, labour constraints and a change of consumer behaviour to more packaged goods and home baking.

Despite the challenges, the regional team operated to service its customers in this new COVID-19 environment. Through optimizing bakery capacity, furloughing headcount and availing of government incentives, performance in the region was stabilised, with sequential improvement in performance during the final quarter of the year.

6 ARYZTA North America

ARYZTA North America is a leading player in the frozen B2B bakery markets in the United States and Canada. It has a diversified customer base, including multiple retail, restaurants, catering, hotels, leisure, hospitals, military, fundraising and QSRs.

ARYZTA North America is a leader in high-value artisan bakery via La Brea Bakery, which focuses on the premium branded bakery segment.

ARYZTA North America revenue declined by (9.7)% to €1,261.9m during FY 2020. Organic revenue declined by (11.8)%, driven by volume declines of (11.1)% and a negative price/mix of (0.7)%. Positive FX movement of 2.1% partially offset the organic decline.

ARYZTA North America Underlying EBITDA for FY 2020 was €66.7m, which represents a decrease of (31.9)% compared to the prior year, with a decrease in EBITDA margin by (170) bps to 5.3%. Excluding the effects of IFRS 16, Underlying EBITDA decreased (49.9)%, with EBITDA margins decreasing by (310) bps compared to FY 2019.

Financial and Business Review (continued)

ARYZTA North America endured a challenging year, with the COVID-19 crisis materially impacting both revenue and EBITDA. Similar to other markets, the Foodservice channel was the most severely impacted channel due to state and government restrictions in the USA and Canada, the impact of office workers working from home and higher unemployment levels. The QSR Channel also underperformed compared to the prior year, while the Retail Channel performed slightly better. Notwithstanding the difficult year, and the on-going COVID-19 crisis, management is confident that the current actions to stabilise the business will help to improve performance in the coming quarters.

7 ARYZTA Rest of World

ARYZTA's operations in the Rest of World primarily includes businesses in Brazil, Australia, Japan, Malaysia, Singapore, New Zealand and Taiwan. While representing only 8.6% of total Group revenue and 13.5% of total Group Underlying EBITDA, these locations provide attractive future growth opportunities and have importance as suppliers to our global QSR customers.

ARYZTA Rest of World revenue decreased by (7.9)% to €250.7m in FY 2020. Organic revenue decreased by (3.5)% as a result of (7.4)% volume decline offset by positive price/mix of 3.9%. Unfavourable currency movements reduced revenue by (4.4)%.

ARYZTA Rest of World Underlying EBITDA for FY 2020 was €35.2m, which represents a (15.8)% overall decrease, while Underlying EBITDA margins decreased by (140) bps to 14.0%. Excluding the effects of IFRS 16, Underlying EBITDA decreased (28.5)%, with EBITDA margins decreasing by (350) bps compared to the prior year.

ARYZTA's performance in the Asia Pacific region was impacted by the COVID-19 crisis with the Foodservice channel being materially impacted in key markets such as Japan. The key QSR channel in both the Asia Pacific and LATAM region was also impacted through government restrictions, but performance has improved in the final quarter of the year.

Financial and Business Review (continued)

8 Joint ventures

On 23 January 2020, ARYZTA completed the disposal of the majority of its Picard stake to Invest Group Zouari ('IGZ') for gross consideration of €155.9m. ARYZTA retains a 4.6% shareholding in Picard, to be monetised at a later stage.

Picard had revenue of €822.6m during the year to the disposal date and delivered an underlying contribution to ARYZTA of €18.4m, after interest and tax.

	Picard FY 2020 €m	Picard FY 2019 €m
Revenue	**822.6**	1,422.8
Underlying EBITDA	**121.3**	194.4
Underlying EBITDA margin	**14.7%**	13.7%
Depreciation	**(15.0)**	(30.9)
Underlying EBITA	**106.3**	163.5
Finance cost, net	**(28.6)**	(57.4)
Pre-tax profit	**77.7**	106.1
Income tax	**(39.3)**	(48.5)
Joint venture underlying net profit	**38.4**	57.6
ARYZTA's share of JV underlying net profit	**18.4**	27.6

Financial and Business Review (continued)

9 Impairment, disposal, restructuring and COVID-19 related costs

During May 2018, the Group announced Project Renew, a three year cumulative €200m restructuring and cost reduction plan aimed at restoring financial flexibility and aligning our asset and cost base with current and expected business conditions.

In order to deliver these cost savings, the Group expects an overall investment of €150m, with approximately €100m of the investment dedicated to capital investment and the remaining €50m for restructuring-related costs.

Project Renew has delivered cumulative savings of €92m since launch and run rate savings at the period end were c. €65m. Project Renew was on track to reach the €70m 2020 savings target before the start of the COVID-19 pandemic but experienced delays due to regional lockdowns and the postponement of some projects to preserve liquidity. Automation benefits were severely impacted due to material volume declines linked to COVID-19 but have gathered momentum in line with the gradual improvement in revenue. In order to fully realise the potential of Project Renew our focus is to restart postponed projects as soon as is safe and practical to do so.

During FY 2020, the Group incurred the following amounts related to impairment, disposal, restructuring and COVID-19:

	Disposal of joint venture FY 2020 €m	ARYZTA Europe FY 2020 €m	ARYZTA North America FY 2020 €m	ARYZTA Rest of World FY 2020 €m	Total FY 2020 €m	Total FY 2019 €m
Net loss on disposal of businesses and impairment of disposal groups held for sale	–	**(61.2)**	**(103.4)**	–	**(164.6)**	(7.0)
Impairment of goodwill	–	**(65.0)**	**(437.1)**	–	**(502.1)**	–
Impairment of intangibles	–	–	**(28.3)**	–	**(28.3)**	–
Gain/(loss) on sale and impairment of fixed assets	–	**1.5**	**3.4**	**(0.5)**	**4.4**	(4.8)
Loss on disposal of joint venture	**(297.1)**	–	–	–	**(297.1)**	–
Total net loss on disposal of businesses and and asset write downs	**(297.1)**	**(124.7)**	**(565.4)**	**(0.5)**	**(987.7)**	(11.8)
Severance and other staff-related costs	–	**(1.2)**	**(6.1)**	–	**(7.3)**	(9.8)
Other costs including advisory	–	**(0.2)**	**(2.2)**	–	**(2.4)**	(7.3)
Total restructuring-related costs	–	**(1.4)**	**(8.3)**	–	**(9.7)**	(17.1)
COVID-19 related costs	–	**(12.4)**	**(11.5)**	**(1.7)**	**(25.6)**	–
Total impairment, disposal, restructuring and COVID-19 related costs	**(297.1)**	**(138.5)**	**(585.2)**	**(2.2)**	**(1,023.0)**	(28.9)

Impairment and disposal-related costs

Loss on disposal of joint venture

As announced on 4 October 2019, the Group received a binding offer from Invest Group Zouari ('IGZ') to purchase 43% of its 48% holding in Picard for gross consideration of €155.9m of which €145.9m was received during FY 2020. Net of transaction costs

Financial and Business Review (continued)

settled, proceeds of €139.9m have been recorded in the Group Consolidated Cash Flow Statement. The remaining €10.0m consideration has been recorded as a Vendor Loan Note receivable at 1 August 2020, which was received in October 2020. ARYZTA retains a 4.6% interest in Picard, recorded as a financial investment at fair value. As the total proceeds net of transaction costs payable of €149.9m and the fair value of the remaining stake held of €16.8m are less than the €463.8m carrying value of the investment in joint venture disposed of, the transaction resulted in a loss on disposal in the amount of €297.1m.

There was no loss on disposal of joint venture during FY 2019.

Net loss on disposal of businesses and impairment of disposal groups held for sale
The Group completed the disposal of its non-core UK Food Solutions business within the Europe operating segment. As the €7.0m net debt proceeds received, comprising €2.1m cash received and €4.9m lease liabilities disposed, net of associated transaction costs, was less than the €59.4m carrying value of the assets disposed, combined with a €8.8m cumulative foreign currency translation loss since the initial investment, a loss on disposal of €61.2m was recognised.

Certain property assets relating to this business were retained by the Group and classified as assets held-for-sale at fair value less costs to sell of €12.4m, resulting in a gain of €5.4m through other comprehensive income in the revaluation reserve at H1 2020. The property was subsequently disposed of with net proceeds from disposal of €12.4m received.

During FY 2019, the Group disposed of two non-core businesses in Europe. As the €3.1m proceeds received, net of associated transaction costs, were less than the €7.1m carrying value of the assets disposed, combined with a €1.0m cumulative foreign currency translation loss since the initial investment, a loss on disposal of €5.0m was recognised.

During FY 2020, the Group identified non-core businesses in North America, which historically generated approximately 11% of the annual revenues of the segment, for disposal. As plans for this disposal have been approved by the Board of Directors and are sufficiently progressed that they are considered highly probable to be completed within the next 12 months, the assets of these businesses have been accounted for as disposal groups held-for-sale as of 1 August 2020. As the €19.2m fair value less costs to sell of these businesses are less than the €122.6m carrying value of their combined net assets, a €103.4m loss on impairment of disposal groups held-for-sale has been recognised during FY 2020.

During FY 2019, the Group recognised an additional €2.0m loss in North America, on the finalisation of the Cloverhill Chicago and Cicero disposals.

Impairment of goodwill
As disclosed in the FY 2019 Annual Report, the recoverable amount of the ARYZTA North America CGU was sensitive to unfavourable changes in key assumptions, and as a result the Group was required to test the CGU for impairment at H1 2020. This test for impairment resulted in goodwill impairment charges of €437.1m being recorded in the Group Consolidated Income Statement as of January 2020.

Financial and Business Review (continued)

Current year profitability has been impacted by volume declines associated with challenges in the market, while operational margin has been compressed due to costs associated with commissioning and optimisation of the bakery network. Given these difficult trading conditions, management feel it is appropriate to revise downwards its mid-term projections as the optimisation of the North America bakery network and the return to revenue growth is expected to be at a slower pace than had originally been planned. While profitability is expected to improve in the future, after considering goodwill and other assets within this location, as well as the respective future cash flow projections, management determined it was appropriate to record these goodwill impairment charges during the current year.

The North West Europe CGU comprises of businesses in Ireland, the Netherlands and Denmark. As disclosed in the H1 2020 Interim Report and FY 2019 Annual Report, the recoverable amount of this CGU was sensitive to unfavourable changes in key assumptions such as future revenue, profitability, and an increase in the discount rate or a decrease in the terminal growth rate. A significant part of the manufacturing business in Ireland hinges on exports to the UK market and the projections for this business have been negatively impacted by an increasing likelihood of trade tariffs related to Brexit in the short and medium term. Furthermore, the challenging trading conditions in the Foodservice channel following the continued government restrictions on working from home and travel within Ireland have resulted in a reduction in the cash flow projections for this CGU. In addition to these reduced projections, an increase in the discount rate of 70bps compared to the prior period has further reduced the recoverable amount in FY 2020. As the recoverable amount of the CGU is lower than its carrying value, a goodwill impairment of €65.0m has been recorded in the period ended 1 August 2020.

Further detail on this goodwill impairment is included in note 16 in the Group's consolidated financial statements on page 146.

There was no impairment of goodwill during FY 2019.

Impairment of intangibles
As outlined above, current period profitability in ARYZTA North America has been impacted by volume declines associated with challenges in the market, while operational margin has been compressed due to costs associated with commissioning and optimisation of the bakery network. In addition, COVID-19 has had a significant impact in the second half of the period on certain customers and channels within the North America business.

The Group has identified and reviewed certain customer relationship intangible assets in the Foodservice and Retail channels, whose recoverable amounts are lower than the carrying value at period end 1 August 2020, and has recognised an impairment of €28.3m on these assets in the period.

Impairment and disposal of fixed assets and investment property
During FY 2020, the Group realised a net gain on the disposal and impairment of various fixed assets and investment properties totalling €4.4m, primarily as a result of disposals in North America as part of the bakery rationalisation programme under Project Renew (2019: net loss of €4.8m).

Financial and Business Review (continued)

Restructuring-related costs

Severance and other staff-related costs
During FY 2020, the Group incurred €7.3m (2019: €9.8m) in severance and other staff-related costs. These costs primarily related to employees whose services were discontinued following certain rationalisation decisions across the various business locations of the Group as part of the implementation of Project Renew.

Other costs including advisory
During FY 2020, the Group incurred €2.4m in costs related to bakery rationalisation and disposal transactions.

During FY 2019, the Group incurred €7.3m in costs related to the design and implementation of Project Renew across Europe and North America.

COVID-19 related costs

COVID-19 related costs are costs arising due to the effect of the COVID-19 pandemic, including any government-imposed restrictions impacting consumer demand and the production processes, net of any directly-related government support. These costs have been identified as quantifiable, distinguishable and separable from normal operations. As a result, in order to improve the transparency and usefulness of the financial information presented and improve year-on-year comparability, the Group has presented €25.6m of COVID-19 related costs as outlined below.

Employee related costs & safety costs
Costs associated with furloughing employees, unplanned redundancy costs and other incidental labour related costs totalling €5.7m were recognised in the period. Costs associated with implementing safety measures across the Group's bakery network in response to the pandemic totalling €1.8m were incurred in the period. These identified costs are considered to be a one-off cost to the business adapting to the sudden impact of the above over a short period.

Inventory write-offs and impairment of trade receivables
Costs include incremental inventory write-offs and provision for obsolescence arising from the impact of the COVID-19 and government-imposed restrictions. These are one off costs totalling €11.3m for packaging write-offs as a result of production pauses and finished good write-offs due to the short shelf life of certain products as the Group was required to reassess inventory levels.

Certain trade receivables which have been identified as no longer being recoverable due to the direct economic impact that the pandemic and related government restrictions have had on the counterparty, have been identified as exceptional costs totalling €3.5m. These specific trade receivables identified are considered to be incremental to the level of expected credit losses on trade receivables.

Other COVID-19 incremental costs
Other COVID-19 incremental costs totalling €3.3m includes penalties incurred on cancellation of commodity contracts due to lower volumes and non-refundable travel and conference costs.

Financial and Business Review (continued)

10 Cash generation

	FY 2020 €m	FY 2019 €m
Underlying EBITDA	260.2	307.5
Working capital movement	(106.1)	(26.5)
Working capital movement from debtor securitisation[1]	(69.3)	(13.8)
Capital expenditure	(99.7)	(104.9)
Net payments on lease contracts[2]	(56.8)	-
Proceeds from sale of fixed assets and investment property	26.8	6.0
Restructuring and COVID-19 related cash flows	(39.6)	(24.7)
Operating free cash generation	**(84.5)**	**143.6**
Interest and income tax	(46.0)	(85.7)
Recognition of deferred income from government grants	(3.9)	(3.9)
Other	0.2	(1.1)
Cash flow generated from activities	**(134.2)**	**52.9**

1 Total debtor balances securitised as of 1 August 2020 is €117m (2019: €190m).

2 Following the adoption of IFRS 16, Leases, "Segmental operating free cash generation" has been updated to include payments on leases, net of receipts on sub-leases, which ensures that the Group's reported Segmental operating free cash generation is consistent with those previously reported.

11 Net debt and investment activity

	FY 2020 €m	FY 2019 €m
Opening net debt	**(733.3)**	**(1,510.3)**
Impact of adoption of IFRS 16	(321.0)	-
Opening net debt - restated	**(1,054.3)**	**(1,510.3)**
Cash flow generated from activities	(134.2)	52.8
Net movements on lease liabilities	38.9	-
Disposal of businesses, net of cash and leases	7.0	3.1
Disposal of joint venture[1]	139.9	-
Proceeds from issue of shares[2]	-	739.5
Foreign exchange movement	(0.4)	(11.3)
Other[3]	(7.6)	(7.1)
Closing net debt[4]	**(1,010.7)**	**(733.3)**

1 Proceeds amounted to €139.9m net, after payment of outstanding fees. Additionally, €10m remains outstanding at period end as a vendor loan note receivable.

2 Proceeds from issue of shares amounted to nil (2019: €740m net, after payment of outstanding fees)

3 Other comprises primarily of amortisation of upfront financing costs.

4 Excluding the €268.5m net impact of adoption of IFRS 16, the Group net debt would be €742.2m at 1 August 2020.

Financial and Business Review (continued)

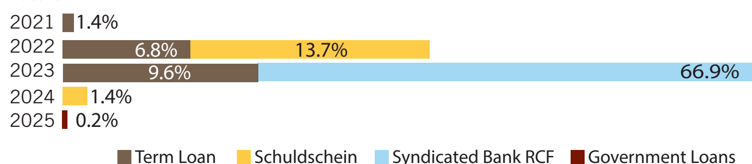
As of 1 August 2020, the Group's gross term debt financing facilities, related capitalised upfront borrowing costs, finance leases, net of overdrafts and cash balances were as follows:

	€m
Syndicated Bank RCF	(790.8)
Term loan facility	(210.0)
State sponsored COVID-19 related loans	(2.0)
Schuldschein	(178.6)
Gross term debt	**(1,181.4)**
Upfront borrowing costs	15.6
Term debt, net of upfront borrowing costs	**(1,165.8)**
Cash and cash equivalents	423.6
Net debt excluding leases	**(742.2)**
Leases	(268.5)
Net debt	**(1,010.7)**

As of 1 August 2020, the weighted average interest cost of the Group debt financing facilities is 1.6% (2019: 1.7%) and the weighted average maturity of the Group gross term debt is 1.98 years.

Gross Term Debt Maturity Profile

1 August 2020



Following the amendment of the Group's Syndicated Bank Facilities Agreement in September 2018, and successful completion of the capital raise during November 2018, the group's financial covenants were as follows:

– Leverage covenant (Net Debt: EBITDA): maximum 3.5x
– Interest cover covenant (EBITDA: Net interest, incl. Hybrid dividend): minimum 3.0x

As announced on 4 May 2020, in response to the COVID-19 pandemic, the Group received the requisite consent of the majority of its lenders for an amendment of its financial covenants relating to the annual financial statements for the period ended 1 August 2020 and the semi-annual statements for the period ended 30 January 2021. The financial covenants defined under this amendment are a leverage covenant being a maximum of 6.0x and an interest cover covenant being greater than 1.5x.

Financial and Business Review (continued)

As announced on 28 September 2020, the Group received the requisite consent of the majority of its lenders for a further amendment of its financial covenants relating to the semi-annual period ending 30 January 2021 and the annual financial statements ending 31 July 2021. The financial covenants defined under this amendment are a leverage covenant being a maximum of 6.0x and interest cover covenant being greater than 1.0x.

The covenants are summarised in the table below:

	FY 2020	H1 FY 2021	FY 2021	Reset after FY 2021
Leverage covenant	maximum 6.0x	maximum 6.0x	maximum 6.0x	maximum 3.5x
Interest cover covenant	minimum 1.5x	minimum 1.0x	minimum 1.0x	minimum 3.0x

The Group's key financial ratios at 1 August 2020 were as follows:

	FY 2020	FY 2019
Leverage covenant (Net Debt: EBITDA)[1]	3.68x	2.43x
Interest cover covenant (EBITDA: Net interest, including Hybrid dividend)[1]	2.63x	3.45x

1 Calculated as per Syndicated Bank Facilities Agreement terms.

Capital raise

During November 2018, the Group completed a capital raise, by way of a rights issue, in order to strengthen the balance sheet, provide necessary liquidity and working capital funding and to enable delivery of ARYZTA's three year turnaround plan, Project Renew. Upon approval by the shareholders at the General Meeting on 1 November 2018, a total of 900,184,940 registered shares with a nominal value of CHF 0.02 each were offered to ARYZTA's existing shareholders on a 10 for 1 share basis, at a discounted offer price of CHF 1.00 per share.

The gross proceeds received upon completion of the rights issue were €795.8m. This resulted in €739.5m, net of transaction costs, which was recognised within equity during FY 2019, of which €15.8m is recognised within share capital, and €723.7m within share premium.

12 Hybrid funding

As of 1 August 2020, the Group has €926.4m of Hybrid funding principal outstanding, as reflected in the table below.

Perpetual Callable Subordinated Instruments		Coupon	Coupon rate if not called	FY 2020 €m
Not called	CHF 400m	5.3%	6.045% +3 Month Swiss Libor	(371.0)
Not called	EUR 250m	6.8%	6.82% +5 Year Euro Swap Rate	(250.0)
Not called	CHF 190m	3.5%	4.213% +3 Month Swiss Libor	(176.2)
Hybrid funding principal outstanding at 1 August 2020 exchange rates				**(797.2)**
Hybrid instrument deferred dividends				(129.2)
Total hybrid funding outstanding at 1 August 2020 exchange rates				**(926.4)**

As the instruments have no maturity date and repayment is at the option of ARYZTA, these perpetual callable subordinated instruments are recognised within other equity reserves at historical cost, net of attributable transaction costs, until such time that

Financial and Business Review (continued)

management and the Board of Directors have approved settlement of the applicable instrument. Any difference between the amount paid upon settlement of these instruments and the historical cost is recognised directly within retained earnings.

Dividends on these Hybrid instruments accrue at the coupon rate applicable to each respective instrument on an ongoing basis; however, a contractual obligation to pay these dividends in cash only arises when a Compulsory Payment Event, such as payment of a cash dividend to equity shareholders, has occurred within the last twelve months.

Because the Group has not paid a cash dividend to equity shareholders during the last twelve months, as of 1 August 2020 the Group is under no contractual obligation to pay the Hybrid instrument dividends in cash. Therefore, these deferred dividends have not been accrued as separate financial liabilities, but instead remain within equity, in accordance with IAS 32 'Financial Instruments'. Should a Compulsory Payment Event occur in the future, all Hybrid instrument deferred dividends will become due in cash.

Movements related to the Hybrid instrument deferred dividends over the last two years were as follows:

	FY 2020 €m	FY 2019 €m
Balance at start of period	(81.8)	(41.1)
Hybrid instrument deferred dividend	(46.1)	(38.9)
Translation adjustments	(1.3)	(1.8)
Balance at end of period	**(129.2)**	**(81.8)**

13 Foreign currency

The principal euro foreign exchange currency rates used by the Group for the preparation of these Financial Statements are as follows:

Currency	Average FY 2020	Average FY 2019	% Change	Closing FY 2020	Closing FY 2019	% Change
CHF	1.0776	1.1310	4.7%	1.0783	1.1039	2.3%
USD	1.1082	1.1378	2.6%	1.1894	1.1149	(6.7)%
CAD	1.4908	1.5055	1.0%	1.5957	1.4672	(8.8)%
GBP	0.8790	0.8825	0.4%	0.9054	0.8955	(1.1)%

Financial and Business Review (continued)

14 Return on invested capital

	ARYZTA Europe €m	ARYZTA North America €m	ARYZTA Rest of World €m	ARYZTA Group €m
FY 2020				
Segmental net assets	1,255.1	717.8	145.9	2,118.8
TTM EBITA	61.4	(5.4)	19.6	75.6
ROIC[1,2]	4.9%	(0.8)%	13.4%	3.6%
FY 2019				
Segmental net assets	1,314.5	1,340.7	175.2	2,830.6
TTM EBITA	101.4	40.9	31.2	173.5
ROIC[1,2]	7.7%	3.0%	17.8%	6.1%

1 See glossary in section 20 for definitions of financial terms and references used.

2 Group WACC on a pre-tax basis is currently 9.5% (2019: 8.5%).

15 Net assets, goodwill and intangibles

	FY 2020 €m	FY 2019 €m
Property, plant and equipment	1,323.4	1,248.8
Investment properties	6.4	12.2
Goodwill and intangible assets	1,143.1	1,964.3
Deferred tax on goodwill and intangibles	(37.1)	(81.7)
Working capital	(70.9)	(246.8)
Other segmental assets	16.3	–
Other segmental liabilities	(53.3)	(66.2)
Lease liabilities	(228.3)	–
Net assets of disposal group held-for-sale	19.2	–
Segmental net assets	2,118.8	2,830.6
Investments in joint ventures	–	447.7
Financial assets at fair value through income statement	16.8	–
Interest bearing loans, net of cash	(742.2)	(733.3)
Deferred tax, net	(61.8)	(43.1)
Income tax	(63.5)	(65.5)
Derivative financial instruments	(0.2)	(0.3)
Net assets	**1,267.9**	**2,436.1**

16 Dividend

No dividend is planned to be proposed for FY 2020. No dividend was proposed or paid for during FY 2019.

Financial and Business Review (continued)

17 Post balance sheet events – after 1 August 2020

As announced on 28 September 2020, the Group received the requisite consent of the majority of its lenders for a further amendment of its financial covenants relating to the semi-annual period ending 30 January 2021 and the annual financial statements ending 31 July 2021. The financial covenants defined under this amendment are a leverage covenant being a maximum of 6.0x and interest cover covenant being greater than 1.0x. See section 11 on pages 18 and 19 above for further details on the Group's financial covenants.

18 Principal risks and uncertainties

The Board and senior management have invested significant time and resources in identifying specific risks across the Group, and in developing a culture of balanced risk minimisation. The Board considers the risks and uncertainties disclosed on pages 85-87 to reflect the principal risks and uncertainties of the Group

19 Forward looking statement

This document contains forward looking statements which reflect the Board of Directors' current views and estimates. The forward looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those contained in the forward looking statements. Potential risks and uncertainties include such factors as general economic conditions, foreign exchange fluctuations, competitive product and pricing pressures, the effects of a pandemic or epidemic or a natural disaster, and regulatory developments. You are cautioned not to place undue reliance on any forward-looking statements. These forward-looking statements are made as of the date of this document. The Company expressly disclaims any obligation or undertaking to publicly update or revise any forward-looking statements other than as required by applicable laws.

20 Glossary of financial terms and references

'Organic revenue' – presents the revenue movement during the period, excluding impacts from acquisitions/(disposals) and foreign exchange translation. Fiscal year 2020 comprised of the 53 week period ended on 1 August 2020 and 2019 comprised of the 52 weeks ended 27 July 2019. Please refer to "Basis of Preparation" on page 106 for further information.

'Underlying EBITDA' – presented as earnings before interest, taxation, depreciation and amortisation; before impairment, disposal, restructuring and COVID-19 related costs.

Financial and Business Review (continued)

An analysis of the impact of IFRS 16 – Leases on segmental Underlying EBITDA is shown here:

Underlying EBITDA in EUR million	Before IFRS 16 FY 2020	IFRS 16 FY 2020	After IFRS 16 FY 2020	FY 2019	% Change	% Change before effects of IFRS 16
ARYZTA Europe	**127.0**	31.3	**158.3**	167.7	(5.6)%	(24.3)%
ARYZTA North America	**49.1**	17.6	**66.7**	98.0	(31.9)%	(49.9)%
ARYZTA Rest of World	**29.9**	5.3	**35.2**	41.8	(15.8)%	(28.5)%
ARYZTA Group	**206.0**	54.2	**260.2**	**307.5**	**(15.4)%**	**(33.0)%**
Underlying EBITDA margin						
ARYZTA Europe	**9.0%**		**11.2%**	9.8%	140 bps	(80) bps
ARYZTA North America	**3.9%**		**5.3%**	7.0%	(170) bps	(310) bps
ARYZTA Rest of World	**11.9%**		**14.0%**	15.4%	(140) bps	(350) bps
ARYZTA Group	**7.0%**		**8.9%**	**9.1%**	**(20) bps**	**(210) bps**

'Underlying EBITA' – presented as earnings before interest, taxation and non-ERP related intangible amortisation; before impairment, disposal, restructuring and COVID-19 related costs.

'ERP' – Enterprise Resource Planning intangible assets include the Group SAP system.

'Joint ventures underlying net profit' – presented as profit from joint ventures, net of interest and tax, before non-ERP amortisation and the impact of associated items.

'Hybrid instrument' – presented as Perpetual Callable Subordinated Instruments, which have no contractual maturity date and for which the Group controls the timing of settlement; therefore, these instruments are accounted for as equity instruments in accordance with IAS 32 'Financial Instruments'.

'Underlying net (loss)/profit' – presented as reported net (loss)/profit, adjusted to include the Hybrid instrument dividend as a finance cost; before non-ERP related intangible amortisation; and before impairment, disposal, restructuring and COVID-19 related costs, net of related income tax impacts. The Group utilises the Underlying net (loss)/profit measure to enable comparability of the results from period to period, without the impact of transactions that do not relate to the underlying business.

'Segmental Net Assets' – Excludes joint ventures, financial assets at fair value, all bank debt, cash and cash equivalents and tax balances, with the exception of deferred tax liabilities associated with acquired goodwill and intangible assets, as those deferred tax liabilities represent a notional non-cash tax impact directly linked to segmental goodwill and intangible assets recorded as part of a business combination, rather than an actual cash tax obligation.

'ROIC' – Return On Invested Capital is calculated using a pro-forma trailing twelve month segmental Underlying EBITA ('TTM EBITA') reflecting the full twelve month contribution from acquisitions and full twelve month deductions from disposals, divided by the respective Segmental Net Assets, as of the end of each period.