

Brexit update

Update: 9th September 2019

- We are in the process of implementing our contingency plan for a potential no deal exit from the EU on 31st October 2019
- Progress in building high/medium risk raw material stocks and finished product is encouraging. Our Board level BREXIT Steering group continues to meet weekly to monitor progress
- We have updated our guidance on food costs in this statement

apetito UK has been pro-active in its preparation for Brexit on 31st October 2019. In the event of a deal negotiated by the Government with the EU, which allows continued frictionless trade, we do not anticipate any impact on our business. However, the Government has also advised business to prepare for the possibility of “no deal” and we are acting accordingly.

As we are very conscious of the sensitivity of our customer base – hospitals, care homes, meals on wheels, nurseries and older people in their homes – we have committed substantial funds and resources to risk mitigation. We believe we have addressed the risks as far as possible, endeavouring to support our customers whatever the circumstances.

We will provide regular updates to this statement, including progress of the contingency plan, as we move closer to 31st October 2019.

Contingency Plan

We are investing considerable funds and resources to increase raw material and finished good stock to cover for potential disruption.

apetito supports the UK and Irish food and farming industry and has substantially increased its level of domestic procurement in recent years. However, Brexit has major implications for the entire UK food industry as the food chain is significantly dependent on EU supply.



We are, therefore, increasing stocks of raw materials and finished goods. This plan has been developed from a detailed analysis of our entire raw material and packaging supply chain involving the c. 700 items we purchase to make our products.

Key facts:

- We're now in the process of building stocks of high and medium risk raw materials with the aim of achieving an average 8 weeks stock (compared to a normal level of 4 weeks).
- We're building finished good stocks with the aim of increasing the average from 5 weeks to above 6 weeks.
- We've contracted 1700 additional pallet spaces of frozen storage to hold the additional finished and raw material stock.

Costs

In the event of Brexit, it is possible that we might see changes in costs arising from market conditions. Potential impacts include:

- Import tariffs under the Government's "temporary tariff regime for no deal"
- Changes in exchange rates
- Border delays/restrictions

We believe it is difficult to predict the impact on food raw material costs at present. Regardless of whether a particular raw material is UK sourced or imported, there could be market price changes if there is a shift in the balance of supply and demand.

In addition, for food products subjected to tariffs, some items will have import free tariff quotas. This means that actual price impacts are uncertain.

Should this happen, we would respond accordingly. Please note that we're not predicting such a particular outcome – simply acknowledging the possibility.

Our Team

We employ a substantial number of EU nationals in our team. Naturally we want to retain these valued team members and to date we have not experienced any abnormal losses.



Prior to March 2019, we met with every affected individual to reassure them and address any issues or concerns. We will be supporting staff in their applications for “settled status”. The Government has confirmed that there will be no change to the rights and status of EU citizens living in the UK until 30 June 2021.

We feel confident this will enable us to retain the vast majority of our team. It is worth noting that the high quality of our employment offer (such as our “Real Living Wage Employer” status), has helped us to achieve a far lower staff turnover than is typical in the food industry.

Food Safety & Food Labelling Regulations

We anticipate food safety and food labelling regulations will remain unchanged in the short to medium term. Longer term, if authority for food law, food safety and labelling regulations are transferred to the devolved authorities (Scotland, Wales and Northern Ireland) we could see variations to regulations within the UK.

Summary

apetito’s Brexit Team, which has been meeting since 2018, has been pro-active in our preparation. We’ve committed substantial funds and resources in risk mitigation and believe we’ve addressed the risks as far as possible, endeavouring to support our customers whatever the circumstances. We will continue to monitor the situation closely and adjust our plans accordingly.

Paul Freeston

Chairman & CEO, apetito UK & North America

