

Growing
Good Business



Musgrave

CEO Report



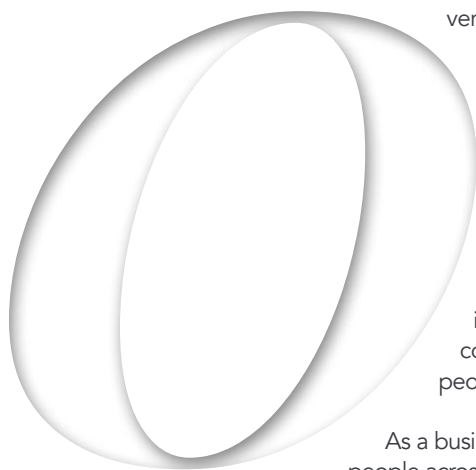
*Annual Report
& Review 2018*

Reinterpreting retail, transforming wholesale

As a family business with the clear purpose of **Growing Good Business** and a compelling vision for reinterpreting food retail for consumers in Ireland, Northern Ireland and Spain, we have continued to put growth and innovation at the heart of everything we do.



By 2025 we see technology as fundamentally changing the relationship with the consumer



Over the past 12 months, this has meant finessing and rolling out many of the fresh ideas, ranges and services trialled in our flagship stores in recent years. At the same time, we have continued to stretch and evolve our brands towards a future vision for food retail in Ireland that resonates with consumers and energises our people and partners.

As a business that feeds one in three people across the island of Ireland, it is our job to anticipate and help minimise the short to medium term disruption associated with Brexit so that consumers can get on with their lives and our partners can plan the development of their businesses with certainty. Our absolute priority is to minimise the impacts of Brexit on shoppers, support our retailers and protect our business. This is why for the last two years we have been systematically

planning for Brexit, making all necessary preparations for whatever outcome is eventually decided.

At the same time, we have worked hard to ensure these near term concerns do not distract from our long term strategy.

2018 performance

I am pleased to report that 2018 has been a successful year for Musgrave. Despite extremely competitive markets, for the fourth year in a row the Group has reported increased profit, with all of our brands performing well throughout the year. Group turnover amounted to €3.9 billion, up 3.8% on 2017 when adjusted for the impact of currency.

Profit before tax was €84.5 million, which is €4.5 million higher than 2017 and up from €73 million in 2016. The Group's net assets were €410 million, an increase of €79 million on 2017 and the business ended the year with net cash of €16 million.



€84.5million

pre-tax profit in 2018

What these figures tell us is that our business can continue to grow as long as we continue to focus on brand innovation and leverage the food retail expertise that has been at the heart of our business for more than 140 years. This period of sustained and stable growth is also testament to the energy and hard work of colleagues and our retail partners who share our values and commitment to a better way of doing business.

Looking ahead, we should also be mindful of the fact that, although the markets in which we operate are extremely competitive, right now Ireland remains one of the strongest economies in Europe. However, in the short to medium term the vibrancy of the Irish economy will almost certainly be impacted by Brexit. This means that as business we must be agile, play to our strengths and listen to and act upon the deep local knowledge of our retail partners to understand and keep ahead of consumer needs. ↓

“At every opportunity we aim to combine our deep local roots with brand and digital innovation to deliver a seamless shopping experience that meets the needs of individuals, not demographics”

Chris Martin, CEO, Musgrave



Vision

We have set our purpose as **Growing Good Business** – developing the company sustainably for the benefit of partners, colleagues and the company – and this underpins a vision for transforming the food business in Ireland. It is a vision that creates opportunities for Musgrave at every eating occasion and the prize for making this a reality is considerable.

The food market across the island of Ireland is currently worth €30 billion and by 2025 it is estimated it will be worth €37 billion. With market-leading convenience and supermarket brands in every community in Ireland, we are uniquely placed to address this opportunity but are also keenly aware that we can take nothing for granted.

On the one hand, we need to remain at the top of our game to deliver value and quality 24/7 so that shoppers enjoy the everyday staples they have come to expect from our brands in-store, online and on-the-go. Differentiation here is all about being highly competitive on price and offering the best value for money for our shoppers.

At the same time, with growth at the heart of our agenda, we are committed to innovation and food leadership to stretch our existing brands, create new brands and look for opportunities to build or acquire businesses in new and emerging sectors of the food industry.

We already have a strong track record of creating value through disruption. For example, it is easy to forget that Frank and Honest is just two years old and already the largest coffee brand in Ireland. Our Irish dairy ice cream brand, Moo'd, is seeing similar rapid growth, with an increase from 56 Moo'd concessions in Centra and SuperValu stores in 2017 to 134 stores in 2018. At the same time, we have introduced healthier choices across all our own brand ranges and transformed food-to-go with initiatives like Green Kitchen in Centra and Munch & Co deli in our revamped Daybreak stores.

From expanding vegan and vegetarian ranges, to evolving our quality offer through SuperValu Signature Tastes, Inspired By Centra and Musgrave Excellence, as a business we are thriving as the result of a restless and entrepreneurial mindset committed to excellence in grocery retailing, wholesale and foodservice across Ireland.

Our acquisitions of foodservice business La Rousse Foods and luxury food retail brand Donnybrook Fair, both represent new opportunities for our business in the growing high-end food sector, broadening our reach in the hotel and restaurant market and strengthening our presence in the expanding Dublin food market. We remain open to opportunities where we see the chance to deliver on our strategy of building brands that provide people with unique food experiences both at home and out of the home.

Reinterpreting retail

Last year I shared our company strategy that looks out to 2025, where we see an evolution of the food industry through a dissolution of the boundaries between eating at home and eating out of the home and consumers making increasingly informed choices about the health benefits of what they buy, coupled with growing concern about the sustainability of the food eco-system.

Shoppers also continue to demand new levels of convenience, speed and availability online and on-the-go, while at the same time expecting a richer experience in-store.

Coupled with the inexorable rise of online and digital transformation across our industry, these are seismic changes. Yet it is important to recognise that it has been change and transformation that have been defining our industry for the best part of half a century and Musgrave's ability to anticipate, embrace and leverage such changes has been crucial to our long term success.

Forty years ago, we transformed the grocery business in Ireland with the creation of SuperValu and Centra. This was a high-risk strategy at the time and a great example of the entrepreneurial culture that continues to inform and drive the business.

SuperValu was Ireland's first supermarket brand and won its place in the hearts of the nation through a combination of value, range, availability, food leadership and innovation, coupled with the industry, enterprise and commitment of outstanding local entrepreneurs. This year we are reporting €2.9 billion in retail sales for SuperValu across the island of Ireland.

SuperValu was also the first retailer in Ireland to announce a major commitment to own brand, when this was an unfamiliar choice for Irish consumers. Our unprecedented investment in these ranges has ensured that own brand is now an integral part of the weekly shop in Ireland, while at the same time creating an extensive line of award-winning products developed in collaboration with some of the country's leading local producers – first choice brand differentiators rather than simply value alternatives.

In the same 40 years, Centra has redefined convenience shopping, turning the corner shop into a community hub focused on consistency and availability; fresh, healthy food-to-go; excellent customer service and unique food experiences. With retail sales on the island of Ireland of more than €1.9 billion in 2018, Centra is now globally

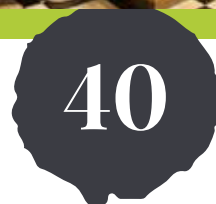


Our SuperValu and Centra stores looked very different 40 years ago

recognised as the future of convenience grocery shopping; a world class offer, with national scale and local responsiveness.

Today, Centra stores are delivering on our strategy of 'owning every eating occasion in and out of the home', by offering a range of complementary sub-brands in store to attract consumers to shop, eat and drink at any time of day. From a Frank and Honest coffee, to an artisan pizza takeaway from Caramico or a healthy, freshly-made salad box from Green Kitchen, these stores provide unique and inspiring food options that shoppers come back to time and again. We plan to open 25 new Centra stores this year and revamp a further 80.

While our business strategy looks out to 2025, our reinterpreting of retail is a process of constant evolution in which our brands deliver a consistent and seamless experience online, on the move or at the till. And while online grocery will continue to be driven by speed and convenience, our traditional high street stores are already developing into multi-purpose destinations where people go not just to buy products but also for great dining experiences, food demonstrations, nutritional advice and personal service from artisan butchers, bakers and greengrocers.



Celebrating 40 years of transforming retail in Ireland through SuperValu and Centra





SuperValu's living herb wall trial in Castletroy



Delivering a fresh and healthy approach to convenience food

Indeed, we have already begun implementing and trialling many aspects of this destination shopping experience across our estate. The newly revamped SuperValu Castletroy is a flagship store that includes a range of food experience areas under one roof, from fishmonger and health and wellbeing zones to one of our recently launched vegetarian zones. The store is also piloting a living herb wall concept, giving shoppers the unique option to pick their own fresh produce from the plant, which, at the same time, is a sustainable step forward in reducing packaging and food waste.

The Daybreak brand continues to experience strong growth. In 2018, we opened 17 new stores with 38 stores adopting the new identity. The new brand identity brings a fresh, new look and feel while very much keeping to the brand's core principles of fast, easy and local shopping. With the introduction of three new sub-brands: Munch & Co (deli), 9 Grams (coffee) and Lickety Split (ice cream), the new format provides a diverse offering to shoppers throughout the day.

A key focus in 2018 was to provide healthy convenience options to consumers. For instance, the new Munch & Co deli features many healthy options such as signature sandwiches, salad bowls and egg pots, as well as toast and toppings.

Our business is all about creating outstanding brands that outpace consumer expectations and are strongly differentiated in relentlessly competitive markets. This differentiation and commitment to reinterpreting retail to remain relevant and essential to consumers is hardwired into our corporate culture but we can't do it alone. It can only be brought to life through the expertise and passion of some of the country's leading entrepreneurs.

Leveraging local

Musgrave has a 140-year heritage in food and brand innovation and what continues to set us apart from our competitors is our unique network of independent retail partners; thousands of individual entrepreneurs with a deep understanding of the needs of their local communities – family business leaders who have invested heavily to ensure their enterprises remain the thriving hub of the town or city they serve.

To reinterpret retail and create destination outlets offering rich food experiences tailored to local shoppers and families requires frontline expertise and local knowledge that can only be provided by outstanding partners who operate in the communities in which they live.

We are very proud of our relationships with our retailers, some of which go back many decades. We recognise that not only are they key to the local innovation that is such an important differentiator alongside international competitors, but they also hold the key to the continuing relevance and indeed resurgence of the physical store; social and community hubs delivering outstanding food experiences to local communities.

We have led the way in Ireland, Northern Ireland and Spain, investing heavily in technology to unify the retail experience and to deliver an increasingly personal experience to individual consumers.

At the same time, we see the rise of online and the digitalisation of the retail experience offering limited space for differentiation. It is our retail partners who are uniquely placed to bring the human and digital food experiences together, bringing our brands to life in compelling physical environments that host a rich theatre of food and dining excellence tailored to the needs of local communities.

It is a bright and exciting future for these independent retailers, who will thrive in this evolving retail environment. As small and medium-sized businesses, they are better able to adapt and react to consumer needs and changing food trends. With their local approach and community insight, coupled

“Our aim is to continue to explore international opportunities; putting Irish food on the map worldwide and exporting the best of our local own brand produce”

with our expertise in brand innovation, we have a winning combination that works today, and will work in the future.

Transforming wholesale

While we continue to stretch our retail brands, the wholesale side of the business has followed a similarly transformative journey. Musgrave MarketPlace has evolved from an outmoded cash and carry concept into Ireland's leading wholesale business for retailers, SMEs and a one-stop shop for the country's growing hospitality sector. Today, with the addition of the newly acquired fine food specialist La Rousse Foods, we are able to service every area of the hospitality and foodservice sector in Ireland, with more than 24,000 products from basic everyday items to premium, artisan and locally-sourced produce.

Similarly, digital technology is shaping wholesale as much as it is retail, driving speed, convenience and choice for our customers, from online ordering and delivery to social media events. Meanwhile our outlets and people have become central to the Musgrave MarketPlace experience. For example, in our Food Theatres professional chefs are available to work with businesses on menu design, as well as demonstrating new products and hosting food tastings. Bringing La Rousse Foods into the Musgrave family was a strategic move that has allowed us to broaden our reach in the hotel and restaurant market in Ireland, sourcing and supplying the highest quality produce for Ireland's top chefs.

We recognise that the future of wholesale is about being nimble and responsive to changing food trends in the industry, delivering unique product ranges and more locally-sourced products, while leveraging digital technology to source, supply and deliver products quicker than ever before.

The growing alignment between the retail and wholesale sides of our business is helping to drive synergies and encourage a sharing of expertise and innovation that is strengthening brands and operations.

Reinterpreting international

In 2018, our Spanish business performed well with the addition of two new Dialprix stores during the year and the recent opening of a new cash and carry outlet in the South East region of Spain.

The continuing strength of our wholesale and foodservice offer coupled with the global demand for quality own brand products is opening export opportunities for the business. We have recently appointed Stefan Sick as Managing Director of our new Musgrave International division. Our aim here is to continue to explore international opportunities, putting Irish food on the map worldwide and exporting the best of our local own brand produce. Our own brand products are increasingly recognised as safe, high quality and with outstanding provenance and traceability.

We recently announced an agreement with Alosra, Bahrain's leading premium supermarket group, where we are supplying a selection of products from our Excellence own brand range as well as a number of Irish products. I am pleased to report that we are investigating a number of similar partnerships.

Our acquisition of La Rousse strengthens our foodservice offering in the high-end area of the hospitality sector





SuperValu will invest €3 million over two years in a programme of solar panel installations



Caring for our World is a collection of 27 commitments in four areas of sustainability

Growing Good Business

Three years ago, when we set our purpose as **Growing Good Business**, it was partly to inspire and launch the next phase of growth in the year of our 140th anniversary. But it was also to make sure that our values – long term stable relationships, not being greedy, working hard, honesty and achievement – remain embedded in our business for the next 140 years, and to emphasise that while sustainable growth remains a key driver for the business, it needs to be pursued in line with those values.

Sustainability has always been important to the business, and it is reflected in the clear, measurable commitments outlined in our *Taking Care of our World* strategy. In 2015, we became one of the first businesses globally to align its sustainability strategy with the United Nations Sustainable Development Goals. The SDG's underpin our approach and ensure that we work consistently across the three core areas of sustainability: economic, social and environmental.

Fostering a more inclusive, diverse and healthy workplace where people can grow and thrive is also an important part of our strategy. To

support this culture change we are continuing to invest in our people development programme, Breakthrough, which has seen more than 5,000 colleagues participate and more than 50 Musgrave people qualify as Breakthrough trainers. In addition, we are continuing to develop our award-winning Be Well Work Well programme which supports and encourages our employees to eat healthily, stay active and reduce stress. And earlier this year we launched the new Diversity and Inclusion policy. We want to do more here, not just because it is the right thing to do, but because research indicates that more diverse businesses are more engaged and better businesses.

The need for a strategic approach to sustainability is greater than ever. Global challenges like climate change demand coordinated action by governments, businesses and civil society if we are to avoid the potentially catastrophic impacts that continued global warming will bring about. Through the choices we make, each of us has a role to play in mitigating climate change. This includes rethinking our patterns of consumption, changing our approach to food production, decarbonising our energy systems, introducing a more circular use of resources and eliminating waste.

Our ambition is to leave a positive and lasting legacy for future generations, with a clear and committed approach to sustainability in every area of our business, and to take our partners on this journey with us.

For example, we are working hard to offer shoppers a more sustainable shop. We are committed to reducing packaging in-store and to making 100% of SuperValu's own brand and fresh produce packaging reusable, recyclable or compostable by 2025. In SuperValu we have already moved to compostable fruit and vegetable bags, which has resulted in 2.7 million plastic bags being removed from our supply chain. We are also pleased to have completed our rollout of 100% compostable coffee cups and lids in Frank and Honest, the first coffee brand in Ireland to do so.

At the same time, given our central role in feeding Ireland, we recognise our responsibility to provide healthier choices, especially in the context of our own brands. Shoppers are increasingly aware of and interested in the food they eat, the ingredients in the products they choose and the nutritional information on the packaging.

Centra continues to redefine convenience with healthy and nutritious grab-and-go options



With more public awareness of the damage eating excessive amounts of salt, sugar and saturated fat can cause, we are playing a role in helping people to enjoy the food they love without compromising on their health. We will reduce sugar and salt by 10% in our own brand ranges for our consumers. To this end, we embarked on a major reformulation programme in 2016, tackling the issue product by product and seeing how we could reduce levels of salt, sugar and saturated fats without compromising on taste, texture or quality.

Conclusion

Today I am inspired to see just how engaged our people and our partners are in delivering on our 2025 vision. They are energised by the opportunities that the transformation of retail and wholesale promises for our business and focused on overcoming the challenges we face in getting there.

Our continued investment in our people development programme has fostered an entrepreneurial culture that is driving innovation and creativity in everything we do. At the same time, our people have embedded our **Growing Good Business** ethos into their ways of working, which is making a tangible difference to energy and ambition right across the company.

I would like to personally thank each and every Musgrave colleague, our retail partners and our suppliers for their commitment and dedication over the last year to **Growing Good Business**, and for playing a crucial role in shaping our future vision for the business.

I remain positive and inspired by that future vision; one that not only redefines retail and wholesale, but also benefits people, businesses and communities, and leaves a lasting legacy for future generations.

Chris Martin, CEO

Our values

- ◆ Long term stable relationships
- ◆ Working hard
- ◆ Not being greedy
- ◆ Achievement
- ◆ Honesty

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