SIMONDS FARSONS CISK PLC
Annual General Meeting
8th October 2020

Shareholders' Q&A

The following is an account of the questions submitted by shareholders and the replies given thereto during the AGM

Q1. What is the possibility of a share split which will enable each shareholder to double his shares?

A share split takes place when a corporation "splits" the nominal value of its issued shares into smaller denominations – thus increasing the number of issued shares. So, as an example SFC has 30,000,000 fully paid ordinary shares of €0.30 each in issue. If the Company were to split the shares into shares of €0.15 each, this would represent a 2 for 1 share split following which the Company would have 60,000,000 fully paid shares of €0.15 each in issue.

Clearly, the value of the Company does not change as a consequence of a share split. The share split in and of itself does not increase the value of the enterprise, and therefore the theoretical effect of a split is that the share price should adjust in direct proportion to the size of the split.

So, taking the example I have just cited, at the close of business yesterday, Farsons had 30,000,000 shares in issue and the share price was €7.20 per share. If one were to go forward with a share split of 2 for 1 there will be 60,000,000 shares in issue and the theoretical price after the share split will be €3.60 per share.

So why do companies consider a Share Split? The answer is that markets (particularly illiquid ones) are not perfect and do not always follow the theory and may not necessarily adjust exactly in line with the proportion of the additional number of shares in issue. This is especially the case when the quoted share price is very high as this may impact the ability of smaller (retail) shareholders to buy the shares. The argument is that a low per unit share price encourages trading and the liquidity of the share in that it makes ownership of the shares more accessible to a broader base of shareholders. For example, at the end of August 2020, Apple Corporation implemented a 4 for 1 share split – and this because its (pre-split) share price was USD499 per share. The theoretical post-split price was USD124 per share. This was the 5th Apple share split over the years – unadjusted for cumulative share splits the current Apple price would be around USD25,000 per share – which would clearly be an impediment to smaller shareholders.

However, it could be argued that at €7.20 per share the SFC share is not a particularly high denomination and that this per unit share price should not in the view of the Board impede the ability of even small shareholders from buying the shares – and therefore impact the liquidity in the market. Historically speaking shares in SFC have been fairly thinly traded. Most shareholders in Farsons buy the shares and hold on to them and it is not believed that the current level of the share price is a significant influencing factor on the level of transactions.

Shareholders will be painfully aware that the impact of COVID 19 on the SFC share price has been for the share price to drop by 43% over 52 weeks from €12.60 to €7.20 per share. The Board does not believe that the share price represents a price high enough for there to be a material beneficial impact for shareholders, as the theoretical share price post-split should adjust in direct proportion to the increased number of shares. Furthermore, it is not believed that the current price per share renders ownership of the shares unduly inaccessible to a broad base of retail shareholders.

At this time the number one priority of the Board is to navigate the Company through the very real challenges being faced as a result of the COVID 19 pandemic. Shareholders can rest assured that in the meantime, the Board will continue to keep all options under active review – that is to say, dividend policy, as well as the question of future potential share splits or bonus issue of shares by the company.

Q2. The Interim Report for the six months ended 31 July 2020 states that "The forecast for the second half of the year, based on observed current trends, is anticipated to generate a slight improvement in the profit levels reported for the first half of the year." On the other hand, based on the forecasts for the current financial year ending 31 January 2021 as published in the Financial Analysis Summary dated 23 September 2020, the net profit is expected to sharply contract to €291,000 during the second half of the year compared to the net profit of €1,587,000 registered in the first half of the current financial year. Could you kindly clarify whether profits are expected to improve or worsen in the second half of the current financial year?

This question which is directly related to the Financial Analysis Summary (FAS) which was published on 23 September 2020 and relates to the full year profit after taxation which for financial year 2021 the Group's estimate amounts to €1.87m. In fact, profit before tax for the six months which has also just been published amounted to €1.6million whilst an additional profit before taxation for the last six months of the year is currently estimated at €791,000. This will result in a full year profit before taxation of €2.4 million. The forecast anticipates the incidence of a taxation charge to be accounted for at the end of the financial year and this will relate to a re-assessment of the recognised Deferred Tax Asset in line with revised forecast of the profits of the Group for the forthcoming 5 to 10 years. The Interim report, stating 'improvement in profit levels' reflects the additional absolute profit level and not the profit margins. The forecast therefore reflects an anticipated profitability increase of €791,000 during the second six months of the financial year 2021.

Q3. Moreover, based on the forecasts for the current financial year ending 31 January 2021 as published in the Financial Analysis Summary dated 23 September 2020, the operating profit margin is expected to contract to 3% during the second half of the year compared to the 6% registered in the first half of the current financial year.

a) What are the main factors leading to the further contraction in the operating profit margin in the second half of the current financial year?
b) Is the forecasted contraction for the second half more due to a continued drop in consumer demand, limited opportunities for further cost curtailment actions or reduction in fiscal assistance from the government?

The decline in the operating profit margin is due to a combination of factors. First of all, as already noted by the Chairman and the CEO in their reports, the first six months of the year started off particularly well during the month of February. This is not anticipated to repeat itself in the current scenario during the second six months. A combination of factors which are seeing the reduction in the gross profit margin include the lower production volumes, changing customer and product mix as well as further intensification of market competition. The customer and product mix in these unprecedented COVID-19 realities as included in the forecast for the second half of the year increments the pressure on the operating profit margin. The drop in the margin furthermore reflects also but not alone, the drop in the assistance anticipated from government during the second half of the year, particularly in terms of the COVID wage supplement.

Q4. Given the trade disruptions due to COVID-19, is the Farsons Group experiencing any particular issues in sourcing the required supplies as well as any material cost pressures with respect to its raw materials?

No, there are no specific issues with respect to business supplies and costs. Having said this of course, because of the prevailing situation, maintaining our inventory levels is proving to be challenging in terms of forecasting our requirements but nonetheless, in spite there not being the issues the question referred to, we are on top of the situation to ensure that we maintain stockholding that reflects the current requirements of the market.

Q5. The Financial Analysis Summary dated 23 September 2020 stated that "… certain aspects of business operations may change in nature on a permanent basis." Moreover, the Interim Directors' Report (forming part of the Interim Report for the six months ended 31 July 2020) clearly highlighted the challenges being faced by the franchised food retailing establishments. In view of these statements, is the Farsons Group planning to rationalise its franchised food retailing business in any way in the short to medium term?

In short, no, we are not planning to rationalize. Of course, we all know that Food Chain has been very badly impacted with the current situation but having said this, it has also given rise to some opportunities. As one can see and recognise, the drive throughs together with the home deliveries have picked up. So rather than rationalizing, it is more about re-focusing our energy into those areas where we feel there is opportunity for growth.

Q6. Both the Financial Analysis Summary dated 23 September 2020 and the Interim Report for the six months ended 31 July 2020 refer to the rising competitive pressures as all market players increase their efforts to maintain their market share and sales levels amid dwindling consumer demand.

a) What action is being taken by the Farsons Group to protect its market share?
b) Does this situation create consolidation opportunities particularly within the importation arm?
c) Is the Farsons Group actively pursuing any consolidation opportunities?

Basically, we have two questions here. One is: what are we doing to protect our market share? I think there are various measures that have been taken but essentially, I think the most critical one is that we have re-dimensioned and re-focused our sales and marketing strategy. Re-dimensioned because obviously we had to re-visit our marketing efforts in view of the changes in the market and likewise, in terms of our sales both because as we know, tourism has now been practically wiped out. It has given a significant hit to what we refer to as the 'on premise' business but nonetheless, the 'take home' segment is an area that required particular attention. So to retain our market share we have re-directed our focus, our energy in those areas where we feel there is still opportunity.

With respect to the consolidation in terms of the food business, I think there is no doubt that the current situation is giving rise to opportunities. We have a market especially in the food importation but also in the beverage, but in the importation business in general which remains very fragmented and whereas in the past it was a matter of choice whether one should consider consolidation, I do believe that the prevailing market conditions are now almost obliging businesses to look for opportunities to consolidate in view of the change in the environment and also to ensure there is a competitive proposition being put forward. From the Farsons Group viewpoint, as we have always done in the past, we will not shy away should a good opportunity arise - but from our point of view the issue of consolidation across the market is likely to happen and we will obviously follow it very closely.

Q7. As stated in the Directors' reports, the financial results of the Group have been heavily impacted by the events brought about by the COVID-19 pandemic. What actions have the Directors and Management taken to address the challenges of the pandemic on the financial results of the Group.

I do believe that the answer to this question was extensively explained in both my presentation together with that of our Chairman, but nonetheless I want to assure the shareholders that we have taken and continue to take all measures necessary to contain costs, to exploit any opportunities whichever there may be on the market both in terms of what we have done so far and obviously going forward to ensure that we can maintain the best performance possible, the best results possible within a very difficult and unpredictable environment.