

Annual Report & Review 2017



Growing Good Business



Musgrave

Driving growth through *innovation*

With 140 years of food and retail expertise and a passion for brand innovation, today our focus is growth in every area in which we operate

*I*n a world where we are competing for market share and talent, nurturing a culture that thinks long term and has a robust purpose is important. Certainly, companies that operate with a clear and driving sense of purpose are more focused and cohesive than those that have profit as their sole measure of success.

We have set our purpose as **Growing Good Business** – growing sustainably for the benefit of partners, colleagues and the company. It's an inspiring commitment that underpins our business strategy as well as our day-to-day work, innovating through our brands and using our food expertise to deliver a different and better offer.

Growing Good Business provides a common direction for our people to drive and stretch our brands, while at the same time exploring growth opportunities in new markets. It's placed growth at the heart of what we do, but not at any price. It has to benefit not just Musgrave, but the ecosystem that supports our business.

As a family business with six generations of ownership, we look out further than the next set of quarterly results and are committed to sustainable growth. It's this ethos that's informing our business decisions, inspiring our people and transforming our culture.

This is opening new opportunities that enable us to continue to deliver growth, as long as we continue to innovate in what remain hugely competitive markets. At the same time, we must be mindful of short and medium term challenges.

Looking ahead, while Ireland continues to have one of the strongest economies in Europe, we recognise that there is short term uncertainty – primarily created by Brexit and its potential

to slow growth in the food and grocery sector and impact our business. No one can predict the outcome of Brexit. However, while the politicians work through the negotiations, we are working to ensure that our business is prepared for the post Brexit environment, and looking to minimise its impact on our shoppers.

2017 performance

I am pleased to report that the story of our 2017 performance is one of growth. For the third year in a row, the Group has reported increased profit, with all our brands performing well throughout the year. Group turnover amounted to €3.7 billion, up 0.3 per cent on 2016 when adjusted for the impact of currency.

Profit before tax was €80.0 million, which is €7.0 million higher than 2016 and up from €60 million in 2015. The Group's net assets were €330.4 million, an increase of €81.6 million on 2016. The Group ended the year with net cash of €70.8 million.

This growth is testament to the energy, dedication and hard work from colleagues and our retail partners over the last year. It is the result of the new tools and ways of working that have evolved through our ongoing programme of investment in people and talent development. And it is the outcome of our focus on brand innovation that is informed by more than 140 years of food retail expertise.

Feeding Ireland

With our Growing Good Business strategy delivering good results, the past year has been about driving consistency and improved delivery, stretching our brands through new offerings and innovations, and ramping up store improvement and development. At the

same time, we have been looking further ahead to build on the strong foundations provided by market-leading brands, and the deep local knowledge of our retail partners, to forge a wider longer term strategy to 'feed the island of Ireland'.

Feeding Ireland is about creating opportunities for our business at every eating occasion. 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. Increasingly, this focus on flexibility and the integration of a growing diversity of delivery channels will come to describe the roadmap for our business going forward.

Let me give you a sense of some of what we believe food and food retail will look like in the near future. In 2025, Ireland will be a thriving, bustling and diverse place to live and work. The population will have grown to over 7 million people, with Dublin and Belfast home to more than 45% of the overall population.

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There will be a dramatic shift in people's attitude to food. Consumers will seek out unique food experiences where eating less will be considered good for me, my health and the health of the planet. Veganism is likely to be mainstream and consumers will make more informed decisions about the health and nutritional benefits of what they buy coupled with growing concern for the environment and the sustainability of the food eco-system. People will demand total transparency about the impact of food on their health and on the planet.

The boundaries between eating at home and out of home will continue to dissolve and this



Chris Martin CEO,
Musgrave



Digital innovation in action: the Centra Beat the Queue online ordering app, now available to use in 19 stores and rolling out to dozens more throughout 2018

merged market will be worth in the region of €37 billion annually across the island of Ireland. In this growing market, consumers will demand a new level of convenience, speed and availability.

In this new world, rather than seeing the demise of the store, bricks and mortar will in fact be re-imagined as a destination, a social hub – the place where people will go not just to buy product but also for great food and dining experiences.

Bricks and mortar retail will be all about the experience, the integration of leisure, lifestyle and shopping. Consumers will increasingly expect to combine expert advice, with the ability to meet, work and connect, receive tailored offers and recipes, and maybe even visit the gym while their weekly shop is being prepared for them to collect in-store or delivered to their home.

At the same time, store innovation will be seamlessly integrated with technology that will enable shoppers to have what they want, where and when they want it – delivered to their home, eaten in-store or on the go.

By 2025 we see technology as fundamentally changing the relationship with the consumer. Data will become the glue that unifies the retail experience – enabling the offer to be tailored to individuals using their mobile devices. The future will allow shopping where the consumer is always connected, moving between the digital and physical world.

Unlike many in the retail sector, we see the rise of online and the growing digitisation of

the retail experience as a thrilling opportunity rather than a threat. This is because our business is all about creating outstanding brands that deliver exceptional value, quality food and services to shoppers. We believe that retailers who bring the human and digital food experiences together will thrive.

So, in being fit for the future we see that Musgrave has a huge advantage over the competition. This transformed retail environment will require outstanding local entrepreneurs who really understand the individuals and communities they serve. Precisely what we have in the retailers associated with our brands. It is what sets our brands apart. SuperValu, Centra and Daybreak stores are owned not by Musgrave, but by local families. They are nimble, devoted to their customers because they know them and daily meet the needs of everyone in their community.

To deliver on this vision as a business, we continue to evolve store design and invest still more in digital – both in the technology, and

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Centra Parnell Street won Innovative Store of the Year at the international IGD Awards 2017 for its 'truly flexible format, appealing to many different shopper trends'

in expertise and skillsets. We are attracting the best and brightest Ireland has to offer. We are a data-driven business rewarding loyalty, anticipating demand while being better able to understand and meet the requirements of individual shoppers.

We strive to be responsive and ahead of consumers on issues like sustainability – for example, working hard to offer shoppers less packaging and an increasingly sustainable shopping experience.

At the same time, we are developing our international portfolio, because with the best and most trusted Irish brands, we have something unique to deliver to global markets. We look to work with overseas partners who will take our products and our brands and make them work in their local markets.

This is the future of our business and it has already begun.

Growth and leadership

So in 2017, with this vision in mind innovative thinking together with real leadership in

food, in-store and online have helped us to stay ahead of the consumer and ahead of our competitors. Over the past year we have introduced more own brand ranges, given more space to healthier products, nurtured more than 400 suppliers for retail and foodservice through Food Academy and Foodservice Academy, and provided €40 million in additional value for consumers.

In-store we have improved the shopping experience for consumers with more than 100 new and revamped stores and hundreds of in-store colleagues trained in customer service. We created a better online experience for retail shoppers and foodservice customers resulting in a 30% increase in online sales. The result has been that our brands – SuperValu, Centra, Daybreak and MarketPlace – continue to be market leaders.

Musgrave is first and foremost an innovative business that creates outstanding brands. We can do this because we have people who are committed, innovative, passionate and have flair. These people are our retailers and our colleagues.

Independent entrepreneurs like our retail partners are winning in tough markets. We are seeing this across Europe. They're winning through being nimble, devoted to their customers and truly rooted in their local communities, providing the community knowledge, social connection and the human



experience that informs brand development. Our retail partners do all this with flair and they give our brands their competitive edge – something our international competitors can't replicate.

At the same time, Musgrave continues to attract the best and the brightest people – not just in food and retail expertise, but increasingly we are investing in our skills base on the technology side, as well as in people development.

This investment in people over the past few years has transformed our culture and energised the business, helping to deliver the leadership our brands are enjoying today. I'd like to thank our shareholders for supporting us in this ongoing transformation. In particular, I'd like to call out the invaluable encouragement and guidance the leadership team had from our previous chairman, Peter Lacy. I wish him all the best in retirement, and look forward to continuing to work with and benefit from

the considerable experience of his successor, Nicky Hartery.

Brand innovation

Whether it is across retail, wholesale or foodservice, brand innovation and a passion for food sit at the heart of every one of our brands. We know food trends are continuously evolving, shoppers' demands are changing and expectations continue to grow in terms of the food shopping experience.

Our priority is to stay ahead of these trends and expectations, and to always surprise and delight our customers – whether that is through



encourage the nation to enjoy healthier and more active lives. We believe it is our responsibility, as a business that feeds one in three people on the island of Ireland, to ensure health is at the top of the agenda every day and ensure our offer aligns with these new priorities.

the food we offer, the service we provide, or the technology that enables our customers to shop quickly and conveniently. Our expertise is in seeing challenges as opportunities for our brands and being nimble enough to respond – innovating and pushing the boundaries to stay relevant every day.

A focus of healthy choices

For example, health is a major preoccupation for shoppers and this is an area where we continue to stay ahead. A few years ago, healthy living ranges were only a small part of our offering – today we have hundreds of lines in our health food ranges across our stores. The result is that SuperValu is now the leading

For example, we have already reduced salt and sugar in many of our own brand products by reformulating the recipes, and we continue to do this right across our range; we are incentivising and encouraging shoppers to choose different and more nutritious options by making these more enticing and value for money; and we are giving people the information they need to make their own informed choices about the products they buy.

Different and better brands

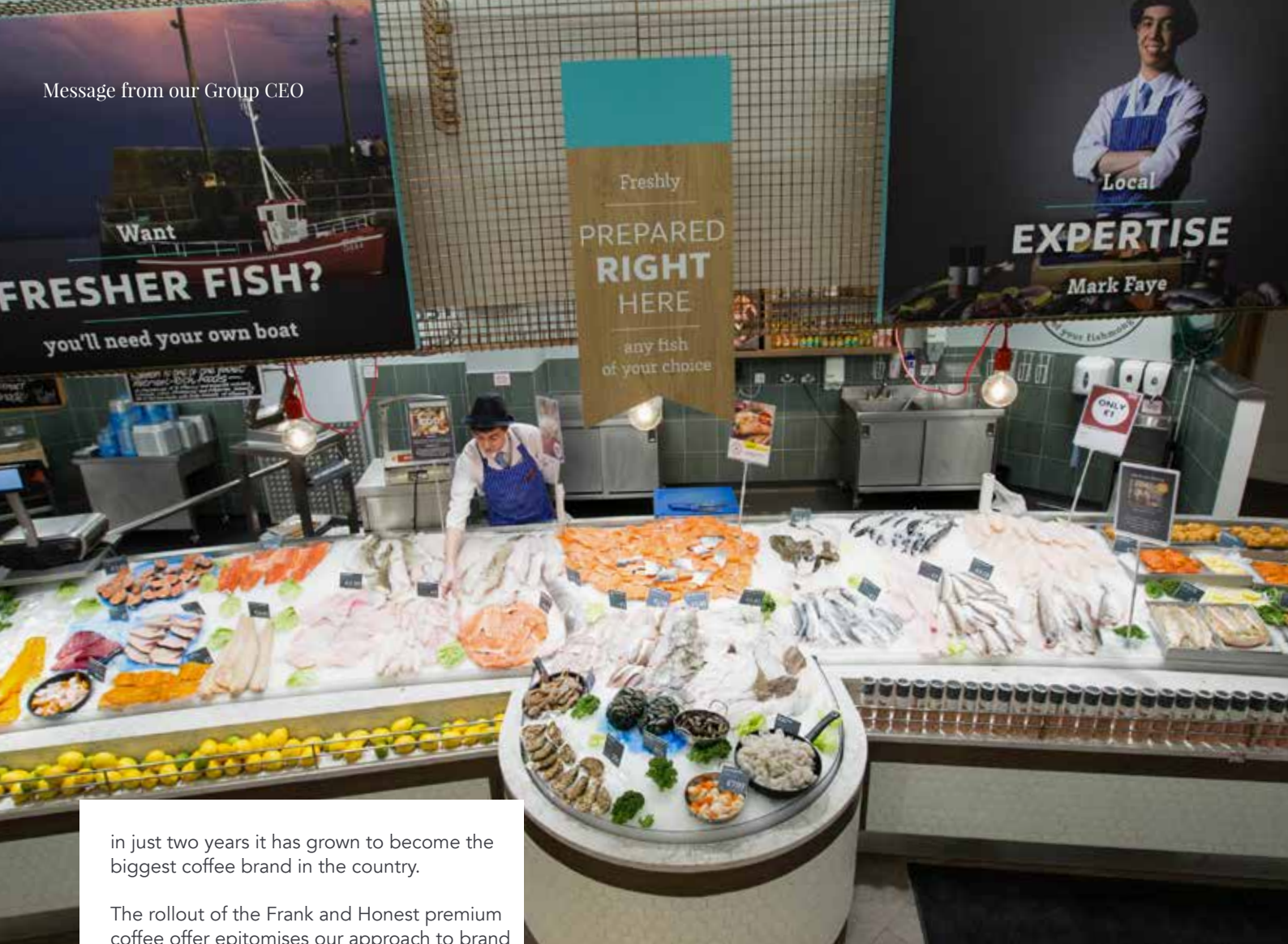
We see convenience shopping as a growing trend in its own right – even if shoppers aren't using a 'convenience' store. Whether for a weekly shop, or a quick sandwich, individuals and families want a fast and easy shopping experience, but we know they also want quality, choice, and, importantly, value for money. This constant challenge inspires us to develop and create new brands, new ranges and new digital offerings.

One of the key drivers of growth in SuperValu and Centra has been the rollout of our Frank and Honest coffee brand. This time last year I talked about the launch of Frank and Honest and our vision for it to become the biggest take-away coffee brand in Ireland. Just a year on and we have delivered on that vision. With Frank and Honest now in 630 Centra and SuperValu stores across the island of Ireland,

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seller of health and wellbeing food products in Ireland and Centra is the only Irish convenience brand strongly associated with healthy living.

While healthy choices are a vital part of brand differentiation, and a key sales driver for retailers, health is also part of our wider sustainability strategy and commitment to



in just two years it has grown to become the biggest coffee brand in the country.

The rollout of the Frank and Honest premium coffee offer epitomises our approach to brand innovation and sustainable growth. Prior to Frank and Honest, machine take-away coffee prices in Ireland had become a race to the bottom. We saw this as an opportunity to offer something different and better to shoppers, while at the same time adding further differentiation for our brands.

In the same way, our new brand Moo'd ice-cream delivers a similar experience and opportunity for our retailers to maximise every eating occasion. It exemplifies what our retail brands stand for – a high quality, premium product made in Ireland with quality Irish produce.

A focus on in-store experience

To date we have invested heavily in store design to deliver a shopping experience the modern consumer demands – convenient, simple, friendly and enjoyable – and we continue to push the boundaries on store design and layout. In 2017 Centra Parnell Street was given the IGD's Innovative Store of the Year award, and our Daybreak brand launched its new Store of the Future identity.

Furthermore, we have invested in Northern Ireland, both in in-store revamps and food innovation, for example, we launched our new own brand Northern Irish label 'Fresh for You',

which underpins our commitment to the local food and drink industry.

Our innovation in design and store experience extends into our foodservice business. Our new Musgrave MarketPlace 'food emporium' format brings together the very best food, expertise and equipment for the foodservice industry under one roof and our Foodservice Academy, launched in 2017, has driven an increase in artisan, locally produced Irish products available in our MarketPlace stores, meeting customer demand for more produce with provenance.

In 2017 we acquired national foodservice brand La Rousse, which supplies to the high-end

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restaurant and hotel sector in Ireland. This has broadened and strengthened our foodservice offering, and we will look to acquire other foodservice brands to increase our reputation and reach in the hospitality market.

International export

Global demand for Irish produce continues to grow thanks to its outstanding quality and the dedicated efforts of the Irish food sector. At Musgrave, we see ourselves as curators of the very best Irish food and drink, supporting long standing producers and suppliers and enabling small brands to grow and access global markets. We want to give people around the world the opportunity to enjoy great Irish food and to put Ireland firmly on the culinary map worldwide.

At the beginning of 2017 our first SuperValu shopfront went live on Alibaba's Tmall Global ecommerce platform, delivering our Irish products to the Chinese market. And we have recently signed an export deal with Alosra, the Kingdom of Bahrain's leading high-end supermarket. We are supplying a selection of products from our Excellence Own Brand range, as well as a number of Irish brands.

We want to grow this success because we know we have the expertise in our respective markets to deliver, and we also know that we have outstanding Irish produce to export that is desirable to an international market.

We have a unique combination of scale and logistics expertise, coupled with our passion for quality local produce. With more than 1,800 Irish suppliers moving their products through our dedicated distribution centres on a weekly basis, we are increasingly attractive as a trading partner of choice in international markets.

Conclusion

What we have achieved with our brands over the past few years has been outstanding. We have steered them through the recession to now being market leading in highly competitive markets. We have achieved this through continuous innovation and by building on our legacy and experience in food retail and brand development.

Looking ahead, we have a clear vision for our business that is explicitly focused on the seamless integration of digital with bricks and mortar retail to provide shoppers with the flexibility and personalisation they want and expect. To deliver on this vision, we are investing heavily in technology, while working



Musgrave announced its export agreement with Alosra, Bahrain's leading premium supermarket. From left to right: Tara McCarthy, CEO, Bord Bia; Jaffar Al Asfoor, BMMI General Manager of Food Retailing and Production; and Chris Martin, Musgrave CEO

closely with our retail partners to evolve and improve the local, destination shopping that remains at the heart of our offer. At the same time, we continue to roll out our people development programme across the business, while investing more in training and recruitment to ensure we attract and retain the best and the brightest.

However, while it's true that data and technology will increasingly play major roles in the development of our business and the evolution of our brands, it will continue to be people who will provide the innovation and inspiration that will underpin our success.

On the frontline of bricks and mortar retail, we have a huge advantage over our competitors because food leadership requires outstanding local entrepreneurs who really understand the individuals and communities they serve. Precisely what we have in the retailers associated with our brands. As ever I would like to thank all our retail partners for their support and innovation.

Going forward we will continue to invest in the development of our people. I would like to thank our shareholders for their commitment to a long term vision for our business that places the development of skills and talent at the heart of our strategy. And I would especially like to thank our people for the commitment, innovation and hard work that is essential for the continuing success of our endeavour. ♦

Chris Martin
CEO, Musgrave

Our values

Long term
stable
relationships

Working
hard

Not being
greedy

Achievement

Honesty

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