



JAMES CROPPER PLC

ESTABLISHED 1845

2020 AGM Shareholder Questions

The following questions were raised by shareholders prior to the AGM:

Question: Pension fund status

The status of the Pension Fund in these uncertain times is clearly of concern and its investments may be adversely affected irrespective of the performance of the business itself. Whilst that is clearly beyond the Board's control, what I would ask is what you would do or would have to do if the pension scheme shortfall increases significantly due to market volatility under the current pandemic and that coincides with a poorer trading year for the business at the next year end?

Answer:

It is feasible that investment returns when measured next year at March year end 2021 will be adversely affected, resulting in the pension schemes suffering a larger deficit under IAS 19. Results under IAS 19 valuations can be extremely volatile from one reporting period to the next as a result of market conditions at a specific point in time. However the IAS 19 valuations are applied for statutory reporting purposes only and hold no other value to the Company or scheme members. The schemes current investment strategy is a liability driven strategy which aims to significantly reduce risk whilst maintaining overall returns and protecting asset values.

The triennial valuations and the governance around them help the Company to meet funding objectives. The statutory funding objective means that our schemes must have sufficient and appropriate assets to cover its accrued liabilities. When our schemes do not meet their statutory funding objectives at an on-going triennial valuation we work with the Trustees to put an appropriate recovery plan in place. This enables the Company to manage the schemes over time, with a prudent level of risk and to pay benefits as they become due including making agreed deficit repair contributions help to eliminate any deficit over an appropriate period, taking into account scheme and employer circumstances and including investment return targets over the long term.

Question: Pension Triennial Valuation

According to the Report & Accounts "The April 2019 triennial valuation is progressing and expected to complete by the end of June 2020" - why is this taking so long? Will the next valuation be in 2022 or 2023? What can be done to reduce the lead-time then?

Answer:

A triennial valuation can normally be complete within 12 months of the date of the valuation.

This latest April 2019 triennial has been dealing with 2 substantial factors each impacting the duration to complete:

Firstly, the scheme Trustees felt it appropriate to complete an in-depth exercise to validate life expectancy of scheme members, this exercise called a Medically Underwritten Mortality Study and commenced in August with a large section of members being asked to complete questionnaires and take part in phone reviews, the returns took some time to collate in and it was March 2020 before the actuaries were able to extrapolate results to the full scheme membership. The outputs from this exercise have been incorporated into the year end March 2020 IAS 19 valuation (detail on page 103 of the Annual Report) and importantly informs the April 2019 triennial.

Secondly, the coronavirus pandemic whilst it does not retrospectively impact the valuation it does have an impact on the recovery plan and the final stage of any triennial valuation is for the Company to agree a recovery plan with the Trustees. The pandemic has therefore driven additional delay into the process whilst the Trustee assess the impact of the pandemic on the Company's financial health and its ability to support the pension schemes into the future. The on-going valuation and it's a recovery plan is expected to be completed in the next few months.

The next Valuation will be in April 2022 and it is expected to complete within normal timescales.

Question: Pension Group Service costs.

With regard to the Group Services costs reported for 2020, I can find 3 different figures for this and cannot understand why – can you explain, please? Note 6 on Segmental Information in the Preliminary Results statement dated 23/6/20 (ie not within the R&A, but in the separate document at https://polaris.brighterir.com/public/james_cropper/news/rns/story/xo3592x) Group Services costs were £3,212,000 in 2020 compared to £1,021,000 in 2019. According to the Divisional Profit Summary within Isabelle's report in the Report & Accounts (p14) the Other Group Expenses were £2,541,000 in 2020 and £167,000 in 2019. According to the Segmental Reporting Note on page 81 in the R&A, Group Services amounted to £2,775,000 + £671,000 = £3,446,000 for 2020. Please forgive me, but I am confused.

Answer:

There are different cuts of the same information dependant on the statutory reporting requirement being addressed and it can be confusing.

		YE March 20	YE March 19
A	Group services	(2,775)	(167)
B	Other being Inter-segment eliminations	234	-
C	IAS 19 pension adjustments against operating profits	(671)	(854)
D = A+B+C	Group services including inter-segment eliminations	(3,212)	(1,021)

The Preliminary report calls out figure D above. This includes IAS19 down to operating profit before interest and accepts all inter-segment eliminations into Group costs.

Other Group expenses in the CFO report amounts to £2,541,000 which is the sum of A+B above. This describes all Group Operating costs, including inter-segment eliminations, before interest and prior to IAS 19.

Note 81 positions A+C into one segment and separates out eliminations, B into another.

Question: Colourform

Colourform is making a product that epitomises the eco-friendly credentials of the company and of its customers, but I am concerned about what may happen to it by the time it reaches the post-consumer waste stream. Whilst it is easily identifiable when at the Mill, it will go out worldwide to consumers who do not have the knowledge or necessarily the patience to work out whether and how it can be recycled. When in doubt, the consumer may simply send it to landfill waste, which has been the great criticism of disposable coffee cups. To this end I do firmly believe that it is incumbent upon the manufacturer to give that clue clearly to the end user, by which point it may have become detached from any credentials in any marketing materials or other printed packaging outers. At the mill tour last year I saw how the mould making had been brought in-house and hence it is clearly an opportunity for the company to do this. Now I recognise that commercial pressures from your customer will come to play here, however such a marking can surely be done discretely and perhaps on the unseen side of the packaging by embossing it there from the mould. This would surely be entirely in sympathy with the concept of being an alternative to single-trip plastic, and therefore a marketing plus?

Answer:

Obviously there is a risk that consumers put it in the incorrect recycling stream and it ends up in landfill. The same is true of all recyclable materials and not just Colourform products. Our marketing and public relations collateral carries a strong sustainability message which is often picked up by our customers who amplify it amongst their own customers. In just about every case when we start a new project we seek to include embossings of our own, including the recycling stream, but as you correctly point out, some customers are reluctant to incorporate this for a variety of reasons. We can be reassured by the fact though that if our material does get littered or finds its way into the water systems, it will not persist like plastics, and will naturally break down into the natural cellulose fibres from which it is made.