Driving the transition to better solutions

'Our proactive leadership and capabilities supporting the transition to alternative materials is a growth avenue that is deepening our customer relationships.'

Frank van Zanten
Chief Executive Officer

Overview

Our performance since the start of the pandemic has demonstrated the strength of our business model and the consistent delivery of our strategy. We have driven growth over this challenging period supported by the resilience of our model, the entrepreneurial nature of our people and our continued success in acquiring high quality businesses. While our focus on being a responsible business is well established, I am pleased to have launched the next phase of our sustainability commitments during the year. We continue to develop and innovate products made from alternative materials and solutions that are tailored to our customers' needs, and work to respect communities and workers' rights

Committing to ambitious climate action

Today

Tomorrow

Beyond

in our supply chain. Bunzl's forward-looking focus and customer-centric business model has already driven a strong compounding track record, and I see our accelerated commitments as integral to ensuring this continued performance.

Operating performance

With over 90% of adjusted operating profit generated outside the UK, and due to the strength of sterling, the Group's revenue, profits and earnings were adversely impacted between 5% and 8% by currency translation over 2021. The commentary below is stated at constant exchange rates unless otherwise highlighted.

In 2021 revenue increased by 7.1% (1.7% at actual exchange rates) to £10,285.1 million. Within this, underlying revenue growth, which is organic growth of 3.2% adjusted for the impact of one less trading day, was 3.6%. In addition, acquisitions contributed revenue growth of 4.0% in 2021. In comparison to 2019, revenue in 2021 was 17.1% higher, with underlying revenue 8.5% higher and acquisitions driving the remainder of growth.

During 2021 underlying revenue growth has reflected a reversal of prior year trends, with the year-on-year decline of Covid-19 related products more than offset by the strong recovery in the base business which had been materially impacted by the challenges of the pandemic in the prior year. Within underlying revenue growth of 3.6%, sales of the top 8 Covid-19 related products, being masks, sanitisers, disposable gloves, disinfectants, coveralls, disposable wipes, face shields and eye protection, and which are primarily own brand, contributed an underlying revenue decrease of 6.3%. This has been driven primarily by the expected decline in larger orders, which were a strong feature of 2020 and generated predominately by governments and healthcare organisations. Smaller Covid-19 related sales, generally made to existing customers, including Covid-19 related products that they may not have sourced from Bunzl previously, also contributed a slight decline over the year. Despite the year-on-year decline in Covid-19 related sales, revenue generated by these products in the fourth quarter of 2021 remained substantially higher than generated in the comparable quarter in 2019. The impact on underlying growth in 2021 of the decline in Covid-19 related product sales was more than offset by recovery in the base business. Recovery in the base business benefited the Group's underlying revenue growth by 9.9%, with this growth driven by inflation and volume.

Inflation was a key feature of performance over the year, with inflation strongly supportive to growth. Continued inflation on certain Covid-19 related products was particularly supportive to the first half of the year, whilst inflation on plastics, paper and chemicals was very supportive in the second half of the year. We have managed the strong inflation on plastics, paper and chemicals well, with success in passing through product price increases to customers. Our largest customers, particularly in North America, often have product price movements factored into agreements and elsewhere regular price renegotiations are required. While inflation trends remained strong to the end of the year, we saw a moderate tempering of plastic prices in some regions.

- Committing to SBTi[1] approved targets with Scope 3 emissions included

- 25% more efficient by 2025 and 50% by 2030[2]
- 100% Group wide renewable energy procurement by 2030

- Net zero by 2050 at the latest[3]

Our focus areas to 2025

- Transitioning our fleet to low and zero carbon solutions
- Trialling alternative fuels in our larger vehicles
- Energy efficiency measures in warehouses
- Renewable energy procurement and generation

1 SBTi = Science Based Targets initiative.
2 Scope 1 and 2 emissions.
3 Scope 1, 2 and 3 emissions.

Across the Group, recovery in the base business has been supported by strong growth in the foodservice and retail sectors. As a result, the foodservice and retail sectors, inclusive of Covid-19 related sales, delivered underlying revenue growth of 16% year-on-year. The cleaning & hygiene, safety and healthcare sectors were impacted by the decline in larger Covid-19 related orders year-on-year, as well as work from home trends in cleaning & hygiene in most markets, and soft safety end markets, which hampered the base business recovery. Overall total underlying revenue in the cleaning & hygiene, safety and healthcare sectors declined 12% year-on-year, although total sales were 10% higher than in 2019. Total underlying revenue in the grocery and other sectors grew 9%, driven by product cost inflation.

North America achieved underlying revenue growth of 9.2%, despite a decline in Covid-19 related sales, with the strong recovery of the base business driven largely by inflation but also fewer Covid-19 related restrictions over the year. Underlying revenue in Continental Europe declined by 5.7%, but after excluding larger Covid-19 related sales, which strongly benefited the prior year, saw moderate underlying revenue growth. Underlying revenue in the UK & Ireland declined by 6.2%, but after similarly excluding larger Covid-19 related sales saw good underlying growth. With UK & Ireland having a higher weighting to the foodservice and non-food retail sectors, the extended lockdowns earlier in 2021 impacted operating margin, but following the improved trading performance in the second half of the year, including the non-repeat of provisions established in the prior year, the UK & Ireland delivered a meaningful improvement in adjusted operating margin over the second half. Underlying revenue in the Rest of the World grew by 4.7% year-on-year, driven by Latin America which has seen strong growth in its base business and benefited from inflation, whilst Asia Pacific was impacted by a decline in Covid-19 related sales and Covid-19 related restrictions which limited base business growth.

Overall, the Group's base business over 2021 traded broadly in-line with 2019, driven by strength in North America and Latin America. The base business in North America traded moderately ahead of 2019 revenue levels, with sales strongly ahead in the second half of the year, whilst Latin America traded very strongly ahead of 2019 over the year. Continental Europe and Asia Pacific delivered base business revenues broadly in-line with 2019 levels, with moderate growth achieved in the second half of the year, although Asia Pacific's foodservice and retail revenues were impacted by stricter restrictions in the second half of the year. The UK & Ireland saw a greater impact from extended Covid-19 related restrictions and its higher weighting to the foodservice and non-food retail sectors, but by the final quarter of the year delivered base business sales that were approaching 2019 levels.

Whilst we experienced greater operating cost inflation in the second half of the year, this has been more than offset by revenue growth driven by product price inflation and operational efficiencies. Wage inflation has been particularly strong in North America and the UK & Ireland but more benign in Continental Europe and Rest of the World. However, towards the end of the year we started to see some stabilisation in wages in North America. Outbound freight costs were also higher, although freight cost movements can be factored into pricing agreements, and we have also experienced property cost inflation linked to lease renewals. Driving operational efficiencies is a core component of our compounding strategy and is particularly important at a time of higher inflation. Over the year we have continued to focus on optimising our warehouse space with more than 15 consolidations and have further implemented technologies to automate processes in our business. Overall, combined with the support of product inflation on revenue, inflation dynamics have been somewhat supportive to margins to date.

Adjusted operating profit was £752.8 million, an increase of 2.8% (down 3.3% at actual exchange rates) and operating margin decreased to 7.3% from 7.6% in 2020 at constant exchange rates (7.3% from 7.7% at actual exchange rates). Whilst inflation has been somewhat supportive to margins, the reduction in operating margin reflects the normalisation of revenue mix, with the reduction in sales of Covid-19 related

Helping customers with alternative packaging solutions

Our role in supporting the circular economy

- Supporting smart material choices
- Designing for circularity not waste
- Promoting responsible packaging usage and reusable options
- Partnering to support closed-loop solutions

2021 highlights

- Limited exposure to consumables that are facing regulation
- 2021 packaging mix is broadly consistent with 2019, supported by inflation
- We saw growth in packaging made from alternative products due to customers transitioning, regulatory changes and shortages of plastic products
- Covid-19 caused a move back to single use plastics for hygiene reasons which is expected to be temporary

2%

Only 2% of our Group revenue is generated by consumables that are facing regulation

84%

of Group revenue attributable to non-packaging products or packaging products made from alternative materials that are well suited to a circular economy

Note that 'packaging' refers to packaging and other products within the foodservice, grocery and retail sectors which are facing legislation or consumer pressure. Refer to page 47 for further details.

products, which are largely own brand and had driven strong volume leverage on operating costs in the prior year, and the stronger recovery in typically lower margin businesses within our base business. Furthermore, price deflation in certain Covid-19 related products impacted margins over the second half of the year, although margins benefited over the period from a reduction in the net charge relating to inventory and credit loss provisions compared to the prior year. The Group saw a further increase in the level of slow moving inventory with customer demand continuing to be impacted by pandemic-related restrictions and supply chain disruption resulting in higher levels of inventory. This has resulted in a net charge of approximately £25 million in the year to increase slow moving inventory provisions whilst additional provisions were also required as a result of market price deflation on certain Covid-19 products. This was partially offset by a net release of approximately £5 million from expected credit losses on trade receivables. Reported operating profit was £623.3 million, an increase of 7.7% (0.8% at actual exchange rates), reflecting the 2.8% increase in adjusted operating profit and a reduction in acquisition related items, as well as the non-recurring pension scheme charge in the prior year.

Adjusted profit before income tax was £698.2 million, an increase of 3.9% (down 2.4% at actual exchange rates) due to the growth in adjusted operating profit and a reduction in net finance expense. The lower net finance expense was due mainly to a change in the mix of debt towards currencies with lower interest rates and higher interest income on cash deposits held in the subsidiaries through the year. Reported profit before income tax was £568.7 million, an increase of 9.6% (2.3% at actual exchange rates).

The effective tax rate of 22.3% was lower than the 23.1% in 2020 due to a reduction in the expected tax liabilities for prior periods. Over the period the Group was informed that it was not within the scope of the European Union State aid decision against part of the UK's tax regime. The risk of having to pay any additional tax plus interest of up to £37 million in connection with the matter is now remote, whatever the EU General Court's eventual ruling. In 2022 the Group's effective tax rate is expected to be approximately 24%, reflecting the absence of benefits seen in recent years from the favourable settlement of prior year exposures. Looking beyond 2022, we expect our effective tax rate to increase to between 24% and 25% due to the rise in the UK tax rate from 19% to 25% from April 2023 and enforcement of a minimum tax rate for corporate profits globally. Based on current proposals we do not expect proposed federal tax changes in the US to have a significant impact to the Group if implemented. Adjusted earnings per share were 162.5p, an increase of 4.9% (down 1.5% at actual exchange rates) and basic earnings per share were 132.7p, an increase of 10.5% (up 3.0% at actual exchange rates).

Cash conversion (operating cash flow as a percentage of lease adjusted operating profit) remained strong over the year at 102%. The Group's cash generation continues to be impressive, with £525.4 million of free cash flow generated in 2021, representing 15.0% growth at actual exchange rates compared to 2019, and continuing to enable strong investment in the business and acquisitions. Compared to 2020, free cash flow declined 9.6% at actual exchange rates, due to a decrease in operating cash flow driven by a significant reduction in advance payments from customers net of upfront payments to suppliers for large orders of Covid-19 related products and higher tax payments. Net capital expenditure of £30.0 million compares to £31.9 million in 2020 and reflects continued investment in IT and digital technologies, as well as warehouse consolidations. Despite the amount invested into acquisitions, the Group ended the period with net debt, excluding lease liabilities, of £1,337.4 million compared to £1,255.0 million in 2020. Net debt to EBITDA, calculated at average exchange rates and in accordance with the Group's external debt covenants which are based on historical accounting standards, was 1.6 times compared to 1.4 times at the end of June 2021 and 1.5 times at the end of 2020. This is meaningfully below our 2.0 times to 2.5 times target range, providing substantial headroom for further acquisitions.

Return on average operating capital decreased to 43.3% compared to 45.4% in 2020, driven by the lower operating margin, and reflective of a more normal revenue mix for the Group as Covid-19 related sales have decreased. Return on invested capital was 15.1% compared to 16.2% in 2020, with operating margin having a similar impact, in addition to continued acquisitions made over the year which temporarily dilute the metric. Return on average operating capital and return on invested capital both remain significantly higher than in 2019, with 36.9% and 13.6% achieved in 2019, respectively.

Underlying growth and operational efficiency

Delivering 17.1% constant currency revenue growth between 2019 and 2021, with broadly similar contributions from underlying growth and acquisition growth, highlights the strength of Bunzl's consistent compounding strategy. During 2021 Bunzl held a Capital Markets Day to update on elements of this strategy, including our focus on, and commitments to, sustainable solutions which are integral to the continued success of the strategy.

Our continuous investment in digital capabilities has supported performance over the last two years, with 67% of orders placed in 2021 made digitally, compared to 62% in 2019 and 59% in 2018. Acceleration of our digital capabilities continues to be a key strategic priority for the business, given the value it provides to our customers, how it differentiates Bunzl's proposition and the efficiencies it delivers to our own operations. In addition, we continued to focus on operational efficiencies, with more than 15 warehouses consolidated over the year. Furthermore, in the UK & Ireland we continued to roll out shared service capabilities in both Finance and HR with a range of new technologies implemented to support the transition.

Acquisitions

Over the year, Bunzl announced the completion of 14 acquisitions with committed spend of £508 million, adding estimated annualised revenue of £322 million. Over 2020 and 2021 Bunzl's combined committed spend on acquisitions was approximately £950 million, with the strength of the Group's cash conversion and balance sheet enabling the Group to fund one of the most successful periods for acquisitions in our history, largely through cash generated by the Group in the year. These 14 acquisitions include some fast growing businesses, in particular McCue Corporation, Disposable Discounter and Intergro.

Bunzl ended the year with net debt to EBITDA of 1.6 times, providing the Group with substantial capacity to fund further acquisitions. Our pipeline is active, and we see significant opportunities for continued acquisition growth in our existing markets, both where we have limited or no sector presence, as well as potential to expand into new markets.

Ensuring a responsible supply chain

Our auditing process is key to preventing defective products being shipped and to ensure products comply with our ethical standards. Products supplied directly from Asia are through suppliers that are verified by our Shanghai office. We work with suppliers to improve their operations but will walk away if issues cannot be resolved.

c.98%

of spend in Asia audited every 2 years

754

ethical audits conducted in Asia in 2021

We're expanding our ethical auditing programme to ensure 90% of our spend on products from all high-risk regions are sourced from assessed and compliant suppliers by 2025.

SCAN TO LEARN MORE ABOUT OUR SHANGHAI OPERATIONS

Acquisition	Completion	Description
Deliver Net	January 2021	Healthcare distributor to care homes in the UK, with annualised revenue of £20 million
Pinnacle	February 2021	Distributor of cleaning & hygiene products in Saskatchewan, Canada, with annualised revenue of £11 million
Disposable Discounter	February 2021	Online distributor of foodservice disposable products, with annualised revenue of £24 million. The business operates mostly in the Netherlands but has started to expand across Europe
Comax	May 2021	Distributor to the leisure, cleaning & hygiene, care home and foodservice sectors in the UK, with annualised revenue of £16 million in 2020
Harvey Distributors	May 2021	Cleaning & hygiene distributor in Australia, with annualised revenue of £4 million
Obex Medical Holdings	June 2021	Leading medical distribution business that supplies a broad range of healthcare equipment and devices in New Zealand, with annualised revenue of £29 million
Proin Pinilla	July 2021	Largest independent safety distributor to end-users in Spain, with annualised revenue of £14 million
Arprosa	July 2021	Distributor of personal protection equipment (PPE) to end-users in Spain, with annualised revenue of £7 million
Medshop	September 2021	Online distributor of medical supplies and devices predominantly in Australia, with annualised revenue of £14 million
Intergro	September 2021	Distributor of agricultural supplies to commercial growers in the US, with annualised revenue of £22 million
McCue Corporation	October 2021	Leading and fast growing US business in the distribution of safety and asset protection solutions for sectors spanning e-commerce and grocery with a growing international footprint, and with annualised revenue of £73 million
Workwear Express	October 2021	UK business in personalised workwear and promotional clothing with a strong e-commerce focus, and with annualised revenue of £33 million
Hydropac	November 2021	Distributor of insulated packaging solutions based in the UK, with annualised revenue of £8 million
Tingley Rubber	December 2021	Distributor of own brand PPE based in the US, with annualised revenue of £47 million

Sustainable solutions

We understand our role as a proactive leader in the transition to a more sustainable and equitable future. As laid out at our 2021 Capital Markets Day, sustainability is a key component of our strategic priorities, and we are focused on four key areas: alternative packaging solutions; responsible supply chains; investing in our people; and climate change.

We are already proactively leading the transition of packaging to products which are better suited to the circular economy and momentum has remained strong with customers looking to shift to products made from alternative materials. Our strength in sourcing innovative products, including our own brand portfolio, as well as our expert advice, data tools and supply chain investments is an increasing competitive advantage to Bunzl. The Group continues to have very limited exposure to single-use plastic consumables where some volume reduction is expected. Only 2% of our Group revenue is generated by consumables that are facing regulation, with 84% of Group revenue attributable to non-packaging products and packaging products made from alternative materials that are well suited to the circular economy.

The Group also completed 754 ethical and quality audits through our Shanghai based Global Supply Chain Solutions, which is responsible for auditing our Asian suppliers, the most material high risk sourcing market for Bunzl, by spend. Furthermore, we have started to expand our programme to ensure that 90% of our spend on products from all high-risk regions are sourced from assessed and compliant suppliers by 2025. Our people strategy also continues to drive strong engagement, as indicated by our latest employee engagement scores, with encouraging retention levels across the Group in a climate of much tighter labour markets in many parts of the world. In 2021 Bunzl joined the largest global alliance on climate change, the UN's Race to Zero campaign, and has committed to achieving a net zero position across the Group inclusive of Scope 3 emissions by 2050 at the latest. Over 2021 our carbon intensity (carbon per revenue) declined by 12% year on year, further contributing to our overall reduction of c.60% since 2010.

Our commitment to sustainability has enabled Bunzl to sign environmental, social and governance (ESG) loans in 2021 which are linked to the progress we make, with ESG financing likely to become a greater mix of our overall borrowing profile over time.

Prospects

We upgrade our 2022 guidance compared to that published in our pre-close statement. While we see continued uncertainty relating to the extent of product cost and operating cost inflation and the effect of new Covid-19 variants, at constant exchange rates the Group expects moderate revenue growth in 2022, driven by the impact of acquisitions completed in the last 12 months and supported by a slight increase in organic revenue. Continued recovery of the base business is expected to be offset by the further normalisation of sales of Covid-19 related products, albeit these are expected to remain ahead of 2019 levels, with inflation support in plastics, paper and chemical products and the year-on-year impact of deflation on certain Covid-19 related products expected to remain dynamics within our performance. We also expect Group operating margin in 2022 to be slightly higher than historical levels, as the mix of sector and product sales continues to transition to more typical levels for the Group.

Looking ahead, the Group's longer term prospects remain attractive, with the last two years reinforcing the resilience and quality of the Bunzl model by demonstrating the agility that comes with our decentralised business model, the critical role we play in supply chains and for our customers, and our highly cash generative nature. We expect to see further normalisation in the near-term as we continue to see base business recovery at varying speed across sectors and attractive longer-term growth opportunities in the sectors that we serve, particularly in safety, cleaning & hygiene and healthcare. Further, we believe the merits of joining the Bunzl family have only been strengthened as a result of the pandemic and this is reflected in our recent acquisition success and the conversations we are having with a number of acquisition targets. The Group remains committed to creating value through its proven and consistent strategy of driving organic growth, delivering operational improvements and further consolidating our markets through strategic acquisitions.

Frank van Zanten
Chief Executive Officer
28 February 2022

Our leadership team

Leaders from across the Group meet regularly to review performance, discuss trends affecting our businesses and seek further opportunities for growth and competitive advantage.

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