

STRATEGIC REVIEW TIM MORRIS

ENTIRELY FOCUSED ON TEXTILE RENTAL

The Strategic Report comprises the Group Overview and Highlights, the Strategic Review, the Chairman's Statement, the Chief Executive's Operating Review, the Financial Review, the Corporate Social Responsibility Statement and the Principal Risks and Uncertainties.

Principal Activities and Business Overview

Johnson Service Group PLC (the 'Company') is incorporated and domiciled in the UK, its registered number is 523335 and the address of its registered office is Johnson House, Abbots Park, Monks Way, Preston Brook, Cheshire, WA7 3GH. The Company is a public limited company and has its primary listing on the AIM division of the London Stock Exchange.

The Company and its subsidiaries (together, the 'Group') provide textile rental and related services across the UK. The Group is the leading supplier of workwear and protective wear in the UK with over 40,000 customers, offering these services through the Apparelmaster brand. The Group also provides premium linen services for the hotel, restaurant and catering markets through the Stalbridge, London Linen, Bourne and Afonwen brands. The Group also provided retail drycleaning, laundry and ironing services and other associated services prior to the disposal of its drycleaning business on 4 January 2017.

Mission:

Enable our people and businesses to achieve their true potential from a stable financial platform.

Vision:

Achieve and maintain market leadership in all areas in which we have a major focus.

Values:

- To behave, and to be recognised, as a good citizen in the communities in which our businesses operate.
- To believe in the talents and energy of those who work in our businesses, to encourage them wherever possible to take responsibility and to give them the power to follow through on the decisions they take.

Targets:

- Be recognised as market leader across all our brands.
- Provide leading edge customer service in all of our businesses.
- Continuously strive to minimise the environmental impact of our operations.
- Increase Total Shareholder Return ('TSR') over the longer term.

Our Business Model

For some time now, the Board's strategy has been to focus the Group on our core business of Textile Rental. The disposal of the Facilities Management division in August 2013, followed by the acquisitions of Bourne, London Linen, Ashbon, Zip, Afonwen and Chester, together with the disposal of the Drycleaning business announced in January 2017, represent the major steps in achieving this goal.

The Group's business model, which supports this strategy and aims to increase both profitability and shareholder value, focuses on delivering exceptional customer service across all of our businesses in order to increase customer satisfaction and loyalty and attract new customers.

Key to this is our biggest asset, our employees, who are the face of our business. The investment we make in the training and development of our employees supports our business model and we seek the views and opinions of employees, at all levels, to continuously develop the way we operate such that we support our people and the operations of the Group.

In addition to growing organically, we continue to actively pursue strategic acquisition opportunities and to identify businesses which broaden our services, geographic spread and which add value for Shareholders.

Key Performance Indicators ('KPIs')

The Group refers to certain KPIs to assess the performance of the Group as a whole, and of the various businesses. Further details of the KPIs are set out within the Financial Review on page 11.

Future Prospects

All companies with a Premium Listing of equity shares in the UK are required, under the Listing Rules, to comply with the Financial Reporting Council's UK Corporate Governance Code (the 'Code'). The Code is intended to enhance the quality of information investors receive about the long-term health and strategy of listed companies, and raises the bar for risk management.

OUR TARGETS

TO BE RECOGNISED AS MARKET LEADER ACROSS ALL OF OUR BRANDS.

TO PROVIDE LEADING EDGE CUSTOMER SERVICE IN ALL OF OUR BUSINESSES.

TO CONTINUOUSLY STRIVE TO MINIMISE THE ENVIRONMENTAL IMPACT OF OUR OPERATIONS.

TO INCREASE TOTAL SHAREHOLDER RETURN ('TSR') OVER THE LONGER TERM.

As a Company trading on AIM, we are not required to comply with the Code, however, the Board is acutely aware that an understanding of the future prospects of the Group is of vital importance to all stakeholders. As a consequence a statement, on behalf of the Board, is set out below on the future prospects of the Group.

"The Directors confirm that, based upon the information and knowledge of which they can be reasonably expected to be aware, they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due for a period of not less than 36 months from the date of this report".

Whilst the Directors expect the future prospects of the Group to extend beyond the 36 month period referred to above, this period has been selected, for the purpose of this statement, as:

- it is concurrent with the Group's strategic budgeting process;
- it is consistent with the average contract life of key customers, which provide stable revenue streams, being approximately 36 months;
- the Group has committed banking facilities covering this period; and
- projections looking out further than 36 months become significantly less meaningful in the context of the Group's operations and markets.

The Directors do not believe, having taken into consideration the principal risks and uncertainties facing the Group (as set out on pages 16 to 19) and, inter alia, the points set out below, that the trading performance and cash generation of the Group will be materially adversely affected within that time frame, as:

- the Group has a committed bank facility, with significant headroom both in terms of covenant compliance and availability, through to April 2020 which is considered to be sufficient to meet the Group's current funding requirements throughout the period;
- interest rate risk is mitigated through two hedging arrangements which replace LIBOR with fixed rates of 1.4725% and 1.665%, each over a £15.0 million tranche of borrowings until January 2019 and January 2020 respectively, and two further hedging arrangements which replace LIBOR with fixed rates of 0.49% and 0.5525%, each over a £10.0 million tranche of borrowings until June 2018 and June 2019 respectively, providing certainty over part of the Group's interest cash flows;
- our diversified customer base, the majority of which have a formal contract in place with varying expiry dates of up to five years, provides a secure future income stream whilst at the same time ensuring that the loss of any single key customer would not materially impact the Group's future trading performance and cash flows;

- the diverse and unrelated nature of the Group's customer base limits concentration of credit risk;
- the Group has prepared a three year financial budget, which has been reviewed, challenged, stress tested under a wide range of reasonably possible scenarios and approved by the Board;
- the Group continuously strives to seek out and invest in plant and equipment that will help drive operational efficiencies;
- a significant number of the Group's key processing facilities are owned on either a freehold or long leasehold basis thereby providing security of tenure;
- the wide geographic spread of processing sites mitigates the effect of a loss of any single processing facility (as demonstrated during the year following serious flood damage at one of our Apparelmaster sites) and, furthermore, appropriate insurance cover is in place such that the increased cost of working following a loss of processing capacity may, in some circumstances, be recovered; and
- the Group continuously reviews the adequacy and strength of its management teams to ensure that appropriate experience and training is given and develops succession planning as part of the development programmes for our people.

Although the Board is confident of the future prospects of the Group, there remain a number of risks and uncertainties, which are often beyond the control of the Directors, which could mean that actual results and events may differ from those budgeted.

Strategic Report Approval

The Strategic Report, outlined on pages 2 to 19, incorporates the Group Overview and Highlights, the Strategic Review, the Chairman's Statement, the Chief Executive's Operating Review, the Financial Review, the Corporate Social Responsibility Statement and the Principal Risks and Uncertainties.

By order of the Board

Tim Morris
Company Secretary
28 February 2017