Strategic Review

The Strategic Report

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. Our 'Workwear' business is the leading supplier of workwear and protective wear in the UK, offering these services through the Apparelmaster brand. Our 'HORECA' business provides linen services to the hotel, restaurant and catering markets through the Stalbridge, South West Laundry, London Linen, Bourne, Afonwen and PLS brands.

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

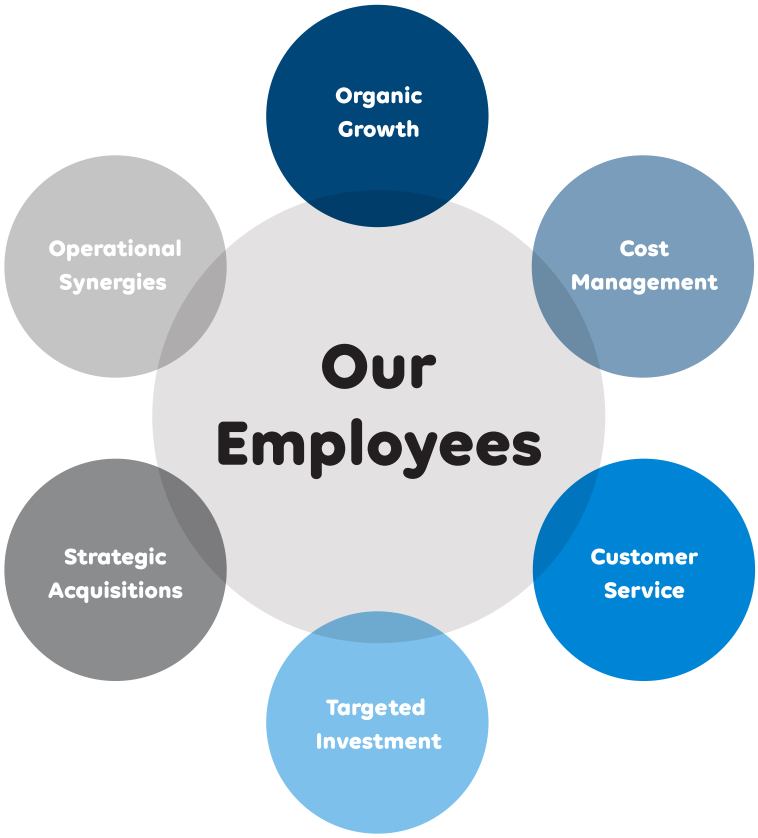
Vision: Achieve and maintain market leadership in all areas in which we have a major focus.

Values:

1. To set the highest ethical and professional standards at all times and to operate with openness, trust, respect and integrity.
2. 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:

1. Be recognised as market leader across all of our brands.
2. Provide leading edge customer service in all of our businesses.
3. Continuously strive to minimise the environmental impact of our operations.
4. 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 businesses and to be the UK's market leader in textile services. The disposal of the Facilities Management division in August 2013, followed by several strategic acquisitions of well invested businesses within the HORECA market, together with the disposal of the Drycleaning business 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.

Like many businesses, we face a number of external cost pressures, however, our business model seeks to generate efficiencies in order to offset those pressures and to allow us to maintain margin over the medium term. Such efficiencies include:

- investing in the latest machinery technology in order to increase capacity and productivity whilst at the same time reducing energy costs;
- taking advantage of operational synergies, for example, redistributing the processing of customer work across our estate of 34 plants in order to take advantage of reduced distribution costs; and
- diligently managing our cost base.

Key to this is our biggest asset, our highly capable 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.

Our organic revenue growth, the scale it creates and our focus on cost and efficiencies give us a competitive advantage. We can provide our customers with the best value in terms of quality and cost and this helps drive long term and sustainable organic revenue growth. 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.

Viability Statement

For the year ended 31 December 2018, all companies with a Premium Listing of equity shares in the UK were 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 contains a provision requiring the Board to assess the future prospects, or viability, of the Company and to declare whether it believes the Company is able to continue to operate and meet its liabilities, taking into account its current position and principal risks. The Board is required to assess the Company's viability over a period greater than 12 months.

Strategic Review
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"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 balance sheet date".

As a company trading on AIM, Johnson Service Group PLC has not previously been required to comply with the Code, however, the Board is committed to high standards of corporate governance, which it considers are critical to business integrity and to maintaining investors' trust and, as a result, voluntarily adopted the Code. During 2018, the AIM Rules for Companies (the 'AIM Rules') were updated such that an AIM listed company, with effect from 28 September 2018, is now required to provide "details of a recognised corporate governance code that the board of Directors of the company has decided to apply, how the company complies with that code and, where it departs from its chosen code, an explanation for the reasons for doing so". Given that the Company has voluntarily adopted the Code previously, the Board determined that it remained relevant to continue adopting the same and has therefore included a viability statement.

The Board is acutely aware that an understanding of the future prospects of the Group is of vital importance to all stakeholders and, as such, 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 balance sheet date.

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 which although extend slightly beyond this period, to August 2022, will likely be renewed some six to nine months in advance of that date; and
- projections looking out further than 36 months become significantly less meaningful in the context of the Group's operations and markets.

The Directors have a reasonable expectation, having taken into consideration the principal risks and uncertainties facing the Group (as set out on pages 28 to 31) and, inter alia, the points set out below, that the trading performance and cash generation of the Group will not 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 August 2022 which is considered to be sufficient to meet the Group's current requirements throughout that period and it is confident of renewing its facilities in advance of that date;
- interest rate risk is mitigated through a number of hedging arrangements which replace floating LIBOR rates with fixed rates for varying tenors as far out as January 2022, thereby providing certainty over part of the Group's interest cash flows; further information is provided within note 20;
- 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 approved by the Board. Prior to approving the budget the Board reviewed, challenged and stress tested the financial projections and assumptions contained within the budget under a wide range of reasonably possible scenarios,

for example, the effect on the Group's trading performance and its ability to generate sufficient cash flows following either a significant increase in interest rates, a significant decrease in profitability or a combination of both and were able to conclude that none of the scenarios indicated a significant threat to the future prospects of the Group;

- 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 sites 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 2016 following serious flooding 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 6 to 31 , 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.

The Strategic Report was approved by the Board on 4 March 2019 and signed on its behalf by:

Tim Morris
Company Secretary

4 March 2019