

Strategic Review

The Strategic Report

The Strategic Report comprises the Group Overview and Highlights, the Chairman's Statement, the Strategic Review, the Chief Executive's Operating Review, the Financial Review, the Environmental and 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 Johnsons Workwear brand. Our 'HORECA' business provides linen services to the hotel, restaurant and catering markets through the Johnsons Hotel Linen brand (which incorporates Afonwen, Bourne, PLS and Fresh Linen), the Johnsons Hotel, Restaurant & Catering Linen brand (which incorporates Stalbridge and South West Laundry) and the Johnsons Restaurant & Catering Linen brand (which incorporates London Linen).

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 social and environmental impact of our operations.
 4. Increase Total Shareholder Return (TSR) over the longer term.

Further information covering the activities of the business during the year are set out within the Chairman's Statement and the Chief Executive's Operating Review.



Our Business Model

The Board's strategy has been to focus the Group on our core businesses, increase the scale of our business both organically and through targeted strategic acquisitions and to be the UK's market leader in textile services. Notwithstanding the ongoing impact of COVID-19, this strategy remains unchanged.

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, and particularly throughout the current pandemic, we face a number of external cost pressures, however, in the ordinary course our business model seeks to generate efficiencies in order to offset those pressures and to allow us to maintain divisional 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 and water consumption;
- taking advantage of operational synergies, for example, redistributing the processing of customer work across our estate of 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.

The scale and geographic coverage of our business, together with our focus on customer service, cost control 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.

Despite the ongoing impact of COVID-19, we continue to identify opportunities to grow the business organically and actively pursue strategic acquisition opportunities which will broaden our services and geographic spread, add value for Shareholders and consolidate our position as the UK's market leader in textile services.

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.

Section 172(1) Statement - Duty to Promote the Success of the Company

Section 172(1) of the Companies Act 2006 requires the directors of a company to act in a way that they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- a) the likely consequences of any decision in the long term;
- b) the interests of the company's employees;
- c) the need to foster the company's business relationships with suppliers, customers and others;
- d) the impact of the company's operations on the community and the environment;
- e) the desirability of the company maintaining a reputation for high standards of business conduct; and
- f) the need to act fairly as between members of the company.

As part of their induction, a Director is briefed on their duties and they can access professional advice on these, either from the Company Secretary or, if they judge it necessary, from an independent advisor. At least annually, our nominated advisor (NOMAD) is invited to a Board meeting to provide a training update on directors' duties and any relevant legislative changes.

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The Board confirms that, during the year, the Board and its individual members have acted in a way that would be most likely to promote the success of the Company, for the benefit of its members as a whole, in the decisions made by the Board during the year. The Directors confirm that the deliberations of the Board, which underpin its decisions, incorporate appropriate regard to the matters detailed in section 172(1) of the Companies Act 2006. During the year, the Board considered information from across the Group's businesses and received presentations from management, reviewed papers and reports and took part in discussions which considered, where relevant, the impact of the Company's activities on its key stakeholders. These activities, together with direct engagement by the Board and individual Directors with the Company's stakeholders, helped to inform the Board in its decision making processes.

Further details as to how the Directors have fulfilled their duties, together with references to relevant areas within this Annual Report, are set out below. Specific examples of how the Board considered the interests of stakeholders in its principal decision making are provided on page 59.

The Board acknowledges that balancing the needs and expectations of stakeholders is important, but it often has to make difficult decisions based on competing priorities where the outcome of any decision it makes will not necessarily result in a positive outcome for all of the Group's stakeholders. Decisions are not taken lightly and the decision making process has been structured to enable directors to evaluate the merit of proposed business activities and the likely consequences of its decisions over the short, medium and long term, with the aim of safeguarding the Company so that it can continue in existence, fulfilling its purpose and creating value for future generations of stakeholders. By considering the Company's purpose, vision and values, together with its strategic priorities and having a process in place for decision-making the Board does, however, aim to make sure that its decisions are consistent and predictable.

Risk Management

It is vital that we effectively identify, evaluate, manage and mitigate the risks we face as a business. For details of our principal risks and uncertainties, and how we manage our risk environment, please see pages 38 to 45. The Board is also aware that an understanding of the future prospects of the Group is of vital importance to all stakeholders – a statement as such, together with further explanatory information, is set out below within our Viability Statement.

Our Employees

The Company is committed to being a responsible employer. For our business to succeed we need to manage our people's performance and develop and bring through talent while ensuring we operate as efficiently as possible. We recognise that our people are key to the success of the Group and we value the contribution of each and every one of our employees. We strive to create an inspiring working environment where everyone is engaged and motivated. We must also ensure we share common values that inform and guide our behaviour so we achieve our goals in the right way. The Board receives updates on key elements of the people strategy which provides insight into a variety of areas including culture, diversity and inclusion, succession planning, future capabilities and employee engagement. For further details on our employees, please see pages 30 to 32.

Business Relationships

Our strategy prioritises growth, both organically and through acquisition. Organic growth is driven through up-selling services to existing clients as well as bringing new customers into the Group. To do this, we need to develop and maintain strong

customer relationships. We value all of our suppliers and have multi-year contracts with our key suppliers. For further details on how we work with our customers and suppliers, please see page 33.

Community and Environment

The Group's approach is to use our position of strength to create positive change for the people and communities with which we interact, giving back wherever we can. We want to leverage our expertise and enable our people to support the communities around us. We recognise our responsibilities to achieve good environmental practice and to continue to strive for improvement in areas of environmental impact. We are committed to energy efficiency improvement and continue to take steps in a continuous improvement strategy. For further details on how we interact with communities and the environment, please see pages 32 to 36.

Culture and Values

The Board recognises the importance of having the right corporate culture. Our long-term success depends on achieving our strategic goals in the right way, so we look after the best interests of our employees, customers and other stakeholders. Further details on our mission, vision and values are set out on page 12 whilst details of our corporate culture can be found on page 30.

Shareholders

The Board is committed to openly engaging with our Shareholders, as we recognise the importance of a continuing effective dialogue, whether with major institutional investors, private or employee Shareholders. It is important to us that Shareholders understand our strategy and objectives, so these must be explained clearly, feedback heard and any issues or questions raised properly considered. For further details on how we engage with our Shareholders, please see page 33.

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".

The Directors acknowledge the heightened uncertainty of the Group's strategic plans in the current environment and as a result have considered a range of different scenarios. Financial forecasts are reviewed and approved by the Board, with involvement throughout from the Group CEO, Group CFO and the Group Management Board. Part of the Board's role is to consider the appropriateness of key assumptions, considering the external environment, business strategy and model including the impact of COVID-19.

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 most recently available financial modelling for the Group;
- 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 ultimately expire slightly prior to the end of this period, in August 2023, 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 38 to 45) 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, comprising £40 million which matures in May 2022 and £135 million which matures in August 2023, with significant headroom in terms of availability, 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 the expiry dates;
- 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 2023, thereby providing certainty over part of the Group's interest cash flows; further information is provided within note 26;
- 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 financial modelling and scenario analysis, covering a three year period, which has been approved by the Board. Prior to approving the financial modelling the Board reviewed, challenged and stress tested the financial projections and assumptions contained within the forecasts under a range of reasonably possible scenarios, for example, the effect on the Group's trading performance and its ability to generate sufficient cash flows as a result of an even more protracted recovery in our end markets, or as

a result of further localised restrictions. The Board 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 2020 following serious fire damage at one of our sites and flood damage at another of our 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 5 to 45, incorporates the Group Overview and Highlights, the Chairman's Statement, the Strategic Review, the Chief Executive's Operating Review, the Financial Review, the Environmental and Social Responsibility Statement and the Principal Risks and Uncertainties.

The Strategic Report was approved by the Board on 19 March 2021.

By order of the Board.



Tim Morris
Company Secretary

19 March 2021