Directors' Report

The Directors present their Annual Report and the audited Consolidated and Company Financial Statements for the year ended 31 December 2021.

The Corporate Governance Report on pages 62 to 74, and the report on Sustainability on pages 28 to 45 (with regard to information about the employment of disabled persons, employee involvement and share schemes) are also incorporated into this Report by reference.

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 principal activities and business overview of the Group are set out within the Strategic Review.

Results and Dividends

The Group retained profit after taxation for the year from all operations amounted to £6.6 million (2020: £26.9 million retained loss after taxation).

Whilst the Board recognises the importance of dividends to our Shareholders, this had to be balanced with the impact that COVID-19 has had on our business. As previously guided, the Board does not propose to declare a dividend in respect of 2021 but will keep future dividends under review and look to reinstate its dividend policy once there is more certainty that trading levels will return to, and remain at, more normal levels.

Share Capital

The Companies Act 2006 no longer requires companies to have an authorised share capital.

The total issued share capital at the end of the year and the outstanding share options are given in note 29 to the Consolidated Financial Statements.

Shareholders' Authority for the Purchase by the Company of its own Shares

At the 2021 Annual General Meeting, Shareholders authorised the Company to make market purchases of up to a maximum aggregate of 44,435,011 Ordinary shares, which represented approximately 10% of the Company's issued Ordinary share capital on the latest practicable date prior to publication of the 2021 Notice of Annual General Meeting. The minimum price allowed for such purchases is 10 pence and the maximum is 105% of the average of the middle market quotation of such shares for the five business days immediately preceding the day of purchase. Except for amending the maximum number of shares subject to the authority, the Directors intend to seek renewal of this authority, which is due to expire at the conclusion of the 2022 Annual General Meeting. Further details are given in the 2022 Notice of Annual General Meeting.

Acquisitions and Discontinued Operations

Details of acquisitions and discontinued operations during the current and preceding year are given in notes 34 and 35 to the Consolidated Financial Statements.

Events after the Reporting Period

There were no events occurring after the balance sheet date that require disclosing in accordance with Schedule 7 of the Large and Medium Sized Companies and Groups Regulations.

Directors

Details of the Directors of the Company are shown on page 56. With the exception of Jock Lennox, who was appointed to the Board on 5 January 2021, they all held office throughout the year and up to the date of approving this Report.

Directors' Interests

Share Capital

The interests of the Directors who were in office at 31 December 2021, together with the interests of their close family, in the shares of the Company at the commencement or, if later, date of appointment, and close of the financial year are disclosed in the Directors' Remuneration Report. Details of the Company's interest in its own shares are disclosed in note 32 to the Consolidated Financial Statements.

Contracts

None of the Directors have any material interests in contracts of the Company or the Group.

Directors' Indemnity

In accordance with the Articles of Association and to the extent permitted by law, the Directors are granted an indemnity from the Company in respect of liabilities incurred as a result of their office. In respect of those matters for which the Directors may not be indemnified, the Company maintained a directors' and officers' liability third party insurance policy throughout the financial year and up to the date of approval of these financial statements. Neither the indemnity nor the insurance provides cover in the event that a Director is proven to have acted dishonestly or fraudulently. No claim was made under this provision during the year.

Articles of Association

The Company's Articles of Association may only be amended by Special Resolution at a general meeting of the Shareholders.

Political Donations

It is the Company's policy not to make political donations. The Directors confirm that no donations for political purposes were made during the year (2020: £nil).

Independent Auditors

The auditors, Grant Thornton UK LLP, have indicated their willingness to continue in office. In accordance with the recommendation of the Audit Committee, as disclosed on page 80, and as required by Section 489 of the Companies Act 2006, a resolution to reappoint Grant Thornton as the external auditor will be proposed at the Annual General Meeting.

Directors' Report
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Statement on Engagement with Stakeholders

The success of our strategy is reliant on the support and commitment of all our stakeholders. Their interests are important to us and we are committed to maintaining strong, positive relationships with them, built on a foundation of mutual respect, trust and understanding. The table on page 15 and the section 172(1) statement on page 16 provide a high-level overview of how we engage with our stakeholders. COVID-19 has had a profound impact on all of our stakeholders and throughout this Annual Report there are examples of measures that were taken by the Board to protect the Company and to manage the expectations of stakeholders.

Policy on Payment to Suppliers

Prompt Payment Code

The Company and its subsidiaries fully support the standards set out within the Prompt Payment Code ('PPC') in respect of all suppliers. The PPC sets standards for payment practices and best practice and is administered by the Chartered Institute of Credit Management. The main features of the PPC are that payment terms are agreed at the outset of a transaction and are adhered to; that there is a clear and consistent policy that bills will be paid in accordance with the contract; and that there are no alterations to payment terms without prior agreement.

Payment Practice Reporting

Regulations made under Section 3 of the Small Business, Enterprise and Employment Act 2015 introduced a requirement on the UK's largest companies to report on a half-yearly basis their payment practices, policies and performance. The requirement to report is based upon a company having annual revenue of £36.0 million or more; the Parent Company has revenue of £nil hence the Group has reported under its main trading subsidiary, Johnsons Textile Services Limited.

Johnsons Textile Services Limited was required to publish supplier payment information for the six months ended 30 June 2021 and for the six months ended 31 December 2021. The average time taken to pay invoices in each of those periods was 48 days and 53 days, respectively. The comparative figures for 2020 were 56 days and 50 days, respectively. Johnsons Textile Services Limited trades through a number of brands, each of which have varying payment terms with their suppliers, however, such terms typically range from 60 days from date of invoice through to 60 days from end of the month in which the invoice was raised.

Further information was published through an online service provided by the Government and can be viewed by visiting https://check-payment-practices.service.gov.uk/company/00464645/reports.

Dispute Resolution Process

We seek to resolve any issues in the first instance between the most relevant representatives of our Company and the supplier. If the matter cannot be resolved it may then be escalated to senior members of both the supplier and ourselves. We are very proud to have built up longstanding relationships with a significant proportion of our suppliers and will always endeavour to work in a collaborative manner with them in order to resolve any disputes that may arise. Once resolved, we would aim to pay the supplier within the agreed contractual terms between us or, if the contractual due date has passed, at the next available opportunity.

Streamlined Energy and Carbon Reporting (SECR)

The Group is required to report, in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, its energy use and carbon emissions for the financial year ending 31 December 2021. As allowed by the legislation, and in order to allow for sufficient time to compile the data and complete the reporting, the annual period used to calculate energy use and emissions was set as the 12 months ending 30 September 2021.

Relevant disclosures are provided on pages 37 to 39.

Financial Risk Management

The Directors acknowledge that the Group's activities expose it to a variety of financial risks, including interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out centrally under policies approved by the Board. Further details are set out within the Audit Committee Report on pages 80 to 82.

Half Yearly Reporting

The Company no longer publishes half yearly reports for individual circulation to Shareholders. Information that would normally be included in a half yearly report is made available on the Company's website at www.jsg.com.

2022 Annual General Meeting

The Directors intend that the 2022 Annual General Meeting (the 'Meeting' or the 'AGM') of Johnson Service Group PLC (the 'Company') will be held at the Doubletree by Hilton Chester, Warrington Road, Hoole, Chester, CH2 3PD on Wednesday 4 May 2022 at 11:00. However, the measures being taken by the UK Government to help contain the spread of COVID-19 may be subject to change, therefore, Shareholders are strongly urged to check the Company's website (www.jsg.com) in advance of the AGM in case there are further changes to the arrangements for the AGM.

As we did last year, and in order to reduce the Company's environmental impact, our intention is to once again remove paper from the voting process as far as possible. As a result, Shareholders will not receive a hard copy form of proxy for the AGM but will instead be able to register their vote electronically.

An explanation of the resolutions to be proposed at the Meeting, together with details on electronic voting, is included in the Notice of Annual General Meeting accompanying this Annual Report.

Going Concern

Background and Summary

The Directors have adopted the going concern basis in preparing these financial statements after careful assessment of identified principal risks and, in particular, the possible adverse impact on financial performance, specifically on revenue and cash flows within the HORECA division, of a protracted delay in returning to pre-pandemic trading levels. The process and key judgments in coming to this conclusion are set out below. The going concern status of the Company is intrinsically linked to that of the Group.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Review, Chairman's Statement and Chief Executive's Operating Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review. In addition, note 26 to the Consolidated Financial Statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk.

Going Concern Assessment

The current and plausible future impact of COVID-19 and the related macroeconomic environment on the Group's activities and performance has been considered by the Board in preparing its going concern assessment. The Group has prepared a Base Case scenario, reflecting an initial set of assumptions around financial projections and trading performance, together with various, more pessimistic, expectations for market developments over 2022 and into 2023 to reflect subdued trading conditions.

The Board is required to assess going concern at each reporting period. These assessments are significantly more difficult currently given the uncertainties about the impact of COVID-19 on the markets in which we operate. The level of judgement to be applied has therefore increased considerably. The Directors have considered three main factors in reaching their conclusions on going concern, as set out below.

1) Cash Flows and Sensitivity Analysis

In assessing going concern, the Directors considered a variety of scenarios in the context of the COVID-19 pandemic. These scenarios are not the forecasts of the Group or Company but are designed to stress test liquidity and covenant compliance. EBITDA used within the scenarios is that used for bank covenant purposes which is defined as adjusted operating profit before property, plant and equipment depreciation, rental stock depreciation, right of use asset depreciation and software amortisation. The three most relevant scenarios, in ascending order of severity, reviewed to test going concern are as follows:

Base Case Scenario

This scenario assumes that the HORECA market continues to improve, with no further social distancing restrictions being imposed. The impact of the recent slow-down in HORECA revenue recovery experienced at the end of 2021 and also in January 2022 has been reflected however, an immediate rebound in volumes, and hence revenue, is assumed thereafter. The scenario also includes an estimate of the current and future impact of cost pressures which the Group, in line with all UK businesses, is experiencing, particularly in relation to energy and labour.

Directors' Report
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Limited Slow Down in Revenue Recovery Scenario

Although only limited restrictions have been in place over the winter months, the ongoing pandemic dampened HORECA volumes, to a certain extent, particularly during December 2021 and January 2022. This scenario assumes that it will take three months for HORECA revenue to return to the level assumed within the Base Case. Accordingly, HORECA revenue within this scenario has been reduced to some 84%, 91% and 96% of Base Case levels in February 2022, March 2022 and April 2022 respectively before returning to that set out in the Base Case.

Severe but Plausible Scenario

Building upon the "Limited slow-down in revenue recovery scenario" above, this scenario assumes a more protracted recovery in that it will take until September 2022 for HORECA revenue to return to the level assumed within the Base Case. Accordingly, HORECA revenue within this scenario has been reduced to some 82% of Base Case levels in February 2022, gradually improving thereafter month on month and returning to that set out in the Base Case by September 2022.

2) Covenants

As previously announced, from March 2022, bank covenants will revert to a leverage and interest covenant test.

In all three scenarios above, the financial projections indicate that the Group would remain in compliance with the financial covenants in its bank facilities. A decline in underlying EBIT/EBITDA well in excess of that contemplated in the scenarios would need to persist throughout the period for a covenant breach to occur. The Directors do not consider such a scenario plausible.

The Group also has a number of mitigating actions under its control (not all of which were included in the scenarios) including minimising capital expenditure to critical requirements, further reducing levels of discretionary spend and rationalising its overhead base in order to be able to meet the covenant tests.

3) Liquidity

The Group remains well funded with access to a committed Revolving Credit Facility of £135 million (the 'Facility'), which matures in August 2023. The Facility is considerably in excess of our anticipated borrowings and provides ample liquidity in all scenarios modelled. We anticipate that the facility will be renewed in the coming months and have commenced discussions with our banks to this effect.

Going Concern Statement

After considering the current financial scenarios, the severe but plausible sensitivities and the facilities available to the Group and Company, the Directors have a reasonable expectation that the Group and Company have adequate resources for their operational needs, will remain in compliance with the financial covenants set out in the bank facility agreement and will continue in operation for at least the period to 30 June 2023. As a consequence, and having reassessed the principal risks and uncertainties, the Directors considered it appropriate to adopt the going concern basis in preparing the Group and Company financial statements.

Viability Statement

A statement on the future prospects of the Group is included within the Strategic Review.

By order of the Board

Tim Morris
Company Secretary

7 March 2022

Johnson Service Group PLC
Registered in England and Wales No.523335