

Strategic Review



The Strategic Report

The Strategic Report comprises the Group Overview and Highlights, the Chairman's Statement, the Strategic Review, Our Commitment to Section 172(1), the Chief Executive's Operating Review, the Financial Review, the report on Sustainability 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, 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). Also within HORECA, our recently acquired Northern Ireland business, Lilliput, predominantly services hotels and restaurants as well as a number of healthcare customers.

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 recent and, to a lesser extent, 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 mitigate 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.

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".

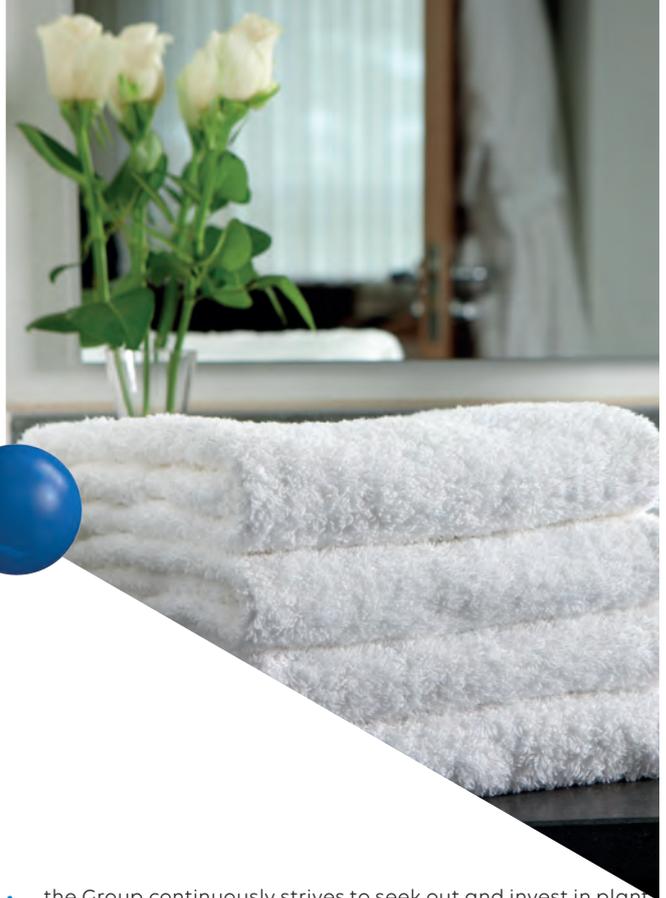
The Directors acknowledge the heightened uncertainty of the Group's strategic plans in the current environment and as a result have considered a range of different scenarios. Financial forecasts are reviewed and approved by the Board, with involvement throughout from the Group CEO, Group CFO and the 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;
- the situation with respect to the COVID-19 pandemic remains uncertain and is likely to continue impacting the Group in the medium term, albeit to a significantly lesser extent than the previous two years;

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- 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 prior to the end of this period, in August 2023, will likely be renewed some 12 months or so 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 46 to 52) 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 revolving credit facility of £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 date;
- 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, 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, a significant downturn in 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. 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 4 to 52, incorporates the Group Overview and Highlights, the Chairman's Statement, the Strategic Review, Our Commitment to Section 172(1), the Chief Executive's Operating Review, the Financial Review, the report on Sustainability and the Principal Risks and Uncertainties.

The Strategic Report was approved by the Board on 7 March 2022.

By order of the Board.



Tim Morris
Company Secretary

7 March 2022