

Directors' Report



The Directors present their Annual Report and the audited Consolidated and Company Financial Statements for the year ended 31 December 2023.

The Corporate Governance Report on pages 62 to 76, and the report on Sustainability on pages 28 to 44 (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's retained profit after taxation for the year from all operations amounted to £27.3 million (2022: £29.0 million).

The dividend comprises an interim dividend of 0.9 pence (2022: 0.8 pence) per Ordinary share and a proposed final dividend of 1.9 pence (2022: 1.6 pence) per Ordinary share. This total dividend of 2.8 pence per Ordinary share, subject to the approval of Shareholders, will amount to a dividend distribution for the year, based on the number of shares in issue as at the date of this report, of £11.7 million (2022: £10.3 million).

Share Buyback Programmes

As previously disclosed, on 15 September 2022, the Company announced the commencement of a share buyback programme with an aggregate market value equivalent of up to £27.5 million (excluding expenses) ('2022 Share Buyback Programme'). Consistent with the Company's capital allocation policy, the purpose of the 2022 Share Buyback Programme was to reduce the Company's share capital. Pursuant to the 2022 Share Buyback Programme, the Company entered into a non-discretionary instruction with Investec Bank plc to purchase up to £27.5 million (excluding expenses) of the Company's Ordinary shares of 10 pence each and to make trading decisions under the 2022 Share Buyback Programme independently of the Company in accordance with certain pre-set parameters. The 2022 Share Buyback Programme commenced on 15 September 2022 and ended on 4 May 2023, being the date of the Company's 2023 Annual General Meeting.

During the year ended 31 December 2023, pursuant to the 2022 Share Buyback Programme, the Company bought back through market purchases on the London Stock Exchange 17,047,238 Ordinary shares with a nominal value of 10 pence each, representing 3.8 per cent. of the shares in issue prior to the commencement of the 2022 Share Buyback Programme. The total consideration paid, in connection with the 2022 Share Buyback Programme, including expenses, was £25.5 million of which £19.9 million was expended during the year. All of the Ordinary shares bought back pursuant to the 2022 Share Buyback Programme were cancelled.

On 20 September 2023, subsequent to the ending of the 2022 Share Buyback Programme, the Company announced the commencement of another share buyback programme, with an aggregate market value equivalent of up to £10.0 million (excluding expenses) ('2023 Share Buyback Programme'). Consistent with the Company's capital allocation policy, the purpose of the 2023 Share Buyback Programme was to reduce the Company's share capital. Pursuant to the 2023 Share Buyback Programme, the Company entered into a non-discretionary instruction with Investec Bank plc to purchase up to £10.0 million (excluding expenses) of the Company's Ordinary shares of 10 pence each and to make trading decisions under the 2023 Share Buyback Programme independently of the Company in accordance with certain pre-set parameters. The 2023 Share Buyback Programme commenced on 20 September 2023 and completed on 27 November 2023.

During the year ended 31 December 2023, pursuant to the 2023 Share Buyback Programme, the Company bought back through market purchases on the London Stock Exchange 7,572,051 Ordinary shares with a nominal value of 10 pence each, representing 1.8 per cent. of the shares in issue prior to the commencement of the 2023 Share Buyback Programme. The total consideration paid, in connection with the 2023 Share Buyback Programme, including expenses, was £10.0 million all of which was expended during the year. All of the Ordinary shares bought back pursuant to the 2023 Share Buyback Programme were cancelled.

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 2023 Annual General Meeting, Shareholders authorised the Company to make market purchases of up to a maximum aggregate of 43,286,254 Ordinary shares, which represented approximately 10% of the Company's issued Ordinary share capital on the latest practicable date prior to publication of the 2023 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 2024 Annual General Meeting. Further details are given in the 2024 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 pages 54 to 55. With the exception of Kirsty Homer, who was appointed to the Board as an additional Independent Non-Executive Director on 1 August 2023, 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 2023, 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 certain 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

Subject to certain limited exceptions, the Company's Articles of Association may only be amended by Special Resolution at a general meeting of the Shareholders.

Charitable Donations

Details of charitable donations during the current and preceding financial year are set out within the report on Sustainability.

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 (2022: £nil).

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Independent Auditor

The external auditor to the Company, Grant Thornton UK LLP, has indicated its willingness to continue in office. In accordance with the recommendation of the Audit Committee, as disclosed on page 83, and as required by Section 489 of the Companies Act 2006, a resolution to reappoint Grant Thornton UK LLP as the external auditor to the Company will be proposed at the Annual General Meeting.

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 16 and the section 172(1) statement on page 17 provide a high-level overview of how we engage with our 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 2023 and for the six months ended 31 December 2023. The average time taken to pay invoices in each of those periods was 51 days and 51 days, respectively. The comparative figures for 2022 were also 51 days and 51 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 2023. 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 2023.

Relevant disclosures are provided on pages 34 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 83 to 84.

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.

2024 Annual General Meeting

The Directors intend that the 2024 Annual General Meeting (the 'Meeting' or the 'AGM') of Johnson Service Group PLC (the 'Company') will be held at the DoubleTree by Hilton Hotel & Spa Chester, Warrington Road, Hoole, Chester, CH2 3PD on Wednesday 1 May 2024 at 11:00am.

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

After careful assessment, the Directors have adopted the going concern basis in preparing these financial statements. 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 details of the financial position of the Group, its cash flows, liquidity position and borrowing facilities, are described in the Operating and Financial Reviews.

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, Chair'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 27 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

Cash Flows, Covenants and Stress Testing

For the purposes of the going concern assessment, the Directors have prepared monthly cash flow projections for the period to 30 June 2025 (the assessment period). The Directors consider this to be a reasonable period for the going concern assessment as it enables us to consider the potential impact of macroeconomic and geopolitical factors over an extended period. The cash flow projections show that the Group has significant headroom against its committed facilities and can meet its financial covenant obligations.

The Group has also performed a reverse stress test against the base monthly cash flow projections referred to above in order to determine the performance level that would result in a reduction in headroom against its committed facilities to nil or a breach of its covenants. The interest cover covenant would be breached in the event that adjusted operating profit reduced to approximately 70% of 2023 levels. The Directors do not consider this scenario to be plausible.

As a further stress test, the Group considered the impact of increasing interest rates. The Directors do not consider the magnitude of the increase in interest rates that would be required in order for a covenant to be breached to be plausible.

The Group has also considered the impact of a more modest increase in interest rates alongside the reduction required in adjusted operating profit to cause a breach in the interest cover covenant. Again, the Directors do not consider such a scenario to be plausible.

Each of the stress tests assume no mitigating actions are taken. Mitigating actions available to the Group, should they be required, include reductions in discretionary capital expenditure and ceasing dividend payments.

Liquidity

The Group has access to a committed Revolving Credit Facility of £120.0 million (the 'Facility') which matures in August 2026. The terms of the Facility provide an option to extend the term for a further year and an option to increase the Facility by up to a further £15.0 million, both with bank consent. The Facility is considerably in excess of our anticipated borrowings and provides ample liquidity for current commitments.

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Going Concern Statement

After considering the monthly cash flow projections, the stress tests 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 2025. Accordingly, 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.

Christopher Clarkson

Company Secretary

4 March 2024

Johnson Service Group PLC

Registered in England and Wales No.523335