

The Directors present their strategic report for the 53 weeks ended 2nd June 2018.

PRINCIPAL ACTIVITIES

The principal activity of WCF is niche retailing and specialised distribution, operating a portfolio of brands which can be seen on the rear cover of the Annual Report. The company is structured into a series of decentralised business units, with the majority of decision making delegated to the individual units. This empowers entrepreneurial leadership and allows them to respond to the needs of their customers flexibly and promptly, whilst engendering a sense of ownership and responsibility.

A detailed review of operations is included in the Chairman's Statement and Business Review.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

Profit after tax for the financial year as shown on page 15 amounted to £4,251,000 (2017: £2,272,000). Shareholders' funds as shown on page 17 total £32,167,000 (2017: £29,754,000).

A review of the business and future developments is included in the Chairman's Statement and Business Review.

BUSINESS ENVIRONMENT

The bulk fuel oil distribution market is relatively fragmented and supports a consolidation strategy designed to increase market share. The proven depot operating model provides resilience even when market conditions are adverse. The market is highly seasonal and will always be impacted by the weather. The industry is working closely to respond to the impact of the government's new Clean Air Strategy. Fluctuations in the price of crude oil are monitored daily and the impact of these passed on in our prices to our customers.

The retail businesses are to a large extent driven by consumer confidence and demand. These are therefore more susceptible to the wider economic and political climate.

WCF is predominately a UK business, however the uncertainty around Britain's exit from the European Union and the implications on tariffs and exchange rate volatility, will ultimately impact on commodity and raw material input prices. We monitor the implications of this when designing product ranges, dual source wherever possible and hedge our foreign currency exposure. We have not seen any material change in the demand for our goods and services as a direct result of Brexit.

STRATEGY

The company aims to use its financial strength, leadership support and employee ownership structure to develop its existing businesses. It will also find, acquire, integrate, invest in and build strong and diverse niche businesses looking to achieve stability of ownership and superior levels of return. Using its decentralised structure, the company aims to achieve higher levels of employee engagement and productivity than its competitors to create responsible and sustainable long-term value for its shareholders, whilst sharing the benefits of co-owned success with its colleagues.

The company's mix of diversified income streams is designed to minimise risk by having a broad and balanced spread of activities and locations. This limits the impact of adverse performance in any single business. The company has a good track record of both organic and acquisitive growth. Each business unit has their own strategic plan.

To grow market share and profitability of its existing niche businesses the company seeks to increase retention and referral, extend its share of a customer's total spend, develop new products and improve efficiency, productivity and availability, as well as investing in and motivating its people.

The company is seeking to further diversify its income streams via future responsible investments in asset-backed and/or family owned businesses looking for a sustainable succession plan.

KEY PERFORMANCE INDICATORS (KPIs)

Each individual business has a unique set of measures that are used to evaluate performance and communicate strategic and financial progress to employees and to the Board. These measures are monitored monthly against prior year actuals and current year targets.

Financial measures include sales, upsell, gross or bulk margin, operating profit, stock losses, average transaction values, customer acquisition and retention.

Specific targets include % of own brand sales, on time despatch performance, lost sales, miles per drop and number of deliveries. Following on from the capacity issues created in Spring 2018 the company has started to monitor product, driver and tanker availability. Internet performance is measured via visitor numbers, conversion rates and % of sales via the web. Health and safety performance is monitored closely with all accidents, incidents and near misses recorded and investigated, no matter how minor.

PRINCIPAL RISKS AND UNCERTAINTIES

The company's operations expose it to a number of diverse risks. The Board is ultimately responsible for risk management and monitors the key risks regularly to identify and prioritise, as well as ensuring that suitable management processes are in place to avoid, control or mitigate where possible.

The principal risks and uncertainties affecting the group include the following:

- **Non-compliance with legislation** – the company monitors current and forthcoming legislation and regulation, both directly and via its membership of associated trade bodies, strives to incorporate best practice into its processes and employs appropriately qualified and experienced personnel responsible for compliance
- **Strategic growth and failure to change** – the company is engaged in ongoing reviews of competitor activity, as well as evaluation of development and acquisition opportunities. Full due diligence and financial analysis is undertaken. Sales and marketing programs are in place to promote referral and customer retention, as well as winning new customers and markets. Extensive use of customer data is made to understand their patterns, trends and behaviours

- **Breach of sensitive or confidential data** – the company recognises the growing threat of cyber fraud and has measures in place to protect its systems and information from attack. An attack could also inhibit our ability to operate effectively. A major project is underway to upgrade and centralise the IT function to minimise the impact of business interruption and provide disaster recovery. The company has close relationships and outsourced support agreements with key software, hardware and network vendors. The company worked closely with the direct mail industry when updating its processes for compliance with the General Data Protection Regulation (Regulation (EU) 2016/679) ("GDPR")

- **Inability to meet pension scheme obligations** – the defined benefit pension scheme is closed to both new members and to future accrual. Liabilities of retirees are currently bought out with an insurance company. The company works closely with the independent Trustee of the scheme to monitor and review investment policy and funding requirements and to identify opportunities to mitigate risk

- **Impact of the climate on earnings volatility** – demand for fuel oil is impacted by the weather and the severity of the winter conditions drives demand for domestic heating oil. This creates a risk of volatility in the earnings of our fuel oil distribution businesses, which we seek to mitigate by providing a range of fuel oils to different markets

- **Unexpected financial expenditure and credit risk** – the company's decentralised structure relies on a high level of devolved authority. Payment risk is mitigated by having dual signatories and operating good systems of internal control. Each business is subject to a thorough business process review on an annual basis by the Group Financial Controller. Credit checks are performed on all commercial customers and assigned credit limits are closely monitored. Credit insurance is maintained on higher level accounts. In our B2C businesses, the majority of payments are made in advance by credit or debit card.

- **Recruitment, retention and development of our key people** – succession planning and personal development of employees is considered as part of our strategic planning. Employee surveys are utilised to monitor engagement and morale. We are aiming to have deputies in place for all key roles. Enhancing and promoting the benefits of employee ownership to ensure that this remains a point of difference

By order of the board
P.A. Murray, Company Secretary
6 September 2018