

The Directors present their strategic report for the 52 weeks ended 30th May 2020.

PRINCIPAL ACTIVITIES

The principal activities of WCF are niche retailing, leisure and specialised distribution, through a portfolio of brands which can be seen on the rear cover of the Annual Report. The accounts are consolidated following the acquisition of A1 Lawn but references are made to the company rather than group in light of the impact of A1 Lawn on the figures presented. 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 our employees to respond to the needs of customers flexibly and promptly, whilst engendering a sense of collective ownership and responsibility. The local teams are supported by a central pool of expertise, including finance, IT, H&S, HR, compliance and estates and facilities.

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 year as shown on page 17 amounted to £3,013,000 (2019: £1,660,000). Shareholders' funds as shown on page 19 total £32,894,000 (2019: £31,745,000).

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 and customer retention. The proven depot operating model provides operational resilience. 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 and an increasing portion of fuel carried now contains some bio element. 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 more susceptible to the wider economic and political climate. However, the mature niche in which our Home Shopping business operates ensure that we enjoy a high market share in this sector.

Demand for both gardening and staycations is expected to remain strong as the UK emerges from lockdown and overseas travel is much reduced following the pandemic.

WCF is predominately a UK business, however the implications on tariffs and exchange rate volatility, particularly following Britain's exit from the European Union at the end of 2020, will ultimately impact on commodity and raw material input prices, even where these goods are manufactured in the UK. Our Home Shopping business relies to a large extent on overseas suppliers. 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 all its colleagues. The company's mix of diversified income streams is designed to minimise risk by having a broad spread of activities and locations. However, whilst this limits the impact of adverse performance in any single business, the company's results continue to be driven by its Home Shopping and bulk fuel oil distribution businesses on account of their size. The revenues of the company are heavily weighted towards the Winter although the acquisition of Summer based businesses such as Herding Hill Farm and A1 Lawn will reduce this mix over time. The company has a long track record of both organic and acquisitive growth and has a focussed acquisition strategy. Each business unit has their own strategic plan focussed around the key areas of customer retention, financial performance, people and culture, continuous improvement and environmental/H&S.

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 by increasing both frequency and average order value, develop new products and by engaging our people in diverse roles find new ways to work to improve efficiency, productivity and availability.

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 (KPI'S)

Each individual business has a unique set of measures that are used to evaluate performance and communicate strategic and financial progress to their employees and to the Board. These measures are monitored monthly against benchmarks, prior year actuals and current year targets and revised annually as part of our annual budgeting process.

Financial measures include turnover, volumes, gross or bulk margin, operating profit, stock turn, average transaction values, customer acquisition and retention.

Specific targets include % of own brand sales, customer retention and feedback, new customers, catalogue response, on time despatch and supplier performance, lost sales, cross-selling, occupancy, miles per drop, transport costs per litre and number of deliveries. Internet performance is measured via advertising cost of sale, visitor numbers and conversion rates. Health and safety performance is monitored closely, with all accidents, incidents and near misses recorded and investigated, no matter how minor. Employee engagement is measured using staff turnover, promoter scores and participation in employee surveys.

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 continuously monitors the key risks to identify, evaluate 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.
- **Lack of strategic growth and failure to deliver new income streams** - the company is engaged in ongoing reviews of competitor activity, as well as evaluation of development and acquisition opportunities. Individual strategic plans are in place for each business. Digital and offline 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 and influence our strategic decision making.

- **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 which could inhibit our ability to operate effectively. Our IT systems are centralised, allowing all our individual businesses to benefit from control measures to protect us from business interruption and provide disaster recovery should we be the target of a cyber threat. The company has close relationships and outsourced support agreements with key software, hardware and network vendors.
- **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 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 bulk fuel oil is impacted by the weather and the severity of Winter drives demand for domestic heating oil. This creates a risk of volatility in earnings, which we seek to mitigate by providing a range of fuel oils to different markets and customers.
- **Supply chain disruption** - the majority of our purchases are made from UK long standing supply partners and are dual sourced wherever possible to maintain continuity of supply. In many cases though we will be reliant on an ultimate supply chains based outside the UK. The business, regulatory and economic risks of Brexit remain subject to significant levels of uncertainty particularly in relation to their impact on consumer confidence. All our fuels businesses have the ability to store a small amount of stock and switch to alternative supply sources. In retail, where disruption to supply did arise, we would try to switch customers to alternative products or de-list products if required.
- **Covid 19** - the continuing impact of the pandemic, including lockdown measures and social distancing, impacts on our own operations and consumer confidence in general. However the diverse nature of our operations provides us with an element of business resilience. Our priority has been to safeguard the wellbeing of our employees and customers, whilst ensuring continuity of service. It also increases the trading risk and likelihood of bad debts from our commercial customers in Fuels and retail customers in Horticulture.
- **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 payment authorisation and operating good systems of internal control. 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. We are committed to enhancing and promoting the benefits of employee ownership to ensure that this remains a point of difference for those who choose to work with us.

By order of the board
P.A. Murray, Company Secretary
3 September 2020