

SCOTTISH MIDLAND
CO-OPERATIVE SOCIETY LIMITED

Interim Report

for the 26 weeks
ended 30 July 2022



Our core purpose:
To serve our communities
and improve people's everyday lives

Scotmid
coop

Directors, Officers & Advisors

DIRECTORS

President

Harry Cairney

Vice President

Jim Watson

Andrew Clark Hutchison

Sheila Downie

Iain Gilchrist

Kaye Harmon

Keith Kelly

Richard McCready

David Paterson

Michael Ross

Andy Simm

Eddie Thorn

MANAGEMENT EXECUTIVE

Chief Executive Officer

John Brodie

Chief Financial Officer & Secretary

John Dalley

Head of Food Retail

Kevin Plant

Head of Semichem

Karen Scott

Head of Property & Facilities

Maurissa Fergusson

Head of Innovation & Change

Stewart Dobbie

Head of People & Performance

Margaret Anne Clark

ADVISORS AND REGISTERED OFFICE

Independent Auditors*

Anderson Anderson & Brown Audit LLP

Bankers

HSBC UK Bank plc

Solicitors

Anderson Strathern WS

Registered Office

Hillwood House, 2 Harvest Drive,
Newbridge, EH28 8QJ

*Following a re-tender exercise KPMG auditors resigned on 1st September 2022

Directors' Report

Our core purpose: To serve our communities and improve people's everyday lives



The Directors of Scottish Midland Co-operative Society are pleased to present their interim report to members.

In the 26 weeks ended 30 July 2022 the Society's turnover was £200.4m, 2.3% down on the equivalent period last year, and trading profit was £1.1m, £1.9m down on the interim result last year. Our result was expected to be down compared to the 2021 interim result that had the benefit of local food shopping during the pandemic, but the main feature of these results is inflation and the spiralling cost burden. It could be described as a perfect storm for our retail businesses with across the board cost pressure, global supply issues and the cost of living crisis impacting consumer confidence and dampening demand. The Society has responded pro-actively by bearing down on controllable cost areas, maximising sales opportunities and investing for the longer-term, underpinned by a strong balance sheet with net assets of £113.4m.

Our food convenience business faced the most significant headwinds relative to its strong performance over the last two years. As expected, there was less pandemic local shopping but this was overlaid with supply chain issues, legacy covid costs, low consumer confidence and severe cost inflation. In contrast Semichem has built back trade from the negative impact of the pandemic, however, this was dampened by a weaker than expected recovery in high street footfall due to the cost-of-living crisis. With the benefit of investment, our Property business continued to grow rental income. Scotmid Funerals conducted fewer funerals but was able to provide a wider range of services.

Scotmid's Membership & Community activity continued to focus on our core purpose

with a wide range of financial and other support to local community groups. Wider co-operative movement activity included the Robert Owen 250th anniversary conference at New Lanark. The Society's democratic governance has reverted back to normal face to face Member meetings and the Lakes & Dales Panel has been made permanent. Our extended charity partnership with Children's Hospices Across Scotland (CHAS), Jigsaw and St Oswald's Hospice raised £375,000 for these charities.

In our January 2022 year-end report, we highlighted the significant inflationary cost challenges facing the Society but the challenges have been more than we forecasted. Businesses are facing a cost of living crisis just like households, with both rising costs and squeezed income. The prolonged war in Ukraine, Brexit friction, post-pandemic global demand, general UK inflation and especially the rise in energy costs have all had an impact. With a high likelihood of a recession and higher (and longer lasting) inflation now forecast, consumer confidence has slipped to a fresh all time low. So it is clear that the Society faces even bigger external challenges than we previously anticipated, with costs likely to rise faster than income growth. We remain cautious in the short-term but with the benefit of our strong balance sheet, we will continue to invest for the longer term and take considered action to mitigate the impact of these recessionary economic conditions. Guided by our core purpose this approach will help the Society navigate through the challenging times ahead.

Directors' Report



Directors' Report



FOOD RETAIL

In the first half of 2022 there was a perfect storm of challenges facing the Society's food convenience business. Emerging from the pandemic, we anticipated less local shopping in 2022 compared to 2021 when significant covid restrictions were in place, but performance has also been held back due to a range of other external factors, particularly cost inflation.

Although sales were down compared to the pandemic period, Scotmid food continued to see growth ahead of pre-crisis levels. Customers are still shopping less often but buying more on each visit than they did before the pandemic, but some convenience trade has switched back into mainstream grocery shopping. The return of the hospitality sector has also been a factor in our sales category performance moving back towards a more traditional convenience store mix. The cost-of-living crisis has also led customers to make difficult decisions on where they spend and what they have available to spend.

The supply chain difficulties experienced at the end of 2021, showed some improvement in the early part of 2022 but there was still pressure on in-store availability from global issues such as the Ukraine war. In addition, the co-op buying group's supply chain experienced some incremental disruption,

due to teething issues with a major systems implementation. Once again Scotmid received important extra support from our local suppliers and also from the Semichem distribution network but at a lower level than the last two years.

In common with many businesses, severe cost inflation pressure on both goods and services has been a particularly acute challenge. With no price cap in place for businesses yet, we experienced an exceptional increase in energy costs, including green energy certification costs. This was despite action taken to reduce underlying consumption and the rate increase protection from forward hedging. We also experienced legacy covid costs, with rates of sickness still higher than before the crisis.

The business has taken proactive measures to mitigate the impact of these external challenges. As well as sales initiatives, productivity measures and tight management of controllable costs, significant investment has been made for the longer-term benefit of the store estate. This has included the rollout of electronic shelf edge labels and further investment in environmentally friendly fridges, digital screens and other equipment to support the development of our Food to Go offer.

Above and top left: The Redburn store underwent a major refurbishment including new store frontage and complete internal refit. Opposite page centre left: The Laurencekirk store refit included new signage and refrigeration. Centre right: Buffalo Farm Ice Cream were selected as a "Scotmid Scottish Favourite" to promote our use of local suppliers. Bottom left: One of the new fleet of Snappy Shopper vans. Bottom right: Electronic shelf edge labels.

Directors' Report



SEMICHEM

In first half of the year, Semichem made further progress to recover from the impact of the pandemic on its trade. Footfall on high streets is slowly improving, but is still well below its pre-pandemic level, and Scotland and Northern Ireland lag behind the overall UK position. High inflation and the increased cost-of-living means that consumers are limiting discretionary purchases and saving their cash for food and energy. Against this unfavourable background, Semichem drove sales forward to help to offset the financial impact of the withdrawal of most of the covid support available in the same period in 2021.

Semichem has also faced the challenges caused by the war in Ukraine, supply friction from Brexit, and some lasting pandemic supply and demand issues. The global supply chain crisis has resulted in driver shortages, lengthy shipping times, a lack of resources and some exceptional increases

in shipping costs. Like the Scotmid food retail business, Semichem has also needed to manage significant increases in a wide range of costs, seeking alternative supply or other solutions where inflation demands are unjustified or unavoidable.

In response Semichem has continued to invest for the future with cost effective refits, store manager development and product category training. The Society had also made a significant contingency investment for the long-term benefit of the Semichem supply chain. Sales initiatives included the further development of core drive categories with newness and promotional activity and building on the success of new range development last year. Overall, the Semichem teams have responded positively to this difficult trading environment, making the most of the sales opportunity available and controlling costs.

Directors' Report



PROPERTY

In the first half of the year, Scotmid's property business recorded growth in property income. This growth was assisted by further rebalancing of the portfolio, with a new residential acquisition in Glasgow funded later in the period by the sale of commercial assets in Montrose. Property markets started the year buoyantly but as the macro-economic challenges increased, commercial investment markets started cooling towards the end of the period. Residential values continued to rise but the first signs of a slowdown are now evident, with the rise in interest rates needed to combat inflation. We have enjoyed a positive first half but there is nervousness in property markets due to the wider economic challenges ahead.

Commercial rental income was solid enhanced by a reduction in bad debts. In-line with our diversification strategy, a high quality commercial property in the industrial sector was acquired and the majority of the assets sold in Montrose were retail assets. In addition, a number of new commercial lettings were secured.

Residential rental income was boosted by the acquisition of the Glasgow flats and demand from residential tenants was robust throughout the period with properties turning around quickly when a tenant moves. Looking forward the economic headwinds from the cost of living crisis and temporary Scottish Government legislation are likely to dampen growth.

Both the residential and commercial capital



markets were robust during the period, but rising interest rates and the gloomy economic forecasts have led to a change in sentiment. The property markets are linked to the wider economy and the extent of interest rate increases and unemployment in particular will influence the depth and length of any slowdown. The Society invests for the longer term and the re-balancing work done over many years has made the portfolio more resilient.

FUNERALS

Scotmid Funerals saw a modest reduction in the number of funerals conducted in the first half of 2022 compared to the same period last year. In the post pandemic period, there has been a recovery in the proportion of traditional funerals conducted and the breadth of services available, but also some more clients choosing a direct funeral.

A major focus during the period was the transition and implementation of the new FCA funeral plan regulations that came into effect on the 29th July. A comprehensive set of regulations that cover new plans and existing plans that we previously sold. We have changed to become an FCA Authorised Appointed Representative of Ecclesiastical Planning Services Limited, who act as our Principal. This enables us to continue to offer new funeral plans and also for Ecclesiastical to manage our existing plans. This was a complex transition with a number of major hurdles to overcome but was completely successfully working under the guidance of our new Principal.

Directors' Report



SOCIETY MATTERS & CENTRAL SUPPORT

In 2022 to date, central teams have provided support for a number of the Society's business development and continuous improvement projects.

The "Make it Simple" project has continued the drive to simplify and automate store processes. The main initiative this year was the rollout of electronic shelf-edge labels, with a further 40 stores deployed by the half year and the solution moved to the cloud to bring additional features and capacity. Other examples include: a new application for managing news and magazines and adding Food to Go products to the Too Good to Go offering, to reduce food waste.

In the post-covid transition and in the face of UK wide labour shortages, there has been a focus on building stability and protecting colleague wellbeing. A key pillar of activity was the development of our future talent through our Grow Programme and also through enhanced mixed-media learning tools to support our hybrid learning model. Work on wellbeing continued with the introduction of a cycle to work scheme and participation in diversity and mental health awareness workshops. With the cost-of-living crisis, signposting the wide range of support for financial wellbeing was a key focus together with a targeted campaign to encourage colleagues to seek early intervention.

The Society has small complementary diversification investments in Product Guru, The Start-Up Drinks Lab (SUDL) and the Alcoholic Water Company (AWC). Product Guru has adapted its business model to provide a hybrid service, matching supplier products with retailers. It offers events that are like category based, low-cost but value-added mini trade shows which enable retailer buyers to touch and feel products, supported by comprehensive information provided digitally. SUDL has focussed and successfully grown sales but is facing the inflation and cost challenges common to all businesses. For AWC, the "hard seltzer" product category has not yet grown in the UK like it did in USA, so the business has scaled back operations "waiting to catch the wave" recognising it cannot develop the category on its own.

The Society's surplus before tax at the half year was £0.7m, £0.8m down on the 2021 interim result. The absence of exceptional costs and lower finance charges compared to last year helped to partially offset the £1.9m reduction in our trading profit. Finance charges were lower mainly because of favourable movements on our interest rate swaps. As a result, Scotmid's net asset base at the interim stage increased (pre-tax and pension revaluation) to £113.4m.

In the last six months, £15m of capital

Directors' Report



Above left: Board Member, Sheila Downie and North Regional Committee Member, Erin Pipe at the Robert Owen 250th anniversary conference at New Lanark. Above right: Harry Cairney with St Andrew's First Aid volunteer Andy Marshall promoting the continued sponsorship of the service's uniforms. Opposite page: The GROW programme recommenced following the pandemic.

expenditure has been invested for the long-term benefit of the Society. This included two major property investments and significant development spend for our two retail businesses. By historic standards, this was an unusually high level of investment and it was the main driver of a £11.1m increase in net debt by the end of the period. Part of this increase will be temporary, as the sale of some legacy investment property is completed in the second half of 2022. The remaining underlying increase is a planned reversal of the debt reduction the Society enjoyed last year.

MEMBERSHIP & COMMUNITY

Scotmid's Membership & Community activity continued to be focussed on our core purpose with a wide range of financial and other support to local community groups. In addition to community grants and regional Community Connect awards, significant donations were made to Poppy Scotland, RNLI and Pancreatic Cancer UK and internationally to the Disasters Emergency Committee Ukrainian Humanitarian Appeal. Other community activity included a Menopause Cafe and Men's Shed pop ups hosted in-store. The first 'Gathering For Good' was hosted by Scotmid in a Montrose community space. The informal event saw almost 50 community representatives meet

to network, discuss funding and share challenges.

Co-operative activity included support for the Happy Homes book (Cooperation, Community and the Edinburgh Colonies) and for the Robert Owen 250th anniversary conference at New Lanark. Our Member led governance has returned back to normal with face to face Member meetings and after a successful trial, the Lakes & Dales Panel has been made permanent.

The Society's members, colleagues and customers have fundraised £375,000 during our extended charity partnership with Children's Hospices Across Scotland (CHAS) in conjunction with Northern Ireland Children's Hospice, Jigsaw and St Oswald's Hospice. The funds raised will enable vital development and expansion of outreach services.

APPRECIATION

The Directors would like to thank our members, customers and colleagues for their support over the last six months.

Signed on behalf of the Directors

Harry Cairney, President
Jim Watson, Vice President

The Society in Focus



Above: The Community Connect Scheme restarted following the pandemic.

Below: Staff from our Funeral division and Head Office took part in a charity car wash to fundraise for CHAS.



The Society in Focus



Above: The Society made a donation of £10,000, as well as a donation of toiletries from Semichem, towards 'The Big House Fife Project', supporting 13,000 families across Fife.



Above left: The Society was awarded the Fair Tax mark for the 7th consecutive year.



Above right: Jessica Van Tromp and Jack Stirling have both joined the Society in new roles after completing Scotmid's first graduate programme.

Interim Statement of Group Trading Activities

	30 July 2022 £000	31 July 2021 £000
Turnover	200,389	205,172
Profit		
Trading profit	1,142	3,075
Exceptional items	77	(930)
Operating Profit	<u>1,219</u>	<u>2,145</u>
Net finance charges	(181)	(291)
Surplus before distributions	1,038	1,854
Share interest/grants and donations	(311)	(311)
Surplus before taxation	<u>727</u>	<u>1,543</u>
Net Assets		
Fixed assets	173,096	173,768
Net current assets	(4,779)	(482)
Long term liabilities	(34,039)	(43,451)
Provisions for liabilities and charges	(3,050)	(480)
Pension liability	(17,788)	(24,978)
Net assets	<u>113,440</u>	<u>104,377</u>
Cash Flow		
Inflow from operating activities	2,210	14,221
Net interest, grants and donations	(312)	(383)
Corporation tax payment	(347)	(236)
Capital expenditure/acquisitions	(14,979)	(4,127)
Proceeds from sale of fixed assets	2,247	176
Decrease in members' share capital	(9)	(19)
Reduction in net debt	<u>(11,190)</u>	<u>9,632</u>
Net Debt		
Opening net debt	(16,922)	(24,341)
Reduction in period	(11,190)	9,632
Closing net debt	<u>(28,112)</u>	<u>(14,709)</u>

NOTES TO THE INTERIM STATEMENT

1. The financial information does not constitute statutory accounts and is not audited.
2. Turnover includes cash sales, goods sold on credit and property rental income exclusive of value added tax, funeral disbursements and discounts. Investment properties revaluation adjustments are made annually at the year end. A property revaluation is not undertaken for the interim results. Pension revaluation adjustments are made annually at the year end and consequently are not reflected in the interim statement. No provision has been included in the net assets statement for any possible tax charge, either current or deferred, which may arise in the current year.

Notice of Meeting & Agenda of Business

Notice is hereby given that an Ordinary General Meeting of the Society will be held on Monday 3 October 2022 at 6.30pm at:

The O2 Academy (formerly The Corn Exchange), 11 New Market Road, Edinburgh, EH14 1RJ and at the DoubleTree by Hilton, Strathclyde Business Park, Phoenix Crescent, Bellshill, ML4 3JQ

and on Tuesday 4 October 2022 at 6.30pm at:

Apex City Quay Hotel 1 West Victoria Dock Road, Dundee, United Kingdom, DD1 3JP

AGENDA OF BUSINESS

1. Community Connect Presentations and Voting
2. Synopsis of Minutes of Annual General Meeting held on 25 & 26 April 2022
3. Nominations for Regional Committees:
East Regional Committee: 4 Members to serve for 3 years
Seaton Valley area: 1 Member to serve for 3 years
North Regional Committee: 4 Members to serve for 3 years
West Regional Committee: 4 Members to serve for 3 years;
4. Directors' Report/Interim Accounts
5. Appointment of Anderson Anderson & Brown Audit LLP to replace KPMG LLP as Auditors
6. Remuneration and other Fees, Delegations and Attendance payments:
Present Scale: Day Payment £119; Part Day Payment £76; Attendance Payment: £44
7. Membership, Community and Charity Report
8. Any Other Competent Business

ADMISSION TO GENERAL MEETING

If you have been a Member for 6 months or more and wish to attend the meeting please complete the registration form on the Society's website or call the Membership team on 0131 335 4433. Members who joined by 2 July 2022 and wish to attend the Community Connect presentations, cast their votes and observe the remainder of the OGM should also register to attend the meeting. If you plan on attending the meeting and would prefer the Chairperson to ask a question on your behalf, you may submit your question in advance in writing, by telephone or via the Society's website.

Members will be admitted to the General Meeting by presenting their admission ticket and Share Book or Community Connect card. Meetings start promptly at 6.30pm for Community Connect presentations and voting and at 7.00pm for the remainder of the OGM. Members will not be admitted to the meeting once the Community Connect voting has concluded.

The next General Meeting (Annual General Meeting) will be held on Monday 24 April 2023 in Edinburgh and Hamilton and on Tuesday 25 April 2023 in the North Region.

Board Members

The following tables show the number of meetings attended by each member of the Board or Committee compared to the total number of meetings held in the period (shown at the bottom of each table). Meetings held from 30 January 2022 - 30 July 2022.

Board Directors	Board Meetings	General Purposes	Audit	Remuneration	Search
Mr H Cairney (P)	8	1			1 (C)
Mr J Watson (VP)	6	1		1(C)	
Mr A Clark Hutchison	6		2		
Ms S Downie	7	1		1	
Mr I Gilchrist	7				1
Mrs K Harmon	6				1
Mr K Kelly	7				1
Dr R McCready	7			1	
Mr D Paterson	7		2		
Mr M Ross	8	1	2		
Mr A Simm	6			1	
Mr E Thorn	6		2 (C)		
Total Meetings Held	8	1	2	2	1

Key: P - President, VP - Vice President, C - Board Committee Chair, E - Elected

Harry Cairney, David Paterson and Jim Watson are Directors of Scotmid Pension Trustee Limited, the sole trustee for the Scottish Midland Co-operative Society Limited Pension Plan. Eddie Thorn is a Director of Co-operatives UK, David Paterson is a Director of Co-operative News and a Member of The Co-operative Group Member Council.

Regional Committee Members

East Regional Committee		West Regional Committee		North Regional Committee	
Mr H Cairney (C) ◇	4	Mr M Ross (C from 9/5/22) *	4	Mrs S Downie (C)	4
Mr D Paterson (VC)	4	Mr J Watson (VC)	2	Dr R McCready *	4
Mr E Thorn (MS)	3	Ms M Nolan (MS)	3	Mrs S McSorley (MS)	3
Mr A Clark Hutchison	3	Mr S Ballantyne	3	Ms E Farquhar	4
Mr D Costello	4	Mr S Curran	3	Mrs J Garnes	3
Mr C Henderson * ◇	3	Mr I Gilchrist *	4	Mr A Hutchison *	3
Mr J Hendrie	3	Ms K Harmon	3	Mr A MacLeish (E 26/4/22)	4
Mrs N Hill (R 25/4/22)	2	Mrs M Kane *	4	Mr D Patterson *	4
Mrs L Hinds *	3	Mr J Mills	4	Ms E Pipe	4
Mr K Kelly	3	Mr G Randell	3	Mrs S Sandbach (E 26/4/22)	4
Mr J Mackenzie	4	Mrs K Scott *	4	Mrs M Smith	3
Mrs R McCabe	4	Mr C Sim	4	Mr A Stokes (R 26/4/22)	1
Mrs J Reid (R 25/4/22)	2	Mr A Simm (C to 9/5/22)	3	Mrs D Taylor *	1
Mr B Weddell *	3	Mr D Simpson (E 25/4/22) ◇	2		
		Ms R Smith (R 25/4/22) ◇	0		
Total Meetings Held	4	Total Meetings Held	4	Total Meetings Held	4

Key: C - Committee Chair, VC - Vice Committee Chair, MS - Minute Secretary, T - Treasurer, R - Retired, E - Elected

* Regional Committee Members whose terms of office will complete in at AGM 2023 and will seek nomination at OGM 2022

◇ A Lakes & Dales Panel was formed in 2019 to consider applications for Community Grants and act as the Community Connect Selection Panel for the Lakes & Dales Region. The Panel is Chaired by Harry Cairney with John Mills, Christopher Henderson and David Simpson co-opted to serve and they may attend either Regional Committee or Panel meetings.

At the 2022 AGMs, Nicci Hill (East), Jane Reid (East) and Becky Smith (West) retired from the Regional Committees with the thanks of the Society for their long service.



Scotmid 

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www.scotmid.coop

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