Y 2023 Earnings Call

Company Participants

- Dawn Allen, Chief Financial Officer
- Nick Hampton, Chief Executive

Other Participants

- Alex Sloane, Analyst, Barclays
- Chris Pitcher, Analyst, Redburn
- Damian McNeela, Analyst, Numis
- Joan Lim, Analyst, Exane
- Karel Zoete, Analyst, Kepler
- Lauren Molyneux, Analyst, Citi
- Martin Deboo, Analyst, Jefferies
- Patrick Higgins, Analyst, Goodbody

Presentation

Nick Hampton {BIO 18794378 <GO>}

Good morning, everyone, and thank you for joining us. I am pleased to present Tate & Lyle's Results for the Year Ended the 31st of March 2023. Before I get to the details of the presentation, I want to briefly reflect on what has been an excellent first year for the new Tate & Lyle as a growth-focused specialty food and beverage solutions business. Our financial performance was strong, delivering on all our key measures with double-digit revenue and EBITDA growth.

At the same time, we significantly progressed our growth-focused strategy. We acquired a high-quality dietary fiber business in China significantly increased our solution-selling capabilities and made a commitment to reach net zero by 2050. We also launched a new brand to better reflect the Tate & Lyle of today. Our balance sheet remains strong fueling our ability to invest for growth. And as we set out at our Capital Markets Event in February, the transformation to reshape our business over the past five years has put Tate & Lyle right at the centre of the future of food.

Finally, our outlook for the coming year, which I will talk to you later is in line with our five-year ambition. Tate & Lyle is now a growth-focused specialty food and beverage solutions business, a global leader in sweetening, mouthfeel, and fortification creating high-value specialty ingredients and solutions that meet growing global consumer demand for healthier and tastier food and drink.

It is a focused, agile, and purpose-led business with a clear strategy for growth. The agenda for today's presentation is on the screen. I will begin with a brief overview of the year. Dawn will run through the financial results and then, I will come back to update you on our strategic progress and talk to the outlook. Finally, Dawn and I will be happy to take your questions.

Starting with the financial highlights. Group revenue was up 18% and EBITDA was up 22%. Return on capital employed improved by 100 basis points to 17.5% and we delivered productivity savings of GBP21 million, well ahead of our targets. Overall strong financial performance and very encouraging in the context of our strategic transformation and a challenging external environment. Core to our new brand and to everything we do at Tate & Lyle is our commitment to science, solutions, and society.

This commitment is driven by our purpose of transforming lives through the science of food. We made strong progress last year, delivering on our purpose targets and on our commitment to Science, Solutions, and Society. Let me briefly explain how. Starting with Science. Science and innovation are at the heart of how we deliver our strategy. Our customers increasingly rely on our innovation expertise to solve the challenges of food reformulation and to deliver both nutritional improvements and taste. We have invested over $250 million in R&D over the last five years.

And last year, we increased investment in innovation and solutions selling by 11%. Building our patent portfolio is an important part of our scientific backbone. And during the year, we had more than 70 patents granted largely in our sweetener platform for ingredients such as Stevia and Allulose. We now have over 500 patents with around another 300 pending. We continue to conduct and publish clinical research to provide key scientific knowledge about our ingredients. During the year, we published six scientific papers including one on the potential public health impact of fiber enrichment in the UK and another on the potential impact of fiber fortification in the Chinese population through food reformulation.

Turning next to Solutions. We continue to make good progress building stronger solutions-based partnerships with our customers. During the year, the value of our new business pipeline increased by 13% and the value of new business wins coming from Solutions increased by 2 percentage points to 18%. We also undertook three targeted campaigns in some of our key categories to drive stronger solution-based relationships with customers and to develop new ways of working with them.

These are building greater awareness of our solutions capabilities and we are looking to launch further targeted campaigns in the coming year. I will talk more about our progress towards becoming a more solutions-based business later in the presentation. Finally, turning to Society. In the third year of measurement against our purpose targets for 2025 and 2030, we continue to make good progress. Over the last three years, our no and low-calorie sweeteners and fibers have helped to remove 6 million tons of sugar from people's diets. That's 24 trillion calories.

With the cost of living crisis increasing food insecurity in many of our local communities. I am very proud that over the last three years, we have provided over 3.5 million meals to people in need through our food bank partnerships, that's well ahead of our original commitments. We are making good progress on reaching gender equality in leadership and management roles with 44% of these roles now held by women. Turning to Sustainability. Over the last three years, our Scope 1 and 2 absolute greenhouse gas emissions have reduced by 6% and our Scope 3 emissions by 13%. Our Scope 3 emissions are benefiting from the significant investments we've made to reduce emissions in Primient before we sold a majority holding in the business, by replacing coal boilers with more efficient gas-fired systems in its three largest plants. We continue to perform strongly on waste management, with 92% of waste beneficially used and our sustainable agriculture programmes for corn in the US and for Stevia in China both performed very well.

In China, our program achieved a 55% reduction in greenhouse gas emissions on participating farms, while at the same time improving yields by 6%. Sustainability is built into every aspect of our business, including our innovation and capital investment programs, while also improving our customer offering. A great example is work completed during the year by scientists and engineers at our plant in the Netherlands to develop a new manufacturing process for our CLARIA clean-label starches. While our next-generation CLARIA has the same functionality as our existing CLARIA, we have developed a new, more sustainable manufacturing process, which results in 34% lower greenhouse gas emissions and 35% less water use. We are reviewing our entire starch portfolio to see how we can deliver similar benefits to other ingredients.

Overall, then, I am delighted with our financial performance and the progress we are making, delivering on our strategy and our social and environmental commitments. I will come back to talk more about our strategic progress.

But for now, I will hand over to Dawn to talk you through the financial results. Dawn, over to you.

Dawn Allen {BIO 20417710 <GO>}

Thank you, Nick, and good morning, everyone. As Nick said, it has been a year of strong delivery for Tate & Lyle. I'll now take you through the financial results. In line with previous presentations, I will focus on adjusted measures, items with percentage growth are in constant currency unless I indicate otherwise. And pro-forma financial information for the comparative period has been used to calculate growth rates. I am pleased that we have delivered against all our financial goals.

We have continued to grow our business in line with our strategy, successfully navigating a challenging external environment. We continue to invest for the long term and have increased our investment across all three pillars of Science, Solutions, and Society. We have maintained strong financial discipline and a focus on cash generation, which means our balance sheet remains strong, providing significant flexibility for further investment. And as a result, we are generating strong returns for our investors.

In terms of financial highlights. Group revenue was 18% higher, as a result of solution selling, mix management, and pricing. EBITDA was 22% higher as we manage to drive margin accretive growth, despite the twin challenges of inflation and supply chain pressures. Profit before tax was 13% higher, reflecting strong performance in the core Tate & Lyle business and weaker performance in our minority holding in Primient.

Earnings per share were 10% higher and a return on capital employed of 100 basis points benefiting from higher profits and the disciplined use of capital. Free cash flow was GBP47 million higher despite the challenge of inflation in working capital. Before I move on to the performance of our three operating segments, I want to remind you that each has a distinct role in our business. Food and beverage solutions is our growth engine. And its role is to drive margin accretive growth. Revenue is expected to grow at high single-digit percent per annum, which is ahead of the market. It's also the largest part of our portfolio, comprising over 80% of our revenue and EBITDA. Sucralose, which represents 11% of Group revenue is a strongly cash-generative business, its role is to provide attractive returns.

Our strategy is to maintain a strong customer base and not pursue increased demand if that erodes margins. Reflecting this revenue is expected to remain broadly flat over the next five years. Primary Products Europe is the smallest segment, comprising 7% of our revenue. As set out at the Capital Markets Event in February, we expect revenue in Primary Products Europe to decline low double-digit percent each year as we execute to plan transition away from these lower-margin products and use the capacity to fuel growth in the higher-margin food and beverage solutions business.

So let's dig deeper by looking at the key performance drivers of each segment. Let's start with food and beverage solutions. Revenue growth was strong at 19% due to three factors. Increased solution selling alongside strong price mix, lower volume, which I will talk to on the next slide, and a small contribution from acquisitions. Price mix contributed 25 percentage points of revenue growth. This was split into 12 percentage points of pricing from inflation pass-through and 13 percentage points from focus on higher-margin business through price mix.

The price mix component is split equally across gains from solution selling, customer mix gains, and the exit of low-margin business and product mix. Finally, acquisitions contributed 1 percentage point of revenue growth. Turning now to our regions, where we saw double-digit revenue growth across every region, along with consistent drivers of strong price mix offsetting lower volume. In North America, input cost inflation and therefore, revenue growth was more moderate.

We saw good gains across beverage, confectionery, and soups, sauces, and dressings, particularly with our larger customers. In Asia, Middle East, Africa, and

Latin America revenue growth was strong. In Asia, this was assisted by the acquisition of Quantum, and in Latin America, we saw good progress in sweetening solutions, particularly in Mexico. In Europe, where inflation was highest, revenue growth was strongest with growth across all our core categories.

EBITDA grew ahead of revenue, in line with our strategy by 21%, benefiting from increased solution selling, customer, and product mix, as well as contributions from productivity and operating leverage. We continue to take actions to intentionally reset Tate & Lyle as a growth-focused specialty business by focusing on revenue growth and margin expansion through solution selling, mix management, and the pricing through of inflation.

In doing this, we are prioritizing revenue and margin expansion ahead of volume growth. During the year, this approach led to strong price mix-driven revenue growth as we also navigated a challenging external environment and input cost inflation. Volume was lower for two other reasons. Firstly, one-off factors from supply chain disruption, the exit of low margin business, and the impact of industrial action in the Netherlands, in the first half.

Secondly, some demand softness in the fourth quarter from customer destocking in North America and increased competition from imports in Europe. The recovery of inflation was managed in two main ways through supplementary pricing, and the annual pricing round to renew calendar year contracts in North America and Europe. In these contracts, we applied our revenue-focused approach and intentionally did not renew the lower-margin business we exited last year. We also built additional flexibility into the contracts, both for us and our customers to manage future periods of changing input costs. Looking forward, we expect to continue to execute our strategy to prioritize solutions selling and the sale of higher margin products. We anticipate this together with some demand softness will [ph] lead volume in the year ahead, being lower than the 2023 financial year.

This is consistent with our approach to enhance the quality of our business and to deliver on our long-term financial ambition. Let's move on to Sucralose. Revenue grew by 2%, this reflected 4% lower volume and 6% improved customer mix. Production costs were impacted by inflation across a range of inputs. The existence of multi-year contracts with our larger customers limited our near-term ability to recover these inflationary cost increases and as a result, EBITDA at GBP58 million was 5% lower.

Industry demand for Sucralose remains robust, as consumer demand for sugar-reduced food and drink continues to increase. We continue to see good demand from our larger customers. In Primary Products Europe, revenue was 25% higher, reflecting more favorable market pricing conditions. Lower volume reflected both the impact of industrial action at our facility in the Netherlands and the planned transition of capacity to Specialty Ingredients.

EBITDA losses improved to GBP9 million. So, pulling this all together, we delivered strong profit growth. Food and beverage solutions increased EBITDA by 21% or GBP43 million. Sucralose saw a decline in EBITDA of 5% or GBP3 million, and our small Primary Products Europe business increased EBITDA by 57% or GBP12 million. These combined results led to an increase in absolute EBITDA in constant currency of GBP52 million or 22%.

The impact of foreign exchange was to increase EBITDA by a further GBP35 million to GBP320 million. This was driven by the average U.S. dollars exchange rate being 12% higher than the prior year. The impact of foreign exchange was to increase EBITDA by a further GBP35 million to GBP320 million. This was driven by the average US dollar exchange rate being 12% higher than the prior year.

Turning to productivity. We delivered US$21 million of productivity savings in the year more than double our target, demonstrating the strong productivity culture we have built across the business. Looking ahead, our target is to deliver US$100 million of productivity savings in the five years ending the 31st of March 2028. We expect cash cost to deliver this program to be in the range of US$80 million to US$100 million, delivering a payback over three years. Productivity in our operations comes from a range of areas, including capital investments to increase efficiency and reduce energy costs and supply chain efficiencies. A key focus in the coming year will be to leverage digital to improve our end-to-end customer and employee experience.

We will also look for synergies across productivity and sustainability projects like the CLARIA example Nick talked about earlier, where we not only reduce our energy and water use but also reduce costs. Let's move on to talk through tax exceptional items and dividends. The adjusted effective tax rate for the year was 19.9%, 60 basis points higher than the prior year. The increased tax rate reflects higher profits, with more profit taxed at higher rates alongside the inclusion of the Primient joint venture.

We anticipate the adjusted effective tax rate for the 2024 financial year will be 1 percentage to 2 percentage points higher than the 2023 financial year. The key drivers of this are the increase in headline UK corporation tax from 19% to 25% and the expected stronger profits in Primient. In terms of exceptional items, net pretax exceptional costs were GBP28 million. The majority of which related to the separation of the controlling interest in Primient. From a cash flow perspective, this translated into a total exceptional cash outflow of GBP59 million, again mostly related to the separation of Primient.

Turning now to dividends. Within the context of our growth-focused strategy, the Board operates a progressive dividend policy with the overall aim of balancing growing the dividend with further strengthening dividend, earnings, and cash cover over the medium term. The Board is therefore proposing a final dividend of 13.1p per share, an increase of 2.5%, which brings the full-year dividend to 18.5p per share.

Total dividends paid to shareholders last year were GBP570 million including a special dividend of GBP497 million from the proceeds of the Primient disposal. We have built a positive relationship with KPS Capital Partners and the 20-year agreements put in place to provide supply and economic security for both businesses are operating effectively. We are already seeing the benefit of cash dividends from Primient with US$76 million received in the year. Of this amount, US$30 million relates to distributions for the 2023 financial year. US$31 million relates to profits earned by a former joint venture prior to disposal, and US$15 million was to settle tax obligations on Primient's profits.

Primient had a difficult year due to some operational challenges in their plant network and the impact of inflation. Interest costs were also 47% higher, reflecting higher US interest rates. As a result, our share of profits was 64% lower at GBP24 million. There is a strong team in place at Primient and the operational challenges, which impacted the business last year are being addressed. Alongside this, the 2023 calendar year pricing round returned unit margins to pre-inflation levels.

As a result, we expect stronger profits from Primient in the 2024 financial year. Moving now to free cash flow. Adjusted free cash flow was GBP47 million higher at GBP119 million. This was primarily driven by GBP80 million higher profits, alongside GBP10 million higher interest income on deposits. This more than offset a GBP37 million increase in working capital where optimization efforts helped to mitigate a large proportion of cost inflation.

We continue to invest in capital expenditure, which was GBP3 million higher at GBP78 million. Looking ahead for the 2024 financial year, we expect capital expenditure to be in the GBP90 million to GBP100 million. Overall, cash conversion was strong at 62% and we are on track to deliver our ambition to increase cash conversion to 75% over the next five years. Let's move on to the other items on the balance sheet. In terms of net debt, this decreased by GBP388 million to GBP238 million. This was driven by three significant one-time factors.

The GBP1 billion consideration received from the Primient transaction. The payment of the special dividend of GBP497 million and acquisitions of GBP192 million mainly for the purchase of Quantum. As I mentioned previously, we also received GBP66 million of cash dividends from Primient. Our net debt to EBITDA ratio is 0.7 times. We continue to have strong liquidity headroom to invest for growth with access to around GBP1.1 billion through cash on hand and our [ph] undrawn revolving credit facility.

There are three key messages I want to leave you with. The first is that we are delivering on our growth strategy, successfully navigating a challenging external environment to deliver strong financial performance are [ph] meeting all of our financial measures coming into the year. Secondly, we are investing for the future across our pillars of Science, Solutions, and Society alongside continuing to demonstrate a strong culture of productivity and cost discipline.

Thirdly, we have maintained our strong balance sheet through financial discipline and a focus on cash generation. This gives us flexibility to continue to invest for the future both organically and inorganically. It provides a solid platform on which to execute our growth strategy.

With that, let me hand you back to Nick.

Nick Hampton {BIO 18794378 <GO>}

Thank you, Dawn, I'm now going to give you a brief update on our strategic progress and talk to the outlook. At the same time as delivering strong financial results, it has been very pleasing to see significant progress delivering on our strategy. During the year we completed the separation of the Primient business that repositioned Tate & Lyle right at the center of the future of food. We grew Solutions revenue from new business wins and continued to build stronger solutions-based partnerships with our customers. We increased investment in R&D, innovation, and customer-facing capabilities and strengthened our portfolio with two high-quality acquisitions.

As we explained at our Capital Markets Event three months ago, we see a number of structural megatrends, which are impacting the consumer landscape, which Tate & Lyle is well positioned to capture. Population growth, people living longer, climate change, and the fast adoption of technology are all driving consumer purchasing and consumption patterns. In short, consumers are looking for healthier, tastier, a more convenient food that's both sustainable and affordable. With our capabilities in sweetening, mouthfeel, and fortification, these trends play directly into our areas of expertise.

We are experts in taking sugar and calories out of food, enhancing texture and mouthfeel experience as well as improving the nutritional profile by adding fiber and protein. We also have the capabilities to help our customers reformulate products to optimize cost as required. In February, we set out three metrics we will be focusing on over the next five years to accelerate growth from innovation and solutions selling. Let me take each one in turn. The first is to continue to grow new products as a percentage of food and beverage solutions revenue.

Last year, this increased by 1 percentage point to 17%. Looking at new product revenue growth. This grew by 17% during the year and on a like-for-like basis, if you include new products that fell out of the calculation, this grew by 20%. Our innovation pipeline has performed very well over the last three years with new products delivering a compound annual growth rate of 28%. The second metric is to increase investment in innovation and solutions selling capabilities and we increased this by 11% in the year. This was in three main areas; capabilities, insights, and infrastructure.

On capabilities, we strengthened our expertise in areas such as nutrition, sensory, and regulatory. For example, we expanded our nutritional expertise in key markets such as the US, China, and Mexico. In each region, we have consumer insights experts who analyze consumer and category trends by region and by country to identify growth opportunities in our core categories and higher growth subcategories. This insight is a key part of our customer solutions offering and we strengthened our expertise in North America, Asia, and Latin America during the year.

Ensuring our solutions can be applied to our customer's products in their local markets is very important as consumer preferences across the world are different whether it's the amount of sweetness in their [ph] products or the way it feels in the mouth. That is why we continue to invest in expanding our global network of Customer Innovation and Collaboration Centres. During the year, we opened a new center in Santiago in Chile, bringing the total number of centers to 16 and we are also expanding our Centre in Singapore to establish a hub focused on mouthfeel solutions.

The third metric is to increase solutions revenue from new business wins. While we work with customers in different ways, collaborating on Solutions has a number of benefits. The value of ingredients used in Solutions tends to be higher, about two times higher on average. And also is a stickier sale as the solution directly solves a customer's challenge. Finally, it also builds stronger customer relationships, which often leads to new business. It was encouraging to see an increase in Solutions revenue from new business wins at 2 percentage points in the year from 16% to 18%.

We delivered growth in all regions supported by our ongoing investment in customer-facing capabilities and infrastructure. Portfolio expansion, either organically or through acquisitions is a key part of our growth strategy. During the year, we made two acquisitions to significantly strengthen our fortification platform and enhance our customer offering. Last June, we acquired Quantum Hi-Tech, a leading dietary fiber business in China. This science-driven business with its prebiotic FOS and GOS fibers brings deep R&D expertise to the Company.

The majority of Quantum's revenue comes from within China, where the growth of dietary fibers is estimated at 10%, well above the 6% growth globally. The integration is going well and the business is performing as expected. The other acquisition was Nutriati, a small ingredient technology business, developing and producing chickpea protein and flour. We are very pleased with this acquisition which expands our capability to offer customers sustainable plant-based solutions. We have seen strong revenue growth and customer traction for both of Nutriati's product lines.

At our Capital Markets event in February, we set out our financial ambition for Tate & Lyle over the next five years. By way of reminder, this is to deliver 4% to 6% revenue growth with food and beverage solutions growing high single-digits ahead of the markets and for EBITDA to grow by 7% to 9% each year. We also aim to increase organic return on capital employed by up to 50 basis points on average each year, and on productivity, to deliver $100 million of benefits over the next five years. Finally, we will continue to accelerate growth through value-enhancing partnerships and M&A.

Turning then to the outlook for the year ending the 31st of March 2024. In line with our five-year ambition, we expect to deliver revenue growth of 4% to 6% and EBITDA growth of 7% to 9%. We also expect to see stronger profits from our minority holding in Primient. In summary then. It's been an excellent first year for the new Tate & Lyle. Financial performance was strong, despite significant challenges in the world around us and we continue to deliver on our growth-focused strategy.

We are investing in R&D, innovation, and growth capacity and building stronger solution-based relationships with our customers. Our extensive portfolio and technical expertise in sweetening, mouthfeel, and fortification has positioned the business right at the center of the future of food, creating solutions, which meet growing consumer demand for healthier, tastier, and more sustainable food and drink. Today, Tate & Lyle is a focused agile, and ambitious business.

While there will be more challenges ahead, we are confident that the strength of our ingredient's portfolio across attractive categories and regions, our passion for serving our customers, and the expertise of our people will support the delivery of our growth-focused strategy and our five-year financial ambition. I would like to finish by thanking everyone at Tate & Lyle for their hard work in delivering a strong set of financial results and for living our purpose with great passion and belief. For all their support as always. I am truly grateful.

Questions And Answers

A - Nick Hampton {BIO 18794378 <GO>}

Good morning, everyone, and thank you for joining today's presentation. We are now into the live Q&A. As I said in the pre-record, Tate & Lyle performed very well in the 2023 financial year, as we delivered double-digit revenue and EBITDA growth and made significant progress, delivering our strategy. We will now take your questions. But before we start, I just wanted to wish Martin Deboo from Jefferies all the very best in his retirement at the end of this month. Martin has covered Tate & Lyle for over 16 years and we will miss his in-depth analysis and challenge of our business. Martin, we wish you all the best. With that, we will turn to the questions with the first one -- and actually is coming from Martin Deboo from Jefferies. Martin, good morning.

Q - Martin Deboo {BIO 15155849 <GO>}

Sorry, Nick. Just unmuting myself, gosh, I get the privilege of the first question, do I? It's going to be -- it's going to feel a bit nerdy. I think. I just wanted to ask on Sucralose. I mean, volumes dropped off quite significantly in H2 down high teens. It looks like to me. Just want to -- you did touch on it in the prepared remarks, but I just want to sort of drill into that a bit.

Secondly. I was quite surprised that Sucralose had a cost recovery issue because I had to [ph] think of Sucralose as an inputs-dependent business but you allude to the constraints of multi-year contracts. So could we just talk a little bit about Sucralose, it's not the main event but you did give me the first question.

A - Nick Hampton {BIO 18794378 <GO>}

Sure, of course. So let me pick both of those up and maybe Dawn can add something on the cost as well. So on Sucralose, what we saw and we said this in the first half, some phasing of volume into the first half. That's the first -- that's the first point is -- big customers pull quite strongly on their contracts in the first half. What we also saw in the second half is it, we're lapping a record quarter in Q4 2022, so two of those things sort of added up to the half-one, half-two volume imbalance, but actually in relative terms nothing too concerning for us. On the cost side, what you do see on Sucralose is clearly input cost inflation from things like sugar and energy.

And that was an impact in the last financial year, but nevertheless, we felt good about the overall profit delivery on Sucralose. Dawn, anything to add or?

A - Dawn Allen {BIO 20417710 <GO>}

Yeah. I think, if you think about the role of Sucralose in the portfolio, its role is to deliver attractive returns and it's delivered that in the year, you know, with around 30% margin. The other thing to say is the global market for Sucralose remains very robust and continues to grow, it's a choice for us to have long-term contracts because that helps to balance the risk and actually as inflation normalizes, we would expect -- we would expect the profitability of Sucralose to also normalize. But as Nick said, I mean, overall good performance on Sucralose.

A - Nick Hampton {BIO 18794378 <GO>}

So hopefully, Martin that covers your key points on that.

Q - Martin Deboo {BIO 15155849 <GO>}

It does. And I'll just wish you both my very best.

A - Nick Hampton {BIO 18794378 <GO>}

Thank you, Martin (Multiple Speakers)

A - Dawn Allen {BIO 20417710 <GO>}

Thank you, Martin.

Q - Martin Deboo {BIO 15155849 <GO>}

So my very best wishes to you too [ph]. Thank you.

A - Nick Hampton {BIO 18794378 <GO>}

Yeah okay. Good luck to you too. Our next question comes from Alex Sloane, Barclays. Alex, good morning.

Q - Alex Sloane {BIO 21961825 <GO>}

Good morning, Nick. Good morning, Dawn. Thanks for the questions. Two please for me. The first one just on FBS, the double-digit mix improvement there. I mean, clearly some evidence from that of your success in prioritizing higher-value business over volume. Maybe you could talk about the outlook for mix for the year ahead? I mean, I presume we should not be expecting necessarily double-digit mix to continue. But in terms of thinking about potentially softer volume tonnage on continued destocking, can the combination of volume and mix remain in low single-digit plus positive territory?

And maybe related to that, could you give us a sense of where you see customer inventory levels now versus maybe 2019 levels in terms of maybe getting a base case of how deep and long this destocking drag might last? So that's the first question.

Then just the second one. The WHO, obviously published a new guideline last week on non-sugar sweeteners use. And I appreciate that's actually quite a controversial guideline, not necessarily endorsed by all health bodies and professionals. But interested, if you think that that guideline might have any impact even near or longer-term in terms of the addressable market that you laid out for your sweeteners pillar at the CMD earlier this year. Thank you.

A - Nick Hampton {BIO 18794378 <GO>}

Sure, okay, so why don't I talk about the volume piece, and then Dawn maybe give the mix story, so as you rightly say, Alex. Through the first three quarters of last year, we saw a really successful reset of the business where we saw significant revenue and margin improvement as we look to focus the business on those customers who value doing business with us higher -- higher margin products and just resetting the business for growth going forward and that really played out in the strong financial algorithm. That continued into the fourth quarter with one other thing flowing through the whole year, which was the sense of exiting low-margin business, particularly in Europe.

What we saw in the fourth quarter, in addition to that was some signs of destocking emerging both in customers and we think in consumer pantries as well as they adjusted to a post-COVID inflationary reworlds [ph]. And we saw -- it seems some of that flow into the first quarter of this year.

The good thing in that is a couple of things. Firstly, we're still seeing a robust financial algorithm. So the algorithm in the fourth quarter was as robust as in the first three quarters despite the signs of destocking and we've also built an assumption on volume destocking for the foreseeable future into our guidance for this year and we're expecting to see sequential improvement in volume through this year as the destocking impacts subsides, and that's what we're hearing from customers as well as we go -- as we go around the world.

In terms of the nature of the mix, and its sustainability, I will let Dawn handle that and then I'll come back and give you a perspective on -- on the WHO announcement.

A - Dawn Allen {BIO 20417710 <GO>}

Yeah, thanks, Nick. I mean, you know, as you said, a very strong performance in terms of price mix on the FBS business. So 25 points of growth in the year, roughly half of that came from inflation pass-through of price and the other half came from as Nick talked about the very intentional reset of the business and there were four key drivers in equal shares that drove half of that total price mix. The first one was solutions selling, so in line with our long-term strategy, and in line growing our solutions business that became a bigger part of our business during the year, increasing two points.

We also prioritize strategic customers, customers that will value long-term partnerships around solutions and the other two pieces were prioritization of product mix and new product. So, higher margin products as well as the exit of low margin business. And if you think about those factors, as Nick talked about, we expect them to continue into the first part of this year, but the first one, which is the solutions selling piece, which is in line with our long-term strategy that's the piece that we expect to see as we gradually move through the year and we get back to volume growth.

That's the piece of price mix that we would look to see ongoing.

A - Nick Hampton {BIO 18794378 <GO>}

Thanks, Dawn. So let me come back and talk about the WHO announcement then, and just to put it into context, to start with. So there is a huge waste [ph] of scientific evidence out there, that low and no-calorie sweeteners are an effective tool in helping weight management alongside a huge number of other lifestyle choices and that's really important in a world where obesity and diabetes is the biggest health challenge facing the world and what we're seeing from customers is massive demand for those products because they are trying to provide consumers with positive choice to reduce their sugar intake.

It's also true to say that sweetness is a habit for people and therefore in the -- dealing with obesity and diabetes in the short term is about a growing cohort of grownups, who are used to high-sugar diets. So you need solutions today. We also believe that reducing sweetness in diets over time is important, but that's a generational thing with young people coming through. So we anticipate continued strong demand for no and low-calorie sweeteners and all the other sweetener solutions in our portfolio going forward. I think, the other thing, I'd say is the WHO guidance is conditional.

And that means it's based on a low waste [ph] of evidence and therefore there is a little bit of controversy about it. So for us, we will clearly watch it very carefully, but we've got a belief that what we're doing is the right thing to help solve the immediate problem of growing obesity and diabetes in the world. So hopefully, that gives you a perspective on all of your questions for today.

Q - Alex Sloane {BIO 21961825 <GO>}

Yes, thank you very much.

A - Nick Hampton {BIO 18794378 <GO>}

So we -- next we'll go to Damian McNeela at Numis. Damian, good morning.

Q - Damian McNeela {BIO 15992231 <GO>}

Good morning, everybody. Thanks for taking the questions. I guess, first one for Dawn, maybe. Can you give us some color on the degree of cost inflation that we are likely to see in the coming financial year and whether there are any sort of regional split or regional variances in that expectation? And then secondly on the solutions side of business. I mean, you are making good progress. Are you able to sort of give us an indication of what the [ph] pipeline for Solutions looks like as we stand now and give us sort of a sense of what that might be for the coming year Nick [ph]?

A - Nick Hampton {BIO 18794378 <GO>}

Great, thanks, Damian. So Dawn, why don't you say the first one, and then I'll come back on the Solutions piece.

A - Dawn Allen {BIO 20417710 <GO>}

Sure, so in terms of inflation, I mean, we've done a really good job covering inflation and we've covered it through a combination of price, you know, mix management, productivity, very strong performance on productivity in the year, as well as cost management and cost discipline. So the four levers that we've pulled to cover inflation. We would expect to use those levers moving forward. We still expect to see inflation as we move into this year.

Remember that we are hedged forward, so when in an inflationary environment that takes time for inflation to feed through. And similarly, as you're coming down the other side that benefit takes time to see through, but as we move through the year if we look at the spot price today, the spot price versus our input prices is lower. So if that continues, then we would expect to see some benefit in the second half of the year. I mean, the reason why we're not guiding to a specific number on inflation is because we expect it -- we expect to cover it from a unit margin perspective this year as we have done in previous years.

A - Nick Hampton {BIO 18794378 <GO>}

And Damian, maybe I'd just add one other point to that is, we consciously when we came into contracting for this year, we gave customers the choice on whether we would cover the inflation we saw for them as we contracted or we'd float. So the book is relatively balanced from a risk perspective in that regard. So let me come back to your question about Solutions. So we saw good progress last year. Let's start with that. So 2 percentage points increase in -- in the overall mix of solutions in the pipeline up to 18%, we expect to see continued progress this year.

And as you know, we're looking to double the pipeline from Solutions as a percentage of the mix over the next -- next five years. Will the progress be absolutely linear? Probably not. But there is no reason to assume we're not going to see progress in this year as well. The question is whether -- where -- what's the balance on those solutions from cost out versus healthier alternatives, and I think that mix may be a little bit different in the near-term and then there's also a question about how fast products go to market in the current environment, but the progress last year was very solid.

The pipeline looks good, and we're anticipating making progress this year as well.

Q - Damian McNeela {BIO 15992231 <GO>}

Thank you very much.

A - Nick Hampton {BIO 18794378 <GO>}

Pretty good. So our next question comes from Lauren Molyneux at Citi, Lauren, good morning.

Q - Lauren Molyneux {BIO 20012144 <GO>}

Hi, morning both. Thanks for taking my question. Just a couple from me, please, firstly on Primient. Can you talk a bit more specifically around the improvement that you're expecting in this business in terms of the profit delivery there and maybe some of the moving parts and also how much visibility you have into that improvement in profitability given the pricing in the region and [ph] operational improvements and also, I think, there's a -- bit of a cost -- sort of financial headwind there.

And then secondly, obviously, good progress against the productivities again this year. So more than doubled your initial expectations and I was wondering, kind of what the expectations are in terms of productivities this year. Can you talk about whether you're actually discovering more opportunities as you move through this program and (inaudible) to upgrade the expectations there?

And then just generally kind of the phasing of those productivities of your mid-term target. Thank you.

A - Nick Hampton {BIO 18794378 <GO>}

Sure, so. And I'll cover Primient and then maybe Dawn, you can cover the productivity piece. The only thing I'd add on productivity, Lauren before Dawn jumps in is -- we've just exited a very successful program, the GBP150 million that we delivered over the previous five years, which was ahead of target and ahead of schedule and the productivity level of [ph] this year give us huge confidence in the future program that Dawn will layout in a minute. So we feel that productivity is an engine of the business.

In terms of Primient, the first thing to say is, we're very happy with the progress on separation. The two businesses separated very cleanly. The relationship with KPS is very strong. And let's not forget, we received $76 million dividend out of the Primient business last year because they are very cash generative. They had some operational challenges through the year, which we talked quite a lot about at the half one but the good news is, as we came into the fourth quarter, many of those operational challenges have been addressed, and through the pricing round, we saw a return to more normal levels of margins. And so we're very positive about the potential of Primient for this year and the relationship that we've developed.

It's always [ph] to think about it in simple terms. And broadly what we saw in terms of delivery from Primient in the second half was delivered in the fourth quarter. So that's sort of quite a -- a good sense of where the business might go -- go this year. And we have very good visibility of performance improving because we talk every month to them about our performance. So it's a very transparent relationship, we've got this cross supply agreement and that's working -- working well.

So tough year for them last year, but signs of material strengthening coming into this year, which gives us -- gives us confidence about delivery this year. And don't forget also the demand for bulk sweeteners in the US remains -- remains robust. The thing the -- I think that the financing point you're making is of course the interest charge in Primient is a bit more of a lag than it would have been when interest rates were -- was -- when the deal was struck, but that will play out in the numbers next year, overall, I think. So, Dawn, do you want to take the productivity unless you've got anything to add on Primients?

A - Dawn Allen {BIO 20417710 <GO>}

Sure, no, I think you covered it well, Nick. So on productivity, as Nick said, we're really pleased with our productivity performance to $21 million delivered in the year, which is above our target going into the year and I think, it demonstrates the culture that's embedded in the business, but it also demonstrates the agility to be able to adapt if higher inflation comes in as well. If we look forward, we've set out a five-year productivity target to deliver US$100 million cumulative savings over the next five years.

I would anticipate a similar -- similar amount each year in terms of savings coming through and what we're really focusing on is looking at end-to-end process and really looking at how can we improve both the customer experience and the employee experience when we look across the B -- across the piece in our business, so I think very exciting program. The other thing, if you think about the CLARIA example that we talked about in the presentation, where we talked about the new CLARIA process, where we're reducing energy and reducing water use by around 35%, we will also look to join that up from a productivity perspective as well.

So not only does it bring sustainability benefits, but it also brings productivity savings too.

A - Nick Hampton {BIO 18794378 <GO>}

That's a really good point. So Lauren, hopefully, that gives you a sense on your two questions. And we'll move on to Patrick Higgins at Goodbody. Patrick, good morning.

Q - Patrick Higgins {BIO 17720947 <GO>}

Good morning, and thanks for taking my questions. I guess, a couple from me. Firstly, just coming back to the destocking trends that you've called, is there specific platforms or categories, I guess that you're seeing this play out more in? And secondly, you mentioned you're using some targeted programmes to develop new ways to work with your customers. Could you give us a few examples of that? Or what exactly -- what those programs are.

And then finally just on M&A and what's the pipeline like, is multiples -- are becoming more reasonable then, any update on that side please?

A - Nick Hampton {BIO 18794378 <GO>}

Okay, so let me take the first couple of questions and maybe Dawn can pick up the M&A question at the end. So firstly on the destocking. We're not seeing anything specific from a platform perspective. I think it's more a customer-by-customer question than a platform-by-platform question, as they take a view on how much stock, they need to carry going into sort of post-COVID inflationary world.

So there's no real pattern on a platform perspective. On the Solutions side and this is really important because this is the future of the business. So when we talk about ways of working with customers, we are talking about increasingly taking campaigns to them, where we're taking them potential solutions for what we see as consumer opportunities, they might have. So for example, we might create a chassis for a dairy-free ice cream in North America and we proactively go to our customers with an idea of how they might use that to build the proposition for customers.

So we've run a number of experiments in that regard in the last year to help strengthen and how we work with customers and build stronger relationships and articulate better for them what we can do. And what typically happens with those campaigns is, we then get more questions about other potential areas. So the idea is to build a proactive relationship with them through if you'd like marketing of some of the solutions that we can bring and create a two-way dialog that shortens the innovation program and it allows us to work with them on creating solutions that provide better choice to consumers and growth for them.

That's really what it's all -- all about. And we will continue to evolve that this year in a way that gives us more ammunition to take to customers. So Dawn, (inaudible) want to take the M&A point?

A - Dawn Allen {BIO 20417710 <GO>}

Yeah. So from an M&A perspective. I mean we've -- we've acquired four acquisitions over the last -- over the last three years and in the last 12 months, we spent GBP192 million on acquisitions. So it is a key part of our growth strategy and we've talked about before our intention is to drive depth and breadth across the three platforms that we're in, so that we can serve our customers even better.

And if you think about -- if you look at our return on capital employed this year, a very very strong performance, an increase of 100 basis points despite the fact that we made acquisitions. So we continue, when we look at acquisitions, we continue to use a financially disciplined approach. I think the other things to talk about. So we have got a really strong balance sheet, we have got access to GBP1.1 billion. So very strong firepower. If you look at the market at the moment, we know that sentiment is quite low in terms of M&A. We know that's driven by macroeconomic factors and access to debt financing.

But if you think about the position that we're in, we've actually got a really strong opportunity. You mentioned valuations, so valuations in public markets have come down, but in private markets, they're still to come down, but actually, when if they do, we're very well placed in terms of positioning ourselves against that. The other thing that we're seeing, we're starting to see some companies think about divestments in terms of their portfolio.

And again, we are well placed to move on that. So I'd say, we remain very active in this space. We've got a strong pipeline and where we've been successful in the past is we've built relationships with people, which has enabled us you know to move at pace and look -- and move on the right M&A targets as well.

A - Nick Hampton {BIO 18794378 <GO>}

Thanks, Dawn. So Patrick, hopefully, that covers your questions and we'll move on to Joan Lim at Exane. Joan, good morning.

Q - Joan Lim {BIO 22496470 <GO>}

Good morning. And just to go back on two question that had been raised, but I'll expand a bit more on the new WHO guideline on sweeteners, and it might be early days, but has this been a factor in your discussions with customers regarding product innovation and reformulation? And my second question is on hedging. So you said you are typically forward hedged, but if there is a deflation in H2 will not benefit you in this case? Thank you.

A - Nick Hampton {BIO 18794378 <GO>}

So let me cover WHO and then Dawn can cover the hedging point. Look, we're very actively talking to customers continually about reformulation and the use of sweeteners to help with sugar out and that's continuing as we speak today. We're also working with them to help them with the -- this body of scientific evidence behind this -- behind the benefits of sweeteners because it's important that is -- as customers, they have that, they have that knowledge as well, but then those conversations are still continuing.

That there -- the narrivate [ph] hasn't changed post the WHO announcement, which was only a couple of weeks ago, so Dawn, do you want to take the hedging point.

A - Dawn Allen {BIO 20417710 <GO>}

Yeah, sure. So as we talked about, as we talked about earlier, we do forward hedge in terms of, you know, corn and energy and we do that in terms of ensuring certainty and managing risk. As Nick talked about, we've been very proactive in working with our customers in terms of how do -- how customers wanted to do contracting this year, particularly in Europe. So customers that wanted a fixed price for a longer period of time, we've done that. Customers that have wanted a more variable pricing approach. We've also done that.

And what we've done is we've done it, we've used our hedging strategy to reflect that. So our hedging strategy reflects the fact of how our customer contracts are organized, and so I think, that -- that will play through as we move through the year, both on those two basis.

A - Nick Hampton {BIO 18794378 <GO>}

So, Joan, I think in summary, we've set the business up in the way that as inflation abates and we see some deflation, we can manage the impact of that with customers in a positive way. Okay, so let's move on to the next question which comes from Karel Zoete of Kepler, Karel, over to you.

Q - Karel Zoete {BIO 4452327 <GO>}

Yes, good morning. Thanks for taking the questions. I have a couple, the first one is on guidance, you say a 7% to 9% EBITDA growth in-line with the medium-term outlook. But you also say that Primient will see a bit of normalization, in theory that might add 20 million, 30 million or so to profit before taxes. So could organic EPS growth be low to mid-teens this year, that's the first question.

Then the second question is about European PP business. I think all stars are aligned for an exceptional year if I look to sugar prices in Europe and corn and energy prices being down a lot. So, can you speak about your European PP business for HFCS and how contracts work here? And the last question is a bit of a clarification on the value of volume strategy in FBS, the uplift in margins has been exceptional in H2.

And then you kind of indicated, volumes will come down further in H1 and value will increase. When I think about conversion of assets that produce more basic food ingredients and replace that with the assets that can produce other ingredients that have more value. How long does that take? Is that included in the CapEx programs and -- thank you.

A - Nick Hampton {BIO 18794378 <GO>}

Okay, so let me take PP Europe first and your last question because they sort of go hand-in-hand. So what do we see in PP Europe? Significant progress last year, so significant reduction in the drag on the business as we both exit that business over time and also saw sugar price recalibrate in a positive way for us in a way that we are delivering cash-positive outcomes on Primary Products Europe last year, sugar prices have remained high, and we're seeing some moderating in corn price in Europe as well, which is good.

So we're anticipating a good year in Primary Products Europe this year. I think the question will be what happens to sugar prices through the year. And then, look, and obviously, they may moderate as well. But it looks well set, and of course, it's consistent with the strategy that we're driving, which is to reduce exposure in that business, and that links to your CapEx point which is, as we said at the half year, we think it's a three to five-year journey to navigate our way to lower volumes in Primary Products Europe and that'll happen over-time and that's built into the CapEx program today and we've got capacity adds life today that will help deliver that through the period of our financial guidance.

If I then come back to Primient and guidance, you're right, we're anticipating a stronger year from Primient and that should lead to the kind of leverage into EPS that you talked about with one -- one significant caveat, which is the tax-rate increasing because of the change in tax rate in the UK and I'm sure, Dawn can give more color of that. And of course on Primient to continued -- continued strong demand that they saw in the fourth quarter coming into this year.

So Dawn, I don't know [ph], would you be able to add anything on Primient before talking about the margin points?

A - Dawn Allen {BIO 20417710 <GO>}

No, I think we've covered Primient in terms of very strong quarter-four run rate in terms of operational performance, strong pricing round in terms of covering inflation which should give confidence that the momentum in the run rate as we move into this year, offset by the headwind in interest rates or interest costs. But you know, as we've said in our outlook, we expect that to improve. As you referenced Nick, from a tax rate perspective, the UK tax rate is moving from -- corporation tax rate is moving from 19% to 25%, and in addition to that, if we expect Primient to have a stronger performance both of those factors, we are forecasting, one to two points increase in our effective tax rate for the year.

A - Nick Hampton {BIO 18794378 <GO>}

And the margin evolution into half-two?

A - Dawn Allen {BIO 20417710 <GO>}

In terms of the shape, do you mean?

A - Nick Hampton {BIO 18794378 <GO>}

So can I ask, Karel, would you repeat your last question for us, because we gave a fairly long answer to the first two.

Q - Karel Zoete {BIO 4452327 <GO>}

Yeah, thanks. No, yeah, thanks for that. No, the evolution of -- you're kind of indicating that in the first half of the year, you'll still have a drag on volumes but strong mix headwinds and should we then also expect that to be reflected in the progress of margin during '23, '24 or is that difficult to say at this point?

A - Nick Hampton {BIO 18794378 <GO>}

Look. I would say, in terms of margin progress that will sort of depend on how inflation and deflation plays out through the year. But what we are saying is that that we're going to see volumes improve through the year sequentially, but the financial algorithm actually is pretty similar through the year because of the impacts that we're seeing from Q4 coming into Q1. So we -- I think we'd anticipate similar margin profile in half one and half two.

A - Dawn Allen {BIO 20417710 <GO>}

Yes, that's right.

Q - Karel Zoete {BIO 4452327 <GO>}

Okay, thank you.

A - Nick Hampton {BIO 18794378 <GO>}

So if we move on then to Chris Pitcher at Redburn. Chris, good morning.

Q - Chris Pitcher {BIO 2496733 <GO>}

Good morning, thank you. A couple of questions from me please, firstly on Primient, aplolgies for digging into this in a bit more detail, but obviously it's been a source of disappointment historically, so gaining confidence in this is important. Based on your comments, it looks like the quarterly profit run rate is now up towards about GBP40 million. So you're getting back to that GBP150 million to GBP160 million of operating profit, it sounds like the pricing discussions have been good, is the risk now to that just volume given that you've sorted out your operational problems and then on the interest side, the GBP45 million in the second half, is that a good annualized number to think about or is that actually the underlying nearer to 50 [ph] given the rates that you're paying given the shape of how inflation has moved there.

And then my second question just on CapEx outlook. It was lower this year than certainly, I was looking for next year's guidance is below what you said at the CMD. Does the extra volume mean CapEx over the next three to five years, isn't the 120 to hundred -- and above level. I just do want to understand CapEx for the next few years. Thanks.

A - Nick Hampton {BIO 18794378 <GO>}

Okay, so let's take the Primient question in two parts. I'll -- let me take the operational bid and then Dawn can maybe come back on the interest piece, so you're right. In quarter four, we saw returns in normalized levels of performance, as operational performance improved, the pricing round flowed through. And we also saw volumes relatively robust. So the thing that really makes the year operationally, then going forward is a continued demand for the business, obviously, as you said, and then continued stability from an operational perspective, which we're starting to see. So that's -- I think that's the right way to think about it.

On the interest charge and I should probably get Dawn to cover that.

A - Dawn Allen {BIO 20417710 <GO>}

Yeah I mean, I think on the interest charges, as we've talked before, half of the Primient debt is fixed and half is floating. So, as interest rates move up or down that will clearly impact the results. If you think about what's been happening with interest rates, in terms of interest rates going up, you're right, the Q4 -- assuming that stays the same, the Q4 run-rate we would expect to see as we move through the year, but I guess it also depends on what happens on interest rates. I think the other important thing to say on Primient. Primient is a cash-generative business and we saw that this year with the $76 million dividend that they paid for us.

A - Nick Hampton {BIO 18794378 <GO>}

And I think, Chris, your last question on CapEx, as you say, our guidance for this year is a little bit below our medium-term guidance and we'll continue to update you on that as the CapEx program evolves. I think we're still anticipating it stepping up to the levels that we talked about in our capital markets events beyond this year and we'll continue to reappraise that as we look at the demand for capacity and also some of the investments that are coming to improve our environmental footprint, so I would think about this as a -- stepping up to those -- that that medium-term guidance over the next few years is probably the best way to think about it and we'll give more color as the year evolves when we think more about next year.

Q - Chris Pitcher {BIO 2496733 <GO>}

Thank you.

A - Nick Hampton {BIO 18794378 <GO>}

So with that -- that was the last question. So, look, thank you everybody for watching and for all of your great questions. To summarize, it's been a year of strong performance. We continue to strengthen our scientific capabilities, build stronger solutions-based partnerships with our customers and we have repositioned Tate & Lyle right at the center of the future of food. Science, Solutions, and Society is the promise of the new Tate & Lyle and we are well placed to continuing to deliver our growth-focused strategy and five-year financial ambition.

So with that, thank you for your time today.