S1 2025 Earnings Call

Company Participants

- Nick Hampton, Chief Executive Officer
- Sarah Kuijlaars, Chief Financial Officer

Other Participants

- Alex Sloane, Analyst, Barclays
- Chris Pitcher, Analyst, Redburn Atlantic
- Damian McNeela, Analyst, Deutsche Numis
- Fintan Ryan, Analyst, Goodbody
- Joan Lim, Analyst, BNP Paribas Exane
- Karel Zoete, Analyst, Kepler Cheuvreux

Presentation

Nick Hampton {BIO 18794378 <GO>}

Good morning, and thank you for joining us for the presentation of Tate & Lyle's results for the six months to the 30th September 2024. I would like to start by offering Sarah a warm welcome to Tate & Lyle. I'm delighted she chose to join us and she takes on the role of CFO at an exciting time. In her first few weeks, Sarah is already making a significant contribution to the business. Sarah, welcome. And maybe you'd like to say a few words before we get to the presentation.

Sarah Kuijlaars {BIO 20542857 <GO>}

Thank you, Nick. And good morning, everyone. My first eight weeks with Tate & Lyle have been excellent and I'm delighted to be here. I've had an incredibly warm welcome from everyone and I've been really impressed by the talent, passion, and overriding commitment to our purpose of transforming lives through science of food of all the people I've met. I appreciate the last few months have been a very busy period and with the completion of the CP Kelco combination approaching, it's clearly a great time to join Tate & Lyle.

With my previous experience of integrating businesses, I have been very encouraged by the comprehensive and customer-focused approach of our CP Kelco integration plan. Importantly, the business is in a good financial position with a strong balance sheet and as the incoming CFO, this gives me real confidence.

I will come back to talk about the financial results later, but for now, over to you, Nick.

Nick Hampton {BIO 18794378 <GO>}

Thank you, Sarah. Before I get to the details of the presentation, I want to briefly reflect on what's been a momentous six months for Tate & Lyle. During this period, we completed the repositioning of the company as a fully focused speciality food and beverage solutions business and then took a major step to accelerate our growth-focused strategy with the announcement of the combination with CP Kelco. At the same time, our financial performance has remained strong. So, overall, huge progress and a very pleasing first half of the year.

The agenda for today's presentation is on the screen. I will begin with an overview of the first half. Sarah will run through the financial results and the outlook and then I will cover our strategic progress and the combination with CP Kelco. Finally, Sarah and I will be happy to take your questions.

I will start with three key headlines from the first half. Firstly, we delivered strong financial performance with strong volume and profit growth and excellent cash delivery. Secondly, we undertook a significant acceleration of our growth-focused strategy with the sale of Primient and the announcement of the combination with CP Kelco. And thirdly, our absolute focus on serving our customers continued to pay dividends as we saw an increase in both new product revenue and solution selling.

Let me expand on each of these areas starting with the financial highlights. As anticipated, we saw a return to volume growth with group volume up 6%. Also, as expected, revenue was lower, declining by 7% mainly due to the pass through of input cost deflation. EBITDA was up 6% and cash generation was excellent with free cash flow GBP48 million higher. Building on our track record of driving productivity improvements over recent years, we delivered a further $27 million of savings in the half.

As I said earlier, over the last six months, we have undertaken a transformational reshaping of the business. The sale of our former US-based commodity business Primient was completed in June and we then took steps to significantly accelerate our growth-focused speciality strategy with the CP Kelco combination. We have recently received regulatory clearance from all the relevant jurisdictions and are now in the final stages of completion which will happen in the next few days.

Science and solution selling are at the heart of our growth strategy and how we support our customers. So it was encouraging to see that new product revenue on a like-for-like basis was 10% higher and solutions' new business wins over the period increased to 22%. I recently returned from a trip to Asia where I was delighted to see a number of our customers products on the shelves containing solutions which have been in the pipeline during my visit last year. Seeing our solutions translate into commercial launches is really encouraging and a validation of our solutions approach and our strengthening customer relationships.

Having a positive impact on society is also very important to us, particularly by supporting healthy living through the use of our ingredients and expertise to improve the diets of people across the world. I am delighted that at the end of September and six months ahead of schedule, we met our five year target to remove 9 million tonnes of sugar from people's diets using our no and low-calorie sweeteners and fibers. That's the equivalent of 36 trillion calories.

So plenty to be positive about in the first half with strong financial performance and significant strategic progress.

I will now hand over to Sarah to talk through the financial results and the outlook. So, over to you, Sarah.

Sarah Kuijlaars {BIO 20542857 <GO>}

Thank you, Nick. I will now give you some more details about our financial performance. I will focus on adjusted measures while items with the centered growth will be in constant currency unless I say otherwise. The group delivered strong financial performance in the first half. As anticipated, we saw positive volume momentum and profit growth, delivering EBITDA of GBP188 million.

Financial and cost discipline are very important and I'm pleased to report that we continue to deliver good productivity savings and maintained a sharp focus on cost reduction. Cash generation was strong with free cash flow of GBP127 million and a cash conversion of 94%. We continue to progress our share buyback program of GBP215 million with GBP93 million of shares bought back in this half, representing about 43% of the overall program. We also continue to invest in long term growth, in areas such as innovation and solutions and Nick will talk more about this later.

We'll now look at the financial highlights. Group revenue was GBP775 million, 7% lower, mainly due to the expected pass through of input cost deflation. We delivered EBITDA growth of 6%, with EBITDA margin 290 basis points higher at 24.3%. EBITDA growth and lower finance charges drove profit before tax to GBP156 million, an increase of 11%. Earnings per share grew by 13%, benefiting from stronger earnings and fewer shares in issue due to the share buyback program. Finally, return on capital employed improved by 150 basis points to 18.5% and free cash flow was GBP48 million higher. So overall a strong set of results.

Moving now onto the performance of Food and Beverage Solutions and Sucralose. Food and Beverage Solutions delivered revenue of GBP631 million and EBITDA of GBP157 million. Volume grew 4%, benefiting from both our growth-focused approach to contract renewal for the 2024 calendar year and the end to customer destocking. Revenue was 8% lower, driven by the expected pass through of input cost deflation. Volume growth offset modest adverse price mix as we invested selectively in pricing to build stronger partnerships with targeted customers.

Looking at the performance of our three regions, in North America, revenue declined by 6%. We saw good volume gains in dairy and bakery while demand in the beverage category remained soft. In Asia, Middle East, Africa and Latin America, revenue was up 1%, underpinned by strong volume growth in all regions. In Asia, China delivered low double-digit volume growth with good growth in the beverage category. Middle East and Africa and Latin America both saw double digit volume growth. In Latin America, volume growth was led by strong performance in both Brazil and Mexico where pressure from lower priced imports from outside the region receded.

In Europe, revenue declined by 23%, reflecting the pass through of significant input cost deflation. Volume was broadly in line with stronger demand for beverage and soups, sauces and dressings mitigated by softer demand in infant nutrition. EBITDA grew by 3%, benefiting from higher volume productivity savings and cost discipline. Margins continued to expand. Since September 2022, EBITDA margins have improved by 390 basis points to 24.9%. This is driven by our focus on mix management and solution selling in addition to our successful navigation of the recent cycle of inflation and deflation.

Now let's focus on Sucralose. This is a cash-generative business and is being managed to deliver attractive returns. Volume was 20% higher, benefiting from some customer orders brought forward into the first half. In addition, we delivered modest production optimization at our facility in Alabama. Revenue climbed 17% despite customer mix, leading to a modest decline in average pricing. With strong control of input costs, this led to EBITDA increasing by 23% to GBP33 million.

So how does productivity fit into this? We delivered $27 million of productivity savings in the half, with $17 million from operational and supply chain efficiencies and the remainder from other cost savings, including SG&A. Operational efficiencies come from across the business with particularly strong savings from yield improvement projects. For example, in the US, at our Sagamore facility in Indiana, process improvements increased co-product yields leading to $1.4 million of annual savings. In our Sucralose facility in Alabama, energy costs were reduced and yields increased, saving $600,000 a year. Meanwhile, at our Koog facility in the Netherlands, installing different types of milling plates helped to increase the amount of starch we can extract from our corn, generating $300,000 of savings a year. Productivity and cost discipline remain key areas of focus in the combined business as we move forward.

So pulling this all together, Food and Beverage Solutions increased EBITDA by 3% or an underlying growth of GBP4 million. Sucralose saw an increase in EBITDA of GBP6 million and in Primary Products Europe, EBITDA improved by GBP1 million, reducing losses GBP2 million. Overall, this led to an increase in adjusted EBITDA in constant currency of GBP11 million or 6%. Foreign exchange negatively impacted EBITDA by GBP3 million and took EBITDA for the half year to GBP188 million,

Moving to Slide 15, exceptional items tax and the interim dividend. Looking at exceptional items first, net pre-tax exceptional charges was GBP7 million, all of which related to restructuring costs to drive organisational improvements and productivity benefits. This translated into a total exceptional cash outflow of GBP10 million. The adjusted effective tax rate for the year was 21.6%, which is in line with the comparative period. Looking ahead, we expect the adjusted effective tax rate for the year ending 31 March 2025 to be in line with the full year effective tax rate for the prior year of 21.1%.

I am pleased to announce that the Board has declared an interim dividend of 6.4 pence per share, an increase of 0.2 pence per share. This reflects our approach of paying interim dividends equivalent to one-third of the prior year's full year dividend. The Board continues to operate a progressive dividend policy.

Following the sale of our remaining share of Primient in June 2024, it is now treated as discontinued operations in our results. We received $350 million in cash for our remaining stake, representing an EV EBITDA multiple of 6.5 times ahead of that achieved at the initial disposal in 2022. Our share of profit for the period prior to disposal was GBP9 million. In addition, we recognised a post-tax profit on disposal of GBP85 million.

Moving now to free cash flow. Adjusted free cash flow was GBP48 million higher at GBP127 million, driven by GBP41 million improvement in net working capital. Cash generation also benefited from the timing of tax payments which are expected to be weighted into the second half. Cash conversion was strong at 94%, a 25 percentage points increase on the comparative period. Cash generation remains a priority and while I expect cash conversion to be slightly lower for the full year, naturally, our aim is to consistently exceed our target of 75%.

Consistent with our focus on increasing return on capital employed, we continue to invest in attractive long-term growth projects with capital expenditure of GBP50 million, up GBP4 million. This includes projects to add capacity for our CLARIA clean label starches and our PROMITOR fibers in Europe. And to increase packing capacity at our specialty starch facility in Indiana. For the 2025 financial year, we still expect capital expenditure to be in the GBP100 million to GBP120 million range.

Let us now turn to our cash and borrowings position. We ended September with a net cash position of GBP39 million, an improvement of GBP192 million. This was driven by two factors. First, strong cash generation and second, the proceeds from the Primient disposal net of the amount returned to shareholders. Together, these amounted to GBP184 million. You will recall that we initiated the share buyback program in June and at the current rate, we expect it will be complete by the end of the 2025 financial year.

Before I come to the outlook, I'd like to share a few words on the market environment and what we currently expect to see in the second half. We're seeing a modest improvement in consumer sentiment, with this improvement at a slower rate than we expected at the start of the financial year. We continue to see a variation in conditions across our local markets, reflecting their different macroeconomic environments. The key for us is to stay agile, to capture pockets of profitable growth, and that is what we are doing. We are seeing improving customer demand for innovation, not only for new products, but also product renovation and cost optimization projects.

Looking into the second half, we expect volume growth to accelerate, the impact of input cost deflation on revenue to reduce, the phasing of orders in Sucralose to largely unwind, and a continued delivery of productivity benefits. This leads us to confirm that our outlook for standalone Tate & Lyle for the year ending 31st of March 2025 is unchanged. We continue to expect to deliver in constant currency, revenue slightly lower than the prior year, and EBITDA growth of between 4% and 7%.

This has been an encouraging first half for Tate & Lyle, especially given we are still operating in a cautious consumer environment. We saw positive volume momentum and delivered strong profit growth and cash flow. Food and Beverage Solutions continues to strengthen its high speciality EBITDA margins now at 24.9%. And we continue to invest to support our customers, grow our solutions business and drive productivity.

The share buyback program is continuing. We remain committed to maintaining a robust balance sheet and have a clearly communicated capital allocation policy. And I reiterate, the outlook for standalone Tate & Lyle for the full year is unchanged.

As we look ahead to our new future, it's pleasing to see that CP Kelco performed as expected in the six months ended 30 September 2024 with volume well ahead and revenue ahead of the comparative period. Volume and revenue both gained momentum as the period progressed. The performance of both Tate & Lyle and CP Kelco give me real confidence that we have a firm foundation on which to build our combined business in line with our growth-focused specialty strategy and crucially to deliver long-term value for our shareholders.

And with that, let me hand you back to Nick.

Nick Hampton {BIO 18794378 <GO>}

Thank you, Sarah, and once again welcome to the team. I'm now going to give you a brief update on our strategic progress and then talk about the CP Kelco combination.

A few days ago we announced a new partnership with Manus, a leading US based bio alternatives platform to expand our customer offerings for sugar reduction solutions. The first ingredient to be introduced through this new partnership is stevia Reb M, the highest quality stevia available to the market today. Manus operates the only large scale stevia bio-conversion facility in the US. Its entire supply chain from stevia leaf to the final product is within the Americas, providing enhanced supply security for customers. The partnership adds stevia Reb M growth capacity and further strengthens our leading sweetening platform. We are already seeing strong interest from customers. Looking ahead, the combination of Manus' sourcing and manufacturing capabilities with our sensory applications and go to market expertise also paves the way for the development of more innovative new sweetening solutions in the future.

As well as new partnerships, we are also investing in new technology to enhance our solution offerings to customers. Last month, we opened our new Automated Laboratory for Ingredient Experimentation, also known as ALFIE, at our Customer Collaboration and Innovation center in Singapore. This is the first time this technology has been used in the food industry. ALFIE represents a revolution in the delivery of mouthfeel solutions for customers, providing significantly faster and more accurate solutions design and accelerating speed to market.

Representing a multimillion pound investment in innovation and with its pioneering use of automated robotics, ALFIE provides enhanced predictive modeling capabilities and has the ability to run characterization tests at more than 10 times the current rate. It also drives productivity through automation of routine tasks, which frees up our scientists to focus on what matters most, innovation for our customers. ALFIE's ability to analyze vast amounts of data at great pace enables us to rapidly create new mouthfeel solutions for customers and to further benefits from the leverage of AI in developing new customer solutions. The simultaneous addition of CP Kelco's leading product portfolio and the launch of ALFIE reinforces our position as our customers partner of choice for mouthfeel solutions.

Sustainability is both a core part of our customer offering and central to how we live our purpose. In the first half, we took a number of concrete steps to deliver on our climate ambitions and to progress our Science Based Targets to reduce greenhouse gas emissions in line with the 1.5 degree trajectory. We entered into three new agreements for renewable electricity and associated renewable energy credits which together now cover 100% of the purchased electricity used by our manufacturing operations globally. On an annual basis this will reduce our Scope 1 and 2 emissions by more than 25% from a 2019 baseline. This is good for us, good for the environment and importantly, good for our customers who will benefit from the decarbonization of our business and the resulting lower carbon footprint of our ingredients.

Moving now to the exciting combination with CP Kelco. Since we announced the combination in June, the response from customers has been extremely positive. They can clearly see the opportunity of the combined portfolio to provide them with broader innovation and solutions capabilities. Their response reinforces our belief that the combination will significantly enhance our customer proposition and deliver attractive value for shareholders.

Let me remind you then of the compelling strategic rationale for the combination. The combination with CP Kelco strengthens our position as a leading and differentiated specialty food and beverage solutions business. It creates a leadership position in mouthfeel, strengthens all our core platforms and categories, significantly enhances our customer solutions offering and helps accelerate R&D and innovation. Importantly, it is also expected to drive stronger financial performance over the next few years. All of this is underpinned by shared purpose, values, and culture and a common belief in progressing our joint commitments to science, solutions and society. The more time we have spent with the CP Kelco team during integration planning, the more evident our shared purpose, culture and belief in the combination have become.

Let me talk briefly to each of these areas, starting with the CP Kelco portfolio. CP Kelco's leading plant based portfolio makes it very well placed to benefit from growing consumer preference for healthier and cleaner label products. Pectin is a key ingredient in many clean label solutions, while CP Kelco's highly functional speciality gums are frequently used by customers to tackle gelling, thickening, and stabilization challenges. Citrus fiber, one of its newer clean label ingredients, is used to add nutrition to an increasing number of consumer products.

Mouthfeel, or how a food feels in the mouth, is a critical unlock for customer solutions. By bringing together a highly complementary speciality corn and tapioca food starches with CP Kelco's pectin and specialty gums, we will create a leader in mouthfeel solutions. CP Kelco's portfolio and expertise will also provide additional functionality when sugar reduction and fortification solutions are required.

The combination of our two portfolios and our deeper expertise across the intersection of sweetening, mouthfeel and fortification means we will be able to provide customers with a much broader range of solutions across our four categories and help them meet growing global consumer demand for healthier, tastier and more sustainable food and drink. The combination will also significantly deepen our category capabilities with target customers. There is considerable category overlap with the revenue of both businesses predominantly focused in the same four core categories of beverage, dairy, soup, sauces and dressings, and bakery and snacks.

This highly complementary offering not only strengthens our existing category expertise but also opens up new growth opportunities across a number of subcategories and customers. In addition, both companies have world-class scientific knowledge and know how. The combination of our expertise in bioconversion, fractionation and separation science and CP Kelco's expertise in fermentation and extraction will open up new opportunities and help us develop the next generation of plant-based ingredients and solutions.

Bringing this all together, let me give you one example of a solution we are developing that demonstrates the strength of our combined business for customers. Gummies are increasingly being fortified to deliver essential vitamins for children and adults. However, people desiring healthier and more sustainable diets can be put off eating gummies by the presence of ingredients such as sugar and gelatin. Bringing together CP Kelco's deep scientific knowledge in areas such as rheology which looks at the texture and the firmness of products, and our expertise in areas such as sweetening and sensory science, we've been able to produce a solution that is not only sugar and gelatin free, but when tested was overwhelmingly preferred by consumers. This is the power of the combination, enhanced solutions for customers and healthier and better tasting products for consumers.

Looking now at the financial aspects of the combination. The combination will deliver stronger financial returns. Group revenue growth is expected to be towards the higher end of our existing 4% to 6% five year ambition. On EBITDA, we expect the combined business will drive significant adjusted EBITDA margin improvements. This will come from the delivery of targeted run rate cost synergies of $50 million, a phased recovery in the profitability of CP Kelco and margin accretive solution selling.

Since we announced the combination in June, a dedicated joint integration team has been working to prepare a detailed and comprehensive integration plan. This team, which is being led by Andrew Taylor, our President of Asia, Africa, Middle East and Latin America, is focused on three main priorities. Firstly, our customers. Ensuring we continue to serve them seamlessly and demonstrate the significant benefits of the combination for them. Secondly, our people. Establishing the new organization, building a culture that is ambitious, agile and customer obsessed and communicating clearly with our people about the integration process and their role in the new organization. And thirdly, performance. Ensuring delivery of our targeted synergies and financial commitments.

To ensure we continue to serve our customers and allow time for our people to move into their new roles, we will be transitioning into one business between completion and the 31st March of 2025. In that period, CP Kelco will operate as a separate business unit within Tate & Lyle. Then, from 1st of April 2025, we will operate as one business. The combined business will be called and branded Tate & Lyle.

From the 1st of April 2025, we will also have a new reporting framework. We currently anticipate this will be on a regional basis and more information will be provided in due course. On completion, a new Executive Committee will lead the combined business. This new leadership team, which draws upon the experience and skills of both Tate & Lyle and CP Kelco, will include new roles focused on delivering our key priorities.

Andrew Taylor takes on the position of Chief Commercial and Transformation Officer, with responsibility for delivering the integration plan, including cost and revenue synergies. Didier Viala, the former Chief Executive of CP Kelco, becomes Chief Solutions Development Officer, charged with strengthening our solutions offering for customers. Jerome Bera, also from CP Kelco, takes on responsibility for the newly formed Europe, Middle East and Africa region. And finally, Remington Zhu, previously our General Manager in China, joins the leadership team as President Asia Pacific to help drive further growth in this key region.

As we said in June, I now believe even more strongly having spent the last three months planning the integration, the combination is a perfect fit and will accelerate our growth strategy. The combination of our specialty portfolios makes us a leader in mouthfeel solutions and significantly strengthens our platform and category offerings. We will be far stronger as one business and together we believe we can create significantly greater value for our customers and our shareholders.

In summary, I am delighted with the progress we are making and excited about our future potential. We delivered strong financial performance in the first half. Our customer obsession is driving growth in innovation and solutions and we continue to invest in new partnerships and technology. With the CP Kelco transaction closing in the next few days, we are fully focused on driving the benefits of the combination for our customers, our employees and our shareholders.

Over the last two years, we have taken a number of significant steps to reposition Tate & Lyle right at the centre of the future of food, focused on creating solutions that meet growing consumer demand for healthier, tastier, and more sustainable food and drink. With the CP Kelco combination, we believe this position has been further strengthened. Looking ahead, the combined business with its leading positions across sweetening, mouthfeel, and fortification, deep scientific and solutions expertise and unrelenting focus on the customer creates a strong platform from which to accelerate delivery of our growth-focused strategy and create long-term value for shareholders.

It's been a very busy last six months and I am so proud of all of our teams across the world whose dedication and commitment have been instrumental in delivering both a strong set of financial results and a major strategic transformation. I am very grateful for all their hard work and for living our purpose with such passion and belief. For their support, I am truly grateful.

Good morning, everyone, and thank you for joining today's half year results presentation. We are now into the live Q&A. As Sarah and I said in the pre-recording, we delivered strong performance in the first half with strong volume and profit growth and excellent cash delivery. The combination with CP Kelco, which we are targeting to close next Friday, accelerates the repositioning of Tate & Lyle as a leading specialty business, enabling us to create solutions that meet growing consumer demand for healthier, tastier, and more sustainable food and drink.

Questions And Answers

A - Nick Hampton {BIO 18794378 <GO>}

Turning now to your questions. And the first question comes from Damian McNeela at Deutsche Numis. Damian, good morning. Damian, are you there?

Q - Damian McNeela {BIO 15992231 <GO>}

Yeah, sorry. Morning everybody. Struggling to unmute.

A - Nick Hampton {BIO 18794378 <GO>}

That's okay, no worries.

Q - Damian McNeela {BIO 15992231 <GO>}

Yeah, thank you for the question. So the first one is CP Kelco related and it's pretty clear that you spent a lot of time working through the sort of the organization post integration. I was just wondering whether you could give us any reflections on the current targets around cost synergies and revenue synergies and how confident you are in achieving those now versus when you initially announced them and whether we could sort of maybe expect those to increase in time.

And then secondly, on CP Kelco, could you talk about the phasing of the profitability improvement there and how that's going at the minute?

And then my last question is just around, guidance has been maintained sort of for EBITDA growth. You delivered 6% in the first half. From what I understand, FBS is going to see improved volumes, improved productivity in the second half. What are the bits that we're missing around why the second half may not be sort of allow for sort of a beat to that sort of guidance?

A - Nick Hampton {BIO 18794378 <GO>}

Okay, thanks, Damian. Let me take each of those questions in turn. I'll maybe ask Sarah to comment on her first impressions as well on the whole process of integrating CPK. So as you rightly say, CPK, critical part of the future of the business. We've repositioned Tate & Lyle in the last six months quite significantly. We completed the exit of Primient and as a result of that initiated the share buyback program, which ultimately will lead to us giving back around about GBP1 billion to shareholders in share buybacks and dividends over the last three years. And then of course CPK comes along to really help us accelerate our growth strategy. And as we said when we announced the transaction, it would help us accelerate top line growth and deliver significant synergy benefits on top of our normal profit delivery.

As we've been through the integration process in the last three months, doing the planning as a joint team, there's nothing that's changed our view on the potential of the transaction. You are very positive about what we're seeing, you are very positive about what we're seeing in the performance of both businesses. And at the current time, the synergy targets that we laid out are the ones that we're planning to go and deliver through the integration.

Now, you remember that we haven't started the integration yet. As I said earlier, we're going to start the integration effort with real intent when we close the transaction next week. And that's going to focus on three things. The first thing we're going to focus on is our customers. So making sure we serve our customers well through the transition and then also demonstrating to them the power of the combination in terms of becoming a better partner with them. The second thing we'll focus on is our people and making sure our people are very clear about their role in the organization going forward and indeed excited about driving the growth that the transaction allows us to deliver. And the third thing we're going to focus on is delivering on our performance commitments. And that includes the synergies.

And we said we're going to deliver cost synergies of $50 million phased over the first two full years of the transaction. That's still our intent and we're very confident in that. And then we've got revenue synergies on top of that. So that's really the sort of headline on where we are on the whole transaction and targets in terms of the phasing of profitability. Very encouraged with what we've seen in terms of CP Kelco performance in the first six months of our financial year. Return to volume growth, revenue growth, stabilization of margins, what we expected to see. And we said when we announced the transaction that we would look to return to normal margin levels in CP Kelco over the first two to three to four years. And that's still our intent. Phased improvement over the first three to four years of the transaction. And as I said, we're going to get into the real guts of that as we close the deal next week. And we'll continue to update you as we progress.

In terms of guidance for this year, very encouraged with the first half performance. However, there are a couple of things that we just need to bear in mind as we think about going into the second half. The first is, we're going to see a little bit of an unwind of the Sucralose strength in the first half. We're very positive about the Sucralose business, but we did see some volume shift into the first half. And secondly, we just want to see how the year end complete and how the pricing round for next year evolves. So we're very confident about the guidance we've given. As you said, we're probably slightly ahead of where we thought we might be at the half year and therefore, that gives us confidence in reiterating that guidance for the full year.

So before we take the next question, Sarah, maybe initial reflection on what you're seeing on the CP Kelco deal.

A - Sarah Kuijlaars {BIO 20542857 <GO>}

Thank you, Nick, and good morning, Damian. So, coming into the organization, I think it's great to see the focus of the leadership team and the integration team on the implementation plan and they've done a great diligent job, very detailed planning and we really look forward to putting that in practice in the near-term. And it's great, given I've got experience elsewhere in international implementation plans with complex geographies to how I can contribute to the delivery of the team to ensure absolutely that we deliver those cost synergies as promised.

A - Nick Hampton {BIO 18794378 <GO>}

Thanks, Sarah. So, all good for you, Damian?

Q - Damian McNeela {BIO 15992231 <GO>}

Yeah, all good. Very clear. Thank you very much.

A - Nick Hampton {BIO 18794378 <GO>}

So our next question comes from Karel at Kepler. Karel, good morning.

Q - Karel Zoete {BIO 4452327 <GO>}

Yes, good morning and thanks for taking the questions. I've a couple of questions, start with CP Kelco as well and the outlook for pectin and cost. As we see quite some issues in the global orange supply chain, could that affect cost going forward? Is this relevant for the business or hardly?

Then the other question is on the regional differences in terms of performance for FBS that seems fairly significant, but of course you mostly report an H1 trend. So if you have a bit more granularity, particularly what you're seeing in the US market in the second quarter, please. Thank you.

A - Nick Hampton {BIO 18794378 <GO>}

Sure. Both good questions. Firstly, on CP Kelco and pectin, you rightly point out that there have been more challenges with citrus crops this year than previous years, including orange. The good news is that effectively pectin comes from the byproduct of the orange industry, so it comes from the peel. And we're a relatively small user of orange peel in the grand scheme of things. So we're not seeing anything significant in terms of supply issues or cost on pectin raw materials as we start to look at the future of the business. So nothing to be too concerned about.

In terms of regional differences on the business. I'll maybe get Sarah to give you a little bit of the detail on a region by region basis. But in general what we're seeing across the world is a modest improvement in consumer sentiments. And obviously as we've exited the destocking phase of last year, we're therefore seeing some encouraging volume growth. In the Northern hemisphere, relatively stable consumer demand. I would say, North America more positive than Europe. And then when you go around the rest of the world, it's obviously a mixed picture. We're seeing good strong demand in Asia, ex-China. Although we are seeing volume growth in China. And then Latin America, it varies market by market, as always does, with strong performance in Mexico.

I don't know, Sarah, whether you want to give a little more color on North America, because I think it was specifically the question that Karel asked.

A - Sarah Kuijlaars {BIO 20542857 <GO>}

Thank you, Nick, and good morning, Karel. So I think maybe to draw that out a bit. So I think indeed we see in, as Nick mentioned, there we're seeing different levels of growth in different geographies, but in North America in particular, we've seen more pressure in beverage, but real strength in bakery and dairy. Whereas, say, in China, where we are seeing volume growth, we've seen good momentum in beverage. So I think where we've been, we've been able to be agile and adapt to some of those growth pockets. And that's what we continue to do in the second half.

A - Nick Hampton {BIO 18794378 <GO>}

And I'd probably add one last point to that, Karel, as well, which is when we look at our business on a global basis, it's becoming more diversified over time, by category-by-category and then within specific categories, the key is to focus on growth subcategories. And that's what we've been quite successful in doing over the last few years as we talked about. And with the CP Kelco combination, that gives us more diversity as well. So it's encouraging -- the portfolio is sort of broadening as we evolve the business.

Okay. So let's move on then to our next question which comes from Joan Lim at BNP Paribas. Joan, good morning.

Q - Joan Lim {BIO 17002696 <GO>}

Morning. Three questions for me, please. So just on volumes, you talked about what you've seen so far, but how about trends by region in October and November? Just trying to get a sense of what gives you that confidence in volume acceleration in H2. And then my next question is, in the context of rumored recent PE interest in Tate, what do you think private equity sees in Tate the equity market is missing? And my last question is, I saw that Didier, the former Chief Exec from CPK will be Chief Solutions Development Officer. Can you provide some insight into what he will do in his new role and why he was selected for this role? Is it because you're bringing solution sales to CP Kelco? Just a bit more color will be helpful. Thank you.

A - Nick Hampton {BIO 18794378 <GO>}

Okay. So let me maybe take your last two questions first and give Sarah the opportunity to talk a bit more about volumes, which we did see accelerated in the second quarter versus the first quarter by the way. So on PE interest, look, it's not for me to speculate on market rumors or what PE sees in our business. I'll tell you what I see in our business. I see a business with massive growth potential. The combination with CP Kelco really cements our position at the forefront of sweetening, mouthfeel, and fortification, right at the center of where food is going. And we're seeing that in the increased interest from customers in terms of solutions and formulations.

So I was in Asia for a couple of weeks in October and it was really encouraging to see that the solutions that we were campaigning to our customers in Asia 12 months ago are now in customer products across multiple categories, beverage, dairy, soup, sauces and dressings, and bakeries. So what we're doing is really working in terms of driving growth and you can see that flow through into the financial performance of the business. So we're just focused on executing that strategy and delivering strong performance and value for shareholder -- values for shareholders and that's the potential of the business that I see.

In terms of Didier, look, I'm delighted Didier is joining the management team. He's got 30 years of experience in the industry. He brings huge knowledge of the CP Kelco business, huge knowledge of our customer base because of the overlapping customer base. And his role is going to be to lead our platform teams and generate the solutions ammunition to go and win with customers in the market. And bringing a fresh perspective from a new business into the Tate & Lyle platforms can only help us get better at what we do. So the combination of the two businesses and Didier's role is a real example of the power of and, and I'm delighted that Didier is going to be helping us with the mouthfeel strategy that strengthened because of the combination of the two businesses and then how that impacts both our sweetening and fortification platforms and how we create more powerful solutions for customers.

Your first question was about volumes and confidence in the second half, which I'll let Sarah cover.

A - Sarah Kuijlaars {BIO 20542857 <GO>}

Thank you, Nick, and good morning, Joan. So I think firstly it's worth highlighting the returning to volume growth in the first half is really positive. I mean, what we see from quarter one to quarter two, an acceleration of that volume growth, which gives us confidence for H2. And then maybe it's worth highlighting as well, reminding you that Q3 last year was quite weak. So when we look at comparatives, that's going to help us and give us that momentum going into the full year. But also it's worth reminding you that there's a balance here between volume, margin and revenue. So I also want to draw your attention to EBITDA margin and how that has expanded over time. And we've grown some 390 basis points over the last two years. So a really positive trend.

A - Nick Hampton {BIO 18794378 <GO>}

Thank you. So, our next question comes from Fintan at Goodbody. Fintan, good morning.

Q - Fintan Ryan {BIO 17719503 <GO>}

Good morning, Nick. Morning, Sarah. Two questions for me, please. Firstly, maybe following on from one of the previous questions, I'd like to understand the volume dynamics and sort of underlying demand that you're seeing in China. Specifically, a number of FMCG companies clearly are having softer time in that market. But would be interesting to sort of hear your perspectives and like the outlook for your volumes in that market going forward. And then finally, just given the time of year, would you give any perspectives on how you're expecting the upcoming pricing rounds to go sort of based on where commodity prices are and other moving parts?

A - Nick Hampton {BIO 18794378 <GO>}

Sure. So let me pick up on both of those. So on volume dynamics in China, look, we've seen positive momentum in China in the first half. We've seen good volume growth, which is very encouraging. However, I would say that the consumer sentiment in general in China is more muted and the balance between volume and price and maintaining that right balance is the key for us in China at this point. And we're not expecting to see a huge improvement in consumer sentiment in the near-term, at least based on my visit there last month, but positive to see good volume momentum nevertheless.

In terms of the pricing round for next year, it's very early and we're seeing more stability in input prices coming in. So, there's some modest deflation in some input prices, some inflation in others, but not a significant move either way. So we're focused on the same things we're always focused in as we go into the pricing round, which is how do we drive volume and revenue growth in a way that maintains margins and the progress we're making on the business. That's true across both Tate & Lyle and CP Kelco. It's actually a bit early in the contracting round to give you a precise answer on how that's going to evolve. As always, we'll give you a clearer view on that when we get through the pricing round into the first quarter of the calendar year, next year.

Q - Fintan Ryan {BIO 17719503 <GO>}

Great, thank you very much.

A - Nick Hampton {BIO 18794378 <GO>}

And our next question comes from Chris Pitcher at Redburn. Chris, good morning.

Q - Chris Pitcher {BIO 2496733 <GO>}

Good morning, Nick. Good morning, Sarah. A couple for me as well. On Sucralose, it always amazes me that a business that's supposedly capacity constrained can muster 20% volume growth. I'm assuming a decent amount of that must have come from inventories. And therefore, if we see an unwind in the second half, was that gain the benefit we've seen on the balance sheet of inventories? Is that largely rundown of Sucralose. So you might get a negative working capital effect in H2.

And then on your previous acquisition Quantum, I know you mentioned softness in demand in infant nutrition. Can you give us a bit more color about which markets that was in and then how has Quantum progressed since you acquired it, the $50 million sales, et cetera? The reason I ask is, have you -- what have you -- I appreciate it's a very different deal in different jurisdictions, but is there anything you've learned from Quantum that could help and give you greater confidence on CPK integration? Thanks.

A - Nick Hampton {BIO 18794378 <GO>}

Sure. So let me take Sucralose to start with. And you're right, of course, a proportion of the sales growth or volume growth in the first half did come from inventory, and some of that inventory we will look to rebuild in the second half. But it actually doesn't have a significant impact on our working capital, to be honest, in the grand scheme of things. But the balance that you describe is accurate. And we're still expecting to see some volume growth in Sucralose in total this year, somewhere in the mid-single-digits.

On Quantum and Sarah and I both visited Quantum last month and it was my second visit, in fact my third visit, but my second visit since last year. And I'm very encouraged to see the progress on the integration versus where we were 12 months ago, it's fully integrated into Tate & Lyle. And we saw good volume growth in Quantum in the first half. So you're right, there was some weakness in infant nutrition in China because this is very much a China-for-China business. But we're finding other pockets of growth. And the team are doing a great job of laying out a more diversified strategy for FOS and GOS business that will of course include global demand as well.

So we learned a lot about that business in the last 12 months. We've learned a lot about integrating businesses in multiple jurisdictions, which will play well into the integration with CP Kelco. And the future of Quantum looks very positive to be based upon what we saw only last month. I don't know, Sarah, you were there as well, so you can maybe give some first impressions on that.

A - Sarah Kuijlaars {BIO 20542857 <GO>}

Yeah. Thanks, Nick. So, I think -- good morning, Chris. So I think it was obviously a great experience for me to visit the site and the real commitment on site for HSE, keeping our people safe, but actually thinking about how we are delivering this product to the customers and understanding the pockets of growth and where we can really play into that.

A - Nick Hampton {BIO 18794378 <GO>}

So hopefully that helps, Chris?

Q - Chris Pitcher {BIO 2496733 <GO>}

Yeah, very good. I mean, just so you're on track for acquisition targets, et cetera, it looked like you had decent headroom to goodwill in the balance sheet at the end of last year. So that's all tracking on plan.

A - Nick Hampton {BIO 18794378 <GO>}

Yeah, all tracking well. And much more positive than 12 months ago as well, which is good.

Q - Chris Pitcher {BIO 2496733 <GO>}

Great. Thank you.

A - Nick Hampton {BIO 18794378 <GO>}

So, moving on then, our next question comes from Alex Sloane at Barclays. Alex, good morning.

Q - Alex Sloane {BIO 21961825 <GO>}

Yeah, morning. Thanks for taking the question. I've got three, if that's okay.

A - Nick Hampton {BIO 18794378 <GO>}

Okay.

Q - Alex Sloane {BIO 21961825 <GO>}

Firstly, just -- actually, just following up on the Sucralose, I appreciate you've had sort of order swings before in the past, but this one seems pretty marked 20% in H1 and you said, I think up mid single digit for the full year. So just wondering, is that one customer, is that many customers? And what do you think is behind that? Is there any geopolitical considerations at play here.

The second one would be on customer mix. We've heard from a lot of peers, they've seen stronger growth from local and regional customers this year versus multinationals. Is that something you've also seen with Tate at FBS? And could you remind us the mix at CP Kelco of local and regional versus multinational? That would be great.

A - Nick Hampton {BIO 18794378 <GO>}

Okay. So on sucralose, it's the impacts of some strong pull for a number of our global enterprise accounts is what's driving it and as you rightly say, it is probably a little bit more extreme than we've seen in previous halves. It's primarily driven by strong demand for sucralose growth globally. So it's still the fastest growing non-nutritive sweetener out there because it's the best tasting and that's the positive undertone behind the strength we saw in the first half.

Whether there are any geopolitical factors impacting that is very difficult for me to comment on. I mean, clearly sucralose, as the only non-Chinese manufacturer of sucralose, we benefit from being manufactured and sourced out of North America. And in the current geopolitical environment, that's a real strength for the brand. But our business has many strengths beyond the US location, our ingredient reputation management, quality and food safety standards, level of consistent service. So that's the whole wraparound why our Sucralose business is so important and stable for us. And it was really driven by strong GA demand is the summary.

In terms of customer mix, as always with our business, it varies market by market. We're more -- we've got more focused on the bigger global accounts in the Northern Hemisphere. Local accounts are more important in Asia and Latin America. So it's quite difficult to give you a precise answer to that question.

And then on the CP Kelco question, in terms of mix, we don't have a clear view of their customer mix yet. Because of the listing rules, we're not allowed to get into customer by customer discussions with them until we close the transaction next week. So we'll have a much clearer view on that when we talk about the progress we're making on integration next time round.

Q - Alex Sloane {BIO 21961825 <GO>}

Thank you.

A - Nick Hampton {BIO 18794378 <GO>}

Okay, thanks, Alex. I think that's the end of all the questions. So, look, thank you to everyone for watching and for all of your excellent questions. In summary, as we said, we delivered a strong performance in the first half, strong volume and profit growth, and excellent cash generation. We continue to progress our growth-focused strategy as we said, and the CP Kelco combination will close in the next few days. In fact, we're targeting next Friday, so we're really well placed to crack on with that integration. And because of the repositioning of the business, we're really well placed to benefit from the longer term trends we're seeing towards healthier, tastier, and more sustainable food and drinks. So we're very positive about the future of the business.

With that, thank you for your time today and I hope you all have a very good day.

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