Q3 2024 Sales and Revenue Call

Company Participants

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

Other Participants

- Alex Sloane, Barclays
- Damian McNeela, Numis
- Joan Lim, Exane BNP Paribas
- Karel Zoete, Kepler Cheuvreux
- Lauren Molyneux, Citi
- Patrick Higgins, Goodbody

Presentation

Operator

Good morning, and welcome to the Conference Call for Tate & Lyle's Q3 Trading Satement. Your speakers today are Nick Hampton, Chief Executive, and Dawn Allen, Chief Financial Officer.

I will now hand over to Nick Hampton for some opening remarks.

Nick Hampton {BIO 18794378 <GO>}

Thank you, operator. Good morning, everyone, and welcome to Tate & Lyle's third quarter conference call. I will make some brief introductory comments, and then Dawn and I will be happy to take your questions.

The group continued to deliver resilient performance in challenging market conditions. We continue to make good strategic progress with further new product momentum and a continued increase in investment in solution selling and innovation. Importantly, productivity, cost discipline, and cash delivery remain strong.

In Food & Beverage Solutions, volume and revenue were lower in the quarter, with revenue down 3%. This was due to softer consumer demand and customer destocking, reduced inflation pass-through, and some customers phasing orders into the fourth quarter, when new calendar year contracts, which included the pass-through of input cost inflation -- deflation, came into effect.

Sucralose delivered an improved performance in the quarter. The renewal of customer contracts for the 2024 calendar year is expected to deliver a sequential improvement in volume growth as the year progresses. It's encouraging that with these new customer contracts in place and the phasing of some customer orders from December, we saw good volume growth in January.

Turning to the outlook for the year ending 31 of March 2024. In constant currency, we expect to deliver revenue slightly lower than the prior year, with our EBITDA guidance unchanged, growth of between 7% and 9%. We also continue to expect stronger profits from our minority holding in Primient.

With that, I will open up the call for questions.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) And our first question comes from Patrick Higgins from Goodbody. Please go ahead.

Q - Patrick Higgins {BIO 17720947 <GO>}

Thank you. Morning, everyone. A couple of questions on my side. Maybe firstly, I suspect it's too early to speak more generally about the 2025, but could you maybe speak about your engagement with customers, whether it's in terms of innovation or promotional activity to try and kind of reinvigorate consumer demand? And the second question, maybe could you just talk about FB&S's performance by region as well, please?

A - Nick Hampton {BIO 18794378 <GO>}

Sure. Thanks, Patrick, and good morning. I mean, as you say, a little bit early to talk too much about this calendar year, although encouraging signs of progress in January and the early part of the year. I mean, what we're seeing generally from customers is an increasing focus on starting to think about innovation and promotional activity. We're seeing some early signs, especially in Europe. You saw a little bit of that in quarter three. And I mean, there's no doubt that in general, fueling consumer demand as deflation starts to help is clearly a focus for many food and beverage players at the moment. And when we talk to them about innovation, your innovation is both about consumer innovation to drive new demand, but also cost-effectiveness to help fuel demand through better pricing. And I suspect that'll be a theme for this year as we see deflation start to impact overall inflation and costs in the market. And of course, deflation is helpful for us, it's helpful for consumers, and it's helpful for our customers.

In general, to your question on spinning around the regions, I mean, basically in quarter three, we saw conditions very similar to half one. That's probably the key statement. And really, the difference in the revenue momentum was driven by -- primarily, by a change in inflationary impact on pricing, and to a certain extent by some of the phasing between December and into January. So no real significant change in overall momentum. But if you sort of spin around the world, in North America, pretty consistent retail trends in quarter three. Obviously, everybody is waiting to see what happens to the U.S. economy this year.

In Europe, as inflation started to come down, we did start to see a little bit of increase in promotional activity. And it will be true that coming into the start of this year, we're seeing a little bit of improved momentum in Europe. If you look at Asia, China remains soft in quarter three. We're just analyzing the outcome of the New Year holiday period, and that's more encouraging from an outlook perspective. There were record levels of travel in China over the holiday period. First time there was an increase since '19. And we saw some increase in consumer demand through that period. And across Southeast Asia, more generally, things remained relatively robust in quarter three. And we're seeing good engagement with customers in our new facility in Indonesia, for example.

And in Latin America, we're starting to see the macro environment improve a little bit. So I'd say overall, some early signs of green shoots, and we just need to see how the fourth quarter or the first quarter of the calendar year evolves.

Q - Patrick Higgins {BIO 17720947 <GO>}

That's great. Thank you.

Operator

Thank you. And up next, we have Damian McNeela from Numis. Please go ahead.

Q - Damian McNeela {BIO 15992231 <GO>}

Hi. Morning, everybody. Just a few from me, please. I was just wondering if you were in a position to quantify the size of the decline in price mix and whether there was -- whether you can split out mix within that as well in Q3.

And then just on your new product performance, I was just wondering whether you could sort of talk to whether you're winning, whether that growth is being driven by new customers or whether the nature of that growth is with existing customers and whether there's any sort of regional skew to that.

And then just finally, a general question on sort of the M&A environment. And I think it's over 18 months since the Quantum deal was announced. I was just wondering what the current backdrop was for M&A, whether you'd seen sort of any shift in vendor pricing expectations and whether there's sort of any material change in your pipeline and what you thought the cadence of M&A might be for the next couple of years.

A - Nick Hampton {BIO 18794378 <GO>}

Great, Damian. Good morning. (inaudible) I'll probably actually take them in reverse order, it might be easier that way, and Dawn will cover the price mix at the end. So on the M&A environment, I mean, we're clearly starting to see some more movement on overall pricing expectations. I mean, typically, that tends to lag a little bit with what's happening in the general market. Importantly, the M&A that we've done so far has integrated well, and we've been very focused on that over the last couple of years. And our focus on M&A remains the same, to strengthen our core platforms, as we've done with the deals in the last two or three years, and make sure our geographic presence is as balanced as it can be, given where consumer growth is likely to come.

I'd say in terms of the pipeline, we're working hard at the pipeline. We're encouraged by it. I mean, as you know, whether that means we prosecute any deals in the next 12 to 18 months is less certain, simply because the timing is never certain. But we continue to work harder. And importantly, it's supplemental to the strength of the core business. And the other focus for us as we think about the next 12 months is to make sure we return the business to volume growth while driving good revenue and margin. So that's the sort of M&A landscape for you.

On NPD, it's pretty broad-based. So, when we look at the pipeline, it's a combination of new and existing customers. It's across all of the regions. Inevitably, there are always regional variations, but I wouldn't pick out anything that's particularly specific for you. Because the key for us, to be honest, is to make sure that we've got a broad, diverse pipeline across each of the regions with both new and existing customers.

And then on your last point on the impact of price mix, et cetera, in the quarter, I'll let Dawn cover that for you.

A - Dawn Allen {BIO 20417710 <GO>}

Yes. So thanks, Damian. So in terms of FBS, clearly, the revenue in the quarter was minus 3%. And there were three impacts or three drivers of that. The first one is clearly the volume. In the first half, we said the volume was minus 8%, which was driven by softness in consumer demand and customer de-stocking. We've seen a continuation of both of those trends through the quarter. So very similar.

The other two pieces, Nick talked about it, one was the phasing in terms of orders from December into January as customers waited for the new contracting, and the good news is all of that phasing came back in January. And the third piece is around lapping a high inflation from the previous year, so that the differential year-on-year is clearly lower in quarter three than it was in the first half. And if you think about the quantum of some of those, so I'd say roughly half of the phasing and the inflation lap, and within the inflation / mix, broadly half of that is lapping bit the inflation piece and the other half is mix.

And I think it's important to say, as you know, we have been on a journey in terms of resetting the business, in terms of really being clear in terms of prioritizing customers, in terms of solution partnerships. And obviously as we're coming through quarter three, we are coming out of that kind of phase and we're lapping that, which kind of sets us up well as we move into calendar year '24.

Q - Damian McNeela {BIO 15992231 <GO>}

Okay. That's great. Thank you very much.

Operator

Thank you. And up next, we have a question from Lauren Molyneux from Citi. Please go ahead.

Q - Lauren Molyneux {BIO 20012144 <GO>}

Hi. Morning, everyone. Thanks for taking my questions. I was wondering if you could talk a bit on the performance you're seeing by category within FBS and across your business. Are there any categories which are performing particularly strongly, or any areas of weakness? And is there any areas where you're seeing innovations coming to you and that demand for innovation particularly concentrated pipelines anywhere?

The second is on product pricing. So obviously, given that you've priced the contracts for this calendar year, how should we think about the pricing element in FBS and across your business into Q4 and across FY '25? Those are my questions. Thank you.

A - Nick Hampton {BIO 18794378 <GO>}

So, Lauren, let me pick up the category point. And I mean, actually, talking at the category level is often a little bit dangerous, simply because you almost have to drill down into the subcategories, because different subcategories are performing differently depending on the consumer environment. But in general, we've seen relative performance across our category be pretty similar, with probably one exception, which is we're seeing a little bit -- through the last 12 months, we've seen a little bit more softness in SSD soup, sauces, and dressings. And we think, in part, that's driven by the de-stocking impact of anti-de-stocking with consumers. But in general, when we go down into our subcategories, we see some pockets of growth, some pockets of softness, because consumers obviously have been trading down, trading into different things. It just depends almost on a region by region basis how that impacts the business. But overall, it's led to kind of revenue profile you're looking at.

As we think about pricing coming into the new calendar year, as Dawn said, we've been on this journey to make sure we continue to improve the quality of our business from a revenue, customer, and a margin perspective. And that's the journey we've been on for the last two to three years. And we've talked about that a lot consistently over the last few reporting periods. As we go into next year, we've been thinking very clearly about how do we balance off volume, revenue, and margin in the same way to continue to maintain the quality of the business. And on top of that, then you have to think about the significant deflationary impact. I think, as we've looked at pricing going into next year, the deflation impact in the fourth quarter of our financial year or the first quarter of the calendar year of '24, is actually quite significant. I think Dawn, it's something like --

A - Dawn Allen {BIO 20417710 <GO>}

High-single-digits.

A - Nick Hampton {BIO 18794378 <GO>}

-- high-single-digits, right?

A - Dawn Allen {BIO 20417710 <GO>}

Yes.

A - Nick Hampton {BIO 18794378 <GO>}

So, I mean, clearly, that has quite a big impact on the translation from volume to revenue because, as we went through the inflationary period, customers accepted inflationary pricing so that we can manage our business mix appropriately. Not surprisingly, as we go into next year, we're rewarding customers with that loyalty by giving back the deflation in a disciplined way.

Q - Lauren Molyneux {BIO 20012144 <GO>}

Great. Thank you.

Operator

Thank you. And we're now moving to a question from Alex Sloane from Barclays. Go ahead.

Q - Alex Sloane {BIO 21961825 <GO>}

Yes, hi. Thanks for taking the questions. The first one, actually, just to follow up on the comments there in terms of pricing for the quarter four. Thanks for the clarity. So, if high single-digit decline, is it fair then to assume like within the updated full year revenue guide that we should be expecting that price decline in Q4 to be offset by maybe low single-digit volume growth for the quarter?

And the second one, you had talked about competition from low cost competitors in Europe and LATAM. I guess, has that continued in Q3? And what's the outlook on that front given the new prices for contracts in '24? Would you expect that to phase out given the new pricing?

And then just a final one just on the new pricing. Is there any comment that you can make in terms of implications from the new contracts on unit margins? Have you had to sacrifice any more on price to ensure that volume recovery or has it kind of played out as you expected? Thanks.

A - Nick Hampton {BIO 18794378 <GO>}

Let me cover off the last two questions and, Dawn, maybe you can talk about the specifics on costs moving forward. [ph] So firstly, on the competitive environment. We continue to see a pretty similar picture to half one and quarter three, as things evolve. As we come into the new calendar year, clearly, the reset of pricing and deflation will change that relative dynamic favorably in Europe. And then on top of that, I'd say we're also clearly seeing the geopolitical challenges across the world, most notably the conflict in the Middle East, making regional supply more important as well. So I think those two factors will shift things a little bit as we come through calendar year '24, and we'll see how that evolves.

In terms of the new pricing, as I said earlier, I think, ultimately our focus in renewing the calendar year contracts was to get the business back to volume growth and maintain unit margin. And the good news is as we come into January, we're seeing that volume momentum start to appear even when we strip out the phasing impact between December and January. I mean, clearly, contracting was more competitive this year because of the softer demand environment. And therefore, it requires some flexibility in balancing our goals to return to volume growth and maintaining unit margins. And where necessary, we did selectively give back some margin.

But I put that into the context of the big shift we've driven in the business in the last three years, where we've been very conscious consistently of balancing off revenue and margins to deliver an overall attractive financial return. And that's what we're going to continue to look to do as we go through calendar year '24 and beyond.

In terms of the specifics on quarter four revenue and pricing, Dawn, maybe you can pick that one up.

A - Dawn Allen {BIO 20417710 <GO>}

Yes. So as we said, I mean we have seen higher deflation, and we are seeing higher deflation for quarter four than we were expecting, which is obviously why we've called the revenue to slightly lower than the prior year.

In terms of the other factors around the volume, I talked about the eight points in term of FBS in terms of soft consumer demand and de-stocking that we saw through first half into quarter three. As we move into quarter four, remember quarter four last time, we started to see the de-stocking, so we would expect to lap that this quarter four. I think the consumer demand we talked about, customers starting to stimulate that customer demand through promotions, we'll need to see how that plays through, how that would -- how that will improve.

I think the other thing to say, as we saw in January, we saw the benefits of the phasing come back, but we also saw improved volume momentum. And we would expect that -- we would expect that to continue as we move through the quarter and as we move through the year.

Q - Alex Sloane {BIO 21961825 <GO>}

Thank you.

Operator

Thank you. And we're now moving to a question from Karel Zoete from Kepler. Please go ahead.

Q - Karel Zoete {BIO 4452327 <GO>}

Yes. Good morning thanks for taking the question. And I missed the first couple of minutes, so maybe the questions have already been asked, but anyhow. Can you speak about unit margins in the joint venture? Because here obviously corn costs represent a bigger part of the total cost base. So how are things trending there, and what's the outlook into the current calendar year?

And then the other question is on Sucralose. We saw quite a step-up compared to the first half of the year, which suffered from high comparison base. Can you speak a bit what you're seeing in the Sucralose market and the outlook for the remainder of the year? Thank you.

A - Nick Hampton {BIO 18794378 <GO>}

Sure, Karel, thanks. And thanks for those two questions, which actually weren't asked earlier, so. So on Sucralose, as you rightly say, we saw good momentum in the third quarter. That was consistent with our communication about some phasing in the first half. And if -- so if you take a look back, take a step back on Sucralose, very pleased with the performance, performing just where we expect it to be. When we look at demand overall for Sucralose, it remains very robust. And our customers value Tate & Lyle for our U.S. manufacturing base and all of the ingredient reputation management and quality and food safety we bring to the Sucralose business. So, for us, it remains a very, very steady generator of revenue, earnings and cash flow. And that's consistent with the message we've given for a long period of time. So really on track, I would say, is the summary on Sucralose.

On Primient, as you rightly pointed out, clearly corn costs are very helpful in terms of improving or maintaining the competitive [ph] in that business. We've seen improved operating performance from Primient pretty consistently through half one and quarter three after a more challenging year last year. And the business is very robust at this point with the contracting round for calendar year '24 supporting continued consistent performance from that business. So we're -- as we said in our earnings statement, we're anticipating a positive benefit from that for the full year and consistent performance going into next year.

Q - Karel Zoete {BIO 4452327 <GO>}

Okay. Thanks. That's helpful. And on the -- on Primient, the joint venture in Mexico, where you kind of compete to sugar and with U.S. corn. How is the outlook there? The business must have benefited, or is that too simple?

A - Nick Hampton {BIO 18794378 <GO>}

I mean -- look, I think overall, the Primient business is performing as we'd hoped it would do. The regional variations clearly shift in and out. And I'd say, probably too detailed to get into the specifics of that.

Q - Karel Zoete {BIO 4452327 <GO>}

All right. Thank you.

Operator

Thank you. (Operator Instructions) Up next, we have Joan Lim from BNP Paribas. Please go ahead.

Q - Joan Lim {BIO 17002696 <GO>}

Hello. Just one question for me. So, trying to summarize what you've been saying on the drivers of your guidance. So we've got incremental volume improvement, less inflation recovery, and then price deflation. If I think a bit further into FY '25, how should I think about the main drivers? Is it going to be more volume led? Will pricing be negative and how much -- will mix still be in the same range as we've been seeing? Thank you.

A - Nick Hampton {BIO 18794378 <GO>}

Thanks, Joan. And thank you for the questions. Let me give you the sort of, the headlines on how we're thinking about next year. And it's very consistent with the last three years, which is we're trying to balance off volume, revenue, and margin to continue to deliver an attractive growth profile for the business with attractive margins. If you think about the difference in this calendar year versus last year, clearly, there's a big deflationary impact on pricing, which will get passed through to customers in an appropriate way. And then the balance between volume and mix is what's going to drive the overall outcome of the business.

As Dawn said earlier, and I said, we're looking to contract for more volume and we're looking to improve share, our share position. And we're looking to be balanced and disciplined about the balance between pricing, mix and margin. The thing that we will know much more about over the next few weeks and months is how the consumer environment improves. And that will really define actually the balance between volume, revenue and margin overall. But as I said, early signs of that are encouraging as we exit lapping the de-stocking impact of last year and we start to see some movement in customer and consumer behavior.

Q - Joan Lim {BIO 17002696 <GO>}

Okay. That's helpful. Thank you.

Operator

Thank you. And as there are currently no further questions in the queue, I would now like to hand the call back over to you, Mr.Hampton, for any additional or closing remarks.

A - Nick Hampton {BIO 18794378 <GO>}

Thank you, operator, and thank you all for your questions. So in summary, look, we continue to navigate successfully a tough year. Importantly, strong financial discipline is enabling us to maintain our EBITDA guidance and a strong balance sheet. We're encouraged by the outcome of the 2024 calendar year contracting round, which we expect to deliver sequential volume growth as the calendar year progresses.

And looking ahead to the fourth quarter and into our 2025 financial year, we'll continue to balance delivering top line growth, market share and maintaining an attractive margin profile. Over the last three years, the quality of the business has improved significantly. And with the investments we're making in innovation and solutions capabilities, we're well positioned to benefit from the long-term trends towards healthier, tastier and more sustainable food and drink.

With that, thank you for your time and questions. And I wish you all a very good day.

Operator

Thank you for joining today's call. Ladies and gentlemen, you may now disconnect.