TATE & LYLE

Tate & Lyle Q3 Trading Statement

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Participants

Nick Hampton

Operator: Hello and welcome to the Tate & Lyle Q3 trading statement. My name is Josh and I will be your coordinator for today's event. Please note that this conference is being recorded and for the duration of the call, your lines will be on listen only. However, you will have the opportunities to ask questions at the end of the call. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero, and you'll be connected to an operator. I'll now hand you over to your host, Nick Hampton, to begin today's conference. Thank you.

Nick Hampton: Thank you operator. Good morning, everyone. And welcome to Tate & Lyle's third quarter conference call. I will make some introductory comments and then we'll be happy to take your questions. The group's trading in the third quarter was encouraging and in line with our expectations driven by strong top line performance in our continuing business or what will be the new Tate & Lyle comprising food and beverage solutions and sucralose. Consumer demand for healthier food and drink continues to strengthen across our markets with our leading expertise in sweetening, mouthfeel and fortification and our unique portfolio, which helps to remove sugar, calories, and fat and add fibre to food and drink, we are very well placed to meet this growing demand. This was reflected in the top line growth delivered by food and beverage solutions in the quarter with double digit revenue growth across each region. Volume was 6% higher while revenue was 19% higher with three percentage points coming from acquisitions. Revenue from new products was 54% higher. Looking through the global pandemic as a two-year picture compared to the quarter ended December 2019 and before reporting changes, volume in the food and beverage solutions grew by 12% and revenue by 31%.

This growth reflects the increasing strength of our customer relationships and the potential of our ingredient's platforms. As expected, sucralose also performed well in the quarter with revenue 8% higher reflecting continued solid demand and good customer mix. In discontinued operations, which is our primary products business in the Americas, volume is broadly in line with the comparative period and on a two-year basis. However, as expected, performance was significantly weaker due to cost inflation and actions taken to reduce costs in the comparative period to mitigate the impact the global pandemic. A key focus in the third quarter was to renew those customer contracts, which are based on a calendar year cycle and to offset anticipated inflation. I am pleased that in both our continuing and discontinued businesses, we achieved that goal. However, the cost environment remains uncertain and we will need to stay agile and very close to our customers as we navigate the year ahead.

Turning to the outlook for the year ending 31st of March 2022. For our total operations, which is the current Tate & Lyle group, our guidance remains unchanged. With the performance of continuing operations, the new Tate & Lyle expected to be stronger offsetting performance in discontinued operations. The strategic transformation we announced last July is progressing well, and we expect to complete the sale of a controlling stake in our primary products business in the Americas at the end of March. As previously announced, following completion of the transaction, we intend to return approximately £500 million to ordinary shareholders by way of a special dividend with an associated share consolidation. We will announce the timing of this shortly after completion of the transaction and subject to shareholder approval expect to execute the special dividend before the end of the first quarter of next fiscal year. The ability of my colleagues to continue serving our customers through the pandemic while also progressing the separation of our two businesses is a great testament to their dedication and agility. And I want to thank them all for their outstanding delivery.

Earlier this week, we were delighted to announce the appointment of Dawn Allen, as our new chief financial officer from the 16th of May. I look forward to welcoming Dawn and working together to deliver Tate & Lyle's growth agenda. In conclusion then, we are entering a new and ambitious chapter for Tate & Lyle as a growth focus, speciality food and beverage solutions business. We are doing this from a position of strength and with positive momentum supported by increased investment in innovation and a strong balance sheet to fund growth, the new Tate and Lyle is extremely well positioned to deliver on its five-year ambition for mid-single digit organic revenue growth and on average, operating margin expansion of at least 50 to 100 basis points per year. With that, I will open up the call for questions.

Operator: Thank you very much. If you would like to ask a question on today's call, please press star one on your telephone keypad now please. Please ensure your line is unmuted locally. I will then speak to you individually, take your full name and then introduce you into our call. That's star one on your telephone keypad now, please. And our first question comes from the line of James Targett from Barenberg. Please go ahead.

James Targett: Hello. Good morning, Nick. Couple of questions from me. Firstly, could you just talk a little bit about your inflationary costs in terms of the level of inflation that you are seeing? And I appreciate you saying you are covered or you're covering your costs in both parts of the business, but just in terms of - so we can think of the implications for sort of percentage margins, even if you do cover your unit costs in there for the first part of FY 23. And then, I guess my second question is on the freedom of FBS, the kind of the top line, could you maybe spit out kind of the mixed price component of that sort of 13% growth above the top line - above the volume growth, sorry. And the volume growth year to date in FBS is already sort of in the high single digit, so as we move into next year, that's obviously well ahead of the initial kind of midterm guidance for new Tate. How do you think about volume growth trending in FY 23? Thanks.

Nick Hampton: Sure. So James, good morning. Thank you. And let me take your first - your second question first on FBS. So if you look at the revenue growth in Q3 at 19%, very similar to the first half by the way, so a continuation of what we saw in the first half, you've got six volumes. So therefore 13 points of leverage between volume and revenue. And roughly three percentage points of that have comes from corn price pastries, then you've got - you're left with ten. About three of the remaining ten came from acquisitions, notably stevia where you've got good revenue product, but relatively light. So you've got seven left, which is primarily driven by mix. And of course, the key driver of that is the fact that you've got both good customer mix across the business as we look to selectively trade up the business, but also importantly, the strong growth of new products.

So we saw another 50% growth of new products in the course, which is very encouraging and again, consistent with the first half albeit held by acquisitions, but still, if you strip out the impact of acquisitions, you've got new products growing 20% plus. On inflation rather than getting to kind of specific percentages, clearly very happy with the fact that the team did a good job of the contracting round across both businesses to cover the anticipated inflation we saw. As we look forward, I mean, clearly there's potential for more inflation but we are well covered on things like corn and energy, and we built some flexibility into some contracts to revisit should we see some further inflation. So we feel pretty well set as we enter the new year with the caution being that there could be more inflation to come. And from a margin perspective, as I said, our real focus was on maintaining absolute margins, and we'll see how that evolves as the year progresses.

James Targett: Thanks. Just following up on just the first part on the FBS, just on the volume side, how do - maybe obviously, the volume growth you're delivering is obviously well above what you are guiding for in the medium-term. So I'm just thinking, how you would like - how we should be thinking about volumes over the next sort of 12 months.

Nick Hampton: Look, I think, we're clearly over a two-year picture. If you look at the volumes, then the volume growth is not as high as we saw in the third quarter, indeed the first half, because we're sort of - there's this sort of disturbance from the COVID impact. So I would say - I would think about moderating expectations more in line with what we set in our medium term guidance as we go into next year. We've somewhat helped a little bit by the acquisitions as well this year as well. So those two factors have clearly helped. Having said that, the base businesses performed very strongly this year, so we're encouraged for the momentum we take into next year.

James Targett: Thank you very much.

Operator: Thank you. Our next question is from John Ennis from Goldman Sachs. Please go ahead.

John Ennis: Hi, good morning everyone. I've got three questions, actually, Nick, if you don't mind. But my first is, I guess, could you just talk about what really drove the upgrade to the FBS guidance? I suppose, the COGS environment as if anything got them worse since we last spoke. So is it just the pricing came through at a level higher than you expected, or is it also that volumes have held up just to get a bit of clarity there? Then my second question is on the volume. Again, a very strong performance in 3Q, I guess you've had some competitors talk about supply challenges and supply chain disruption, which don't really appear to be impacting your business to the same degree. Has this helped boost the 3Q volume performance in terms of market share gains as you kind of capitalise on supply chain disruptions elsewhere and can that persist? And then my third is I guess, a more general question around the term integrated solutions that gets talked about a lot in this space. Is there any kind of colour you can give us now in terms of what proportion of your business is now working with customers to reformulate and selling multiple ingredients rather than single ingredients for the continuing FBS business? Maybe that can help us also think about the mix growth within FBS. Thank you.

Nick Hampton: Sure. So, John, let me take your questions in turn and good morning. So the upgrade on FBS. So we were very encouraged by the continued top line momentum we saw in the third quarter. So if you think about - if you kind of spin around the world, we saw a double digit growth across all markets, and Q3 was a tougher lap for us in developed markets, especially because we were sort of lapping a post COVID course, if you like, rather than during

COVID in the first half, yet we saw the same momentum on revenue flow through. What we also saw in growth markets was an acceleration because actually COVID impacted growth markets later. So it's a combination really of two things. The continued momentum we're seeing on the top line, which is I think a little bit ahead of where we thought we might be. And secondly, the fact that we managed to get the pricing around the way we had hoped and that with the combination of those two things I would say, so coming together.

In terms of volume, look, supply chain is very difficult at the moment. Everybody is working really hard to maintain supply to customers and we are dealing with that like everybody else. Did it impact our business positively from a share perspective in quarter three? I don't think particularly, I think we did a good job of navigating it, but we had some challenges as well, and that's the nature of the world we're operating in at the moment and we'll continue to try and stay on top of it and serve our customers as well as we can going forward. Then your last question on integrated solutions, I would say, look, I would say we are working increasingly in partnership with customers to help them with reformulation or simplification of recipes. It's still a relatively small part of our mix. So plus or minus 20%, it's always difficult to be precise on these things, but that is growing as a proportion of the business. And in some ways, the thing that encourages me is there's 20 more to go at. We're on the journey that's going to continue. So we're hoping to see that percentage rise over time, especially as we see the success of new products continue to flow through.

John Ennis: That's really helpful. Thank you.

Operator: Thank you very much. Our next question comes from the line of Martin Deboo from Jefferies. Please go ahead.

Martin Deboo: Yeah. Morning Nick. Martin Deboo at Jefferies. Two from me. Can we just go to the bit of the business you probably don't want to talk about, but which I feel obliged to, which is primary? Clearly the guidance indicates a downgrade to expectations there. I'm interested to know just what the moving parts of that were in Q3 and particularly what's happened on the commodities line within primary. And then how - the subsidiary question is, does that change slash improve in Q4 given that's the first quarter of the new calendar pricing round? I'll just squeeze in one in the middle, which is, you just, I think, alluded to the concept of a pricing round in FBS as well or at least calendar year pricing. As we learned about this new business, can you just give a sense of how much of FBS is on annual calendar year contracts? And third one is just coming from left field is just, what's your latest thinking on where pro forma net debt will be post separation? The qualitative indication at the announcement in July was it would be pretty close to zero. Is that still the guidance? Those are my questions. Thank you.

Nick Hampton: Okay. Thanks Martin. Good morning. I'll take your last one first because in some ways the most simple. Nothing has changed. So we're anticipating pro forma net debt to be zero as we execute the special dividends or close to special dividend. On primary products, so look, performance in the quarter was broadly as expected. So we saw actually relatively robust demand for sweeteners and starches, so on a two-year basis and for the quarter flats. We absorbed significantly more inflation than we had to in the first half. So I would think of it as sort of double the amount of inflationary impact in the first half. And there was some extra costs from getting back into normal maintenance programs in the plants as we come out of COVID. Co-products and ethanol relatively positive. The net of all of that was modestly down on where we expected to be, but nothing too dramatic. As we look forward into the fourth quarter, we're expecting to see significant improvements in primary products. As I said, with the volume we've contracted and the pricing we've achieved, we're expecting to get back to sort of pre inflation margins and see positive pickup as we go into the new financial year as a result. And then your last question was -

Martin Deboo: Last question was calendar year pricing, calendar year contracting in FBS.

Nick Hampton: So it varies quite significantly region by region. So a significant proportion of the business in North America and Europe is on an annual contracting round. Without putting two specific numbers on it, think of it as sort of 80% plus. There's less so in growth markets where there's a balance of annual pricing and actually sort of month by month pricing as we renew contracts on a rolling basis. So if you look at that as a balance, you end up with more than half of your business being on annual contracting - annual contract in the round because of the way of business we have in North America, especially.

Martin Deboo: Okay. Thank you very much.

Operator: Thank you. Our next question comes from the line from Patrick Higgins from Goodbody, please go ahead.

Patrick Higgins: Thanks. And good morning, Nick. Three questions for me if you don't mind. So firstly, just on sucralose. Obviously quite a strong Q3 performance after H1. How should we think about that in terms of, I guess, timing that will partially unwind versus I guess, additional volumes that you've been able to hold onto due to your more local supply that you can provide. Second question is just on the European primary products business. How is that trended into Q3 after the challenging H1 and how should we think about its performance in, sorry, Q4 and FY 23? How is pricing in that business gone in general? And then finally, just, I guess, comforting that the transaction to dispose primary products is on track and nearing completion, just interested to hear your thoughts on what kind of opportunities you're seeing from an M&A perspective or how full your pipeline of opportunities is and how quickly you can deploy the additional capital that's about to come in. Thanks.

Nick Hampton: Thanks, Patrick. And good morning. So on sucralose, we were expecting to see a strong quarter because of continued demand from customers that we talked about in the first half. And actually the mix was good as well because of the US. We saw strong demand for regional customers, not just the big multinationals. As we go into the fourth quarter, we're lapping a bigger quarter in quarter four last year. So we'll likely see some slowdown in growth but we feel very good about the full outcome for the year, and we're still expecting both revenue and profits to be modestly ahead of last year as we close the full year. As we go into next year, as you rightly point out, we've got a little bit of more capacity coming on stream through the year. So that should allow us to certainly deliver a little bit more volume growth. And our target is to continue to maintain profitability on that business into fiscal 2023. So our next fiscal year. So I think that covers sucralose.

On primary products in Europe, the fundamentals of the business didn't really change in the third quarter. We still had high corn costs and low sugar prices, so it was the dragging quarter three as it had been in the first half of the year. We'll see some improvement in the second - in the last quarter driven by pricing for the calendar 2022 rounds, so that's a positive move forward, and we're starting to see some moderation in corn prices in Europe although modest at this point. So as we go into the next financial year, we expect to see modest improvements in that business. But I think more importantly, medium term, our focus will be both on running that business down as we invest in finishing capacity for food and beverage solutions.

And we're expecting to see corn price and sugar price moderate overtime as well. So we're not expecting to see a drag from primary products in Europe next year. And then your last question on the transaction and M&A. Firstly, I think it's important to say we're very, very pleased by the performance of the two deals we did last year. Our pipeline looks encouraging. We're working hard at unlocking more deals as we complete the transaction to divest of the majority of primary products in the Americas. And of course, as the world opens up, it's getting a bit easier to travel and make the right relationships. It's always difficult to put it when transactions are going to complete, so I wouldn't want to give you a target, but we're working very hard on doing more of the right kind of deals to accelerate the growth of the business in the next one to two years.

Patrick Higgins: Perfect. Thank you.

Operator: Thank you very much. Our next question comes from the line of Alex Sloane from Barclays, please go ahead.

Alex Sloane: Yeah. Hi, morning all. A couple of questions for me. Just firstly, picking up on the new products' momentum, which is obviously very strong in the quarter. Is there any particular skew to that by product technology and market or indeed geography and how do you see the pipeline for new products over the next 12 to 18 months? And the second one, just - I mean obviously in the UK, we have looming later this year, the HFSS regulations are due to kick into force. Are you seeing any sort of tangible benefit from that in terms of step up in customer reformation in the UK? And yeah, is that something you expect to see more of through the course of the year? Thanks.

Nick Hampton: Okay. So let's start big picture there with new products more generally. The encouraging thing is we're seeing good double digit growth across all three platforms. So sweeteners, textures and mouthfeel and fortification, our fibres portfolio. This year, it's being led by sweeteners, and big piece of that obviously is the stevia acquisition, but more broadly across Allulose, Monk Fruits, we're seeing good broad based growth in sweeteners. We're seeing good growth in clean label starches, and that's consistent with the clean label trend across the world. And frankly, our fibres are in huge demands because dietary fibre is absolutely on trend and PROMITOR is a very strong product. So it's good broad-based growth across the portfolio, and that's important actually because it's not any one thing. And as you look at the pipeline going forward, that would be true as well. It's a broad based pipeline across the three platforms rather than one individual product.

So it gives us a balanced portfolio for the future. And as I said, obviously the 50% plus growth year to date and in the quarter is helped by acquisitions, but we're still growing 25% plus if you strip out acquisitions. So new products is really fuelling the growth of the business at the moment. And that's incredibly encouraging. And of course, it's about reformulating, if you think about sweeteners to take sugar out, it's the things that we've talked about in terms of healthier living, which brings beyond the UK. We're not seeing anything specific in the UK that's significant versus elsewhere in the world, but it is clear that legislation is going to start to have a big impact everywhere. We're seeing it in Latin America with front of pack labelling. We're seeing it in Asia because of the focus on a [inaudible] diet. We're seeing it in North America because of people's increased concern about health post COVID. So the UK will be a part of that, but it's a global phenomenon that we're dealing with here and that's what's helping with those new product numbers that I just talked about.

Alex Sloane: Thanks very much.

Operator: Thank you. Our next question comes from the line of Karel from Kepler. Please go ahead.

Karel Zoete: Yes. Good morning all, thanks for taking the questions. I have a few follow up ones. The first one is with regards to the volume growth. Has there been any significant pre-ordering ahead of the price increases? That's the first question. The second question is with regards to the change of Tate & Lyle, you aim to refocus as a growth company and nearly there. In terms of culture within the company and change of agenda, what can the new CFO add? And then the third question is on texture, and it is a follow up question. Most of your textures today are still corn based. How's the momentum with non-corn based textures ones, and yeah, can we expect any major innovations in the coming years in this field? Thank you.

Nick Hampton: Thanks Karel. Good morning. So let me take your questions in order. So on volume and we haven't seen any significant evidence of pre-ordering. Our volume run rates have been pretty consistent through the whole of quarter three. We didn't see anything in December that was particularly unusual. And frankly, the challenges with shortage of transport globally makes it very difficult to shift volumes quickly. So there was a sort of natural hedge there almost if you like. On Dawn coming in, look, we're delighted that Dawn's joining the business. I mean, she brings a huge amounts of experience from the food and beverage industry. She also comes from a very purpose led organisation, which is very consistent with the culture we're trying to drive. And more recently, she's played a core role in the transformation in Mars from an operating model perspective.

So she brings a good balance of industry background cultural fits and then experience of transformation that is just a perfect fit for what we're doing in the next phase of our growth. So it's a really encouraging appointment for us. Corn textures, as you rightly say, historically, very corn focused, the tapioca acquisition clearly helped shift that for us. And we're delighted with the performance of the tapioca business so far this year. And yes, I think you will see us increasingly look to expand into other substrates for texture as we to grow the business and strengthen our textures portfolio and service of our customers.

Karel Zoete: Thank you.

Operator: Just as a reminder, if you would like to ask a question on the call today, it is star one on your telephone key pads now, please. Our next question comes from the line of Chris Pitcher from Redburn. Please go ahead.

Chris Pitcher: Hello there. Thank you, Nick. And apologies if this has been covered, my phone dropped off briefly. On sucralose, you're still seeing continued strong volume growth, and last time we spoke, there was a discussion around potentially expanding capacity if you could get the contracts in place long duration enough, are you going through the process at the moment of having those discussions? And when should we expect some sort of decision on whether you are going to double down sucralose or not? And then secondly, apologies following up on

NewCo, but with the pricing - with the contracting round now done, does that give you more visibility? Can you say more around expected dividends and can we just finalise the tax structure and interest of NewCo? Have you got any more colour on that? Thanks very much.

Nick Hampton: On sucralose, look, I won't go into the details of any commercial discussions we're having at the moment. What we are doing already is increasing capacity modestly to allow us a little bit of room to grow in the short term. Longer term, we'll see how the commercial shape of the business plays out. On NewCo, the contracting round went as we had hoped, that's good for the business. I don't think there's anything new to say on dividend or on interest at this stage. I mean, we'll come back to it at the full year when we've finalised the transaction. So I'd probably wait until then.

Chris Pitcher: Thank you.

Operator: Okay. So we have no further question in the queue, so I'll hand you back over to the speakers.

Nick Hampton: Thank you, then operator, and thank you all for your questions. Look. So in summary, food and beverage solutions continues to deliver strong top line growth. New products' performance remains excellent. And we saw positive contracting for the 2022 calendar year. The transaction to create two focused businesses is on track for completion at the end of March. And we're looking forward with confidence to the future of the new Tate & Lyle. With that, Dawn and I look forward to talking with you on the 9th of June at our full year results. And thank you everyone. Thank you operator. Have a good rest of your day.

Operator: Thank you very much for joining today's call. You may now disconnect your handsets. Hosts, please stay on the line.

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