Tate & Lyle Q3 Trading Statement

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Participants

Nick Hampton

Dawn Allen

Patrick Higgins

Martin Deboo

Laurent Molinari

John Ennis

Chris Pitcher

Alicia Forry

Alex Sloane

Operator: Hello and welcome to the Tate & Lyle Q3 Trading Statement call. Please note this call is being recorded. You will be in a listen only mode throughout the call and have the opportunity to ask questions at the end. This can be done by pressing star, one on your telephone keypad. I will now hand you over to Nick Hampton, Chief Executive, to begin today's conference. Please go ahead.

Nick Hampton: 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's performance in the third quarter was consistent with the first half of the financial year, with revenue 16% higher than the comparative period. Revenue growth was driven by top-line momentum in food and beverage solutions, which delivered another strong quarter of double digit revenue growth. Revenue growth of 19% benefited from mixed management, the pricing through of input cost inflation, and acquisitions.

In North America, we saw continued revenue growth despite some limited supply chain disruption. Both the regions of Europe and Asia, Middle East, Africa, and Latin America delivered strong double digit revenue growth, reflecting good commercial performance. As expected, Sucralose revenue was lower, reflecting the rebalancing of orders phased into the first half. The 2023 calendar pricing round has been completed successfully with strong customer demand and the recovery of higher input cost inflation.

Turning to the outlook for the year ending 31st of March 2023. We continue to expect revenue growth affecting current top-line momentum to offset input cost inflation through strategic mix management, pricing, productivity, and cost discipline. And adjusted profit before tax to be in line with the current market expectations, with stronger profits in food and beverage solutions offsetting lower profits from the minority holding in premiums. With that, I will open up the call for questions.

Operator: Thank you. Ladies and gentlemen, as a reminder, if you would like to ask a question, please signal by pressing star, one on your telephone keypad. That is star, one for your questions today. And our first question today comes from Alex Sloane of Barclays. Please go ahead.

Alex Sloane: Yeah. Morning, Nick, Morning, Dawn. Thanks for taking the questions. Just to - from my side, just on the calendar pricing round and the positive outcome, you indicate that the premium unit margins can get back to pre-inflation levels. I wonder if you can help us kind of give a ballpark in terms of what that means in terms of the improvement in unit margins maybe percentage wise or is the right way to think about that? That the ongoing EBIT for that joint venture business could get back maybe towards March 21 levels, all else equal. And then I'll just be interested in terms of that pricing round, obviously most relevant to premium, but to what extent does it impact the FBS business? Could you maybe remind us how much of that division is relevant when it comes to this renegotiation process? Thanks.

Nick Hampton: Sure. So, let me take those two questions in turn. On premium, what we saw in our conversations with them was as the pricing rounds coming to completion, it's gone very well with positive demand and good return to cover of inflation. What that would imply, Alex, if you think about the future, of course, volume depending, operational performance depending is a return to similar levels to the prior financial year. I mean, obviously there's a lot to go through over the next few months as we look at demand patterns and the return - and return to normal pricing margin levels. But I would think it's reasonable to think about it in those terms at this stage.

And when we look at our contracting round for calendar year 2023, I'd say three things really. Firstly, we saw strong demand and have recovered inflation as we built new contracts with customers for the new calendar year. That's clearly predominantly across North America and Europe. There is some contracting in our markets in Latin America, Asia and Middle East, and Africa as well.

Secondly, as we've done those contracts, we've looked to be more dynamic and flexible in the ways that we allow customers to take their own view of inflation and attitude towards inflation. What does that mean? To be fair to customers and to balance cost recovery with increasing prices, we provided them with the flexibility to choose whether they lock in for prices for the full year, and we cover, as best we can, those forward prices, or we leave pricing open for the second half and take a more dynamic approach through the year. But net, what it means is we've got a good look at margin profile as we go into the next financial year.

Alex Sloane: Very helpful. Thank you.

Operator: Thank you. And we now move on to our next questioner which is Laurent Molinari of Citi. Please go ahead.

Laurent Molinari: Hi. Morning, Dawn and Nick, and thanks for taking my questions. I was just wanting to talk a bit more, if you could, around the elements of this FBS[?] revenue growth. And maybe give us more of an idea of how the split between volume pricing and mix growth. And then any more details kind of around that volume growth? Because I remember, at H1 there was some underlying and adjusting factors in that volume growth. So, any more colour there would be quite helpful.

And then I also wanted to ask around what you're seeing across the different regions in terms of FBS and how the market's evolving, and whether you're seeing any kind of changing customer behaviour or any kind of destocking that we've heard called out by some ingredient names. Thank you.

Nick Hampton: Okay. So let me - let Dawn and I take the first question collectively, and I'll come back to the regional discussion at the end. So, as we said, we saw revenue growth similar to the first half, so 19% on FBS. And underlying volume trends were similar to the first half. So, what that means really is the factors driving revenue growth ahead of volume in half one continue to play out in quarter three. So, we saw the pass through of inflation and that was similar - a similar contribution as sort of roundabout double digit volume to revenue leverage.

Positive mix is also a significant factor, although as we said in the half phone call, a slightly lower impact. So - and that impact comes from two things, positive customer mix, progression on new products and the continuing cycling assets from the low margin business. And then you've got a little bit of contribution from acquisitions with a point or two. So, the shape was effectively very similar to the first half with a little bit of change in the moving parts. Dawn, you want to add anything to that?

Dawn Allen: No. I mean, I think you've covered it, I think covered it really well. The only thing to say is that we see quarter three, we are lapping the quarter three last year where we started to see accelerated inflation in the comparative period. And I think from a volume perspective, the drivers that we talked about in the first half, they've also continued into quarter three as well. But what we have seen on that is that demand continues to be strong in the quarter.

Nick Hampton: So, let me move on and talk about the regional demand picture that you asked about. And I think it is important that you look at it on a regional basis because you're seeing different inflationary impacts around the world. And so, overall, a kind of a region by region basis, we're seeing pretty consistent customer demand. It's remained robust through the third quarter. In North America, that will be true with a little bit of noise around things like transport and regulatory stability in the supply chain, both inbound and outbound with customers picking up, and some noise around the Christmas period with the impacts of the Arctic storm. But offsetting that, we're seeing increased economic sentiment in North America as we entered into the New Year.

In Europe, I'd say, although demand has remained good, we're a bit more cautious because energy and living costs are most pressured in Europe and the impact of these on consumer sentiments and therefore growth into the fourth quarter, we'll have to see what happens post-Christmas. In Asia on the other hand, we continue to see robust demand and actually the relaxation of COVID restrictions in China should be positive for the medium term. It's less clear what the short term impact would be post the Chinese New Year, but through the wave of COVID in China this time around, we saw continued demand because there wasn't a shutdown. So, people were still shopping.

So, I think overall, we're seeing similar trends to the ones we saw in the first half, and it'll be key what happens in quarter four, as we think about looking into the next financial year. But we're still confident with guidance for the full year at this stage.

Laurent Molinari: Thank you.

Operator: Thank you. And up next, we have John Ennis of Goldman Sachs. Please go ahead.

John Ennis: Hello. Good morning, everyone. I had a bit of a broader question coming back to your medium term outlook, where you, I guess, always sort of guided for the sort of 4% to 6% revenue growth ambition, which in the current environment, of course, is hard to really use given a lot of inflation and pricing pass through. So, I guess is it fair to assume that target is migrating increasingly to a volume mix target? It's sort of the first part of the question.

And then the second part related to that, are you, from a volume mix standpoint for the first nine months of this year, on track to be within that 4% to 6%, which I suppose links back to the earlier question around deconstructing the 19% revenue growth between maybe volume mix versus inflationary pricing? Thank you.

Nick Hampton: Yes. Great question, John. So, I would say that we clearly have to adjust the revenue assumptions for the extraordinary inflationary environment we're seeing. So, the 4% to 6% number you quote would be in a more normalised inflationary environment. If you if you look through that and then look at the sort of volume revenue dynamic in the first half, you can see clearly from the breakdown we gave in the first half that we would remain on track to be within that range or slightly better, actually, when you look at the first half numbers, because we did deconstruct, if you remember, from the inflationary impact. I think we said it was about half of the impact for volume for revenue in the first half.

So, clearly the mix and the positive [inaudible] took us above that range. As we said on the call, that impact and that balance was similar in quarter three. So, I think you can read into that, that we're absolutely on track against the ambition we set for ourselves for the first three quarters of the year. As I said, we're tracking very, very carefully what happens from a demand perspective post-Christmas and through the fourth quarter. And we'll give a clearer view of the short term outlook for the following financial year when we get to the full year results.

Alongside that, of course, you've got the Capital Markets event coming up in a couple of weeks and we'll lay out a new set of financial targets for taking out for the next few years.

John Ennis: Okay. Perfect. Thank you, Nick.

Operator: Thank you. And now we're moving on to Martin Deboo of Jefferies. Please go ahead.

Martin Deboo: Good morning, everybody. My questions have mainly been answered. I just want to mop up a couple. First of all, just in FBS, Nick and Dawn, you seem more positive. There was quite a stir caused by [inaudible] yesterday at a very weak Q4 on what looked like weak demand and an inventory unwind in the US. I'm detecting a more positive tone from you and not seeing an inventory unwind in the US. Would that be correct? And the second question, Nick, just to clarify what you said about the restoration of premium profits, I think you'd expect something like the prior financial year, which I take to be FY 2022. I'm asking the question because FY 2022 was already impacted, I think, to some extent by inflation and also an interruption at Lafayette. So, what's the right sort of reference year to think about premium profits relative to?

Nick Hampton: Okay. Let me take those two questions in turn. On your first question, we haven't seen anything significant in North America from a de-stocking perspective. I mean, there's always a little bit of noise December-January as some of our customers closed their financial year. And we also had a disruption because effectively, transport [inaudible] were shut for a week through the Arctic bomb. But there was nothing significant for us in assets. I mean, obviously different companies see different impacts based upon the sectors they're operating in. And as I said, we'll continue to track what happens in the fourth quarter and give a, I think, much clearer view in our full year results as we closed the year. But there was nothing significant that we saw in quarter three.

On premium, I would say look, fiscal 2022 I think, is a good starting point. But as you know, there are so many moving parts on this. There's a demand picture, not just the margin picture, but I would say as a base reference point, that wouldn't be a bad place to start.

Martin Deboo: Okay. Very clear. Thank you very much.

Operator: Thank you. And our next question comes from Patrick Higgins of Goodbody. Please go ahead.

Patrick Higgins: Thanks. Good morning, everyone. Two questions for me, if that's okay. Firstly, just on premium, could you just give us an update on how the operational issues that we're seeing in H1, has there been much progress in addressing some of those issues during the quarter or how long should we expect that to kind of take to improve? And then secondly, I guess more of a high level question just around M&A pipeline. How should we think about the flow of deals just given the interest rate environment? Now, have you seen conversations around M&A a bit more challenging than perhaps a year or so ago? Interesting to hear your thoughts on that piece. Thanks.

Nick Hampton: So, our operations are improving. Things are settling down. We're seeing for us at a premium, some relatively [inaudible] supply. And I think the team there are making good progress. I'd say there's more work to do going into the fourth quarter and into the next calendar year. But alongside Premium, the team together are working hard to address the challenges and obviously the positive momentum from the pricing round and what they're seeing from the demand side is going to be helpful as well as again the fourth quarter and the next calendar year. So, things are looking more positive.

On the M&A pipeline, I don't think the sort of financial markets have a huge impact on the conversations that we're having. I mean, we're blessed by having a strong balance sheet with firepower. So, financing isn't an issue. I think the question is going to be, as we think about the deal flow and the conversations we're having, how do you balance off the right deals at the right value in the current financial market environment. As with any deal, you look very carefully about value creation and the strategic merits of a deal you're thinking about doing.

Patrick Higgins: Thank you.

Operator: Thank you. And as a brief reminder, that is star, one for your questions today. And we now take Chris Pitcher from Redburn. Please go ahead.

Chris Pitcher: Hi. Good morning. Thank you, Nick, thank you, Dawn. A couple of questions for me. Firstly on Sucralose. In the first half, you mentioned challenged global supply. I'm wondering if the relaxation of China restrictions are impacting some of your volumes there rather than just perhaps the unwinding of earlier orders in the first half? Is the customer mix still positive in Sucralose or as price mix come under a bit of pressure there, just the volume price mix balance in the Sucralose number?

And then a more basic question, I'm afraid. In terms of the positive mix within customers in FBS, what's driving that? Is it the customer that's driving the mix or is it the mix of the products you're selling that's improving? Can you give an idea of how much the FBS is now solutions and how much is selling standalone ingredients? Thanks so much.

Nick Hampton: So, let me take the second question first. So, the customer mix point is a combination of us choosing to do business with those customers who value what we do. So, it's a positive choice on customers and obviously an improvement in the mix of the products we're selling at the same time. The incremental mix between selling an ingredient, selling a solution is a little bit difficult to measure quarter on quarter. So, I'd say it's the first two factors primarily.

On Sucralose, I mean, clearly China opening up will rebalance somewhat the Sucralose supply demand picture. There's nothing that we saw in the third quarter that was beyond just the rebalancing of orders with some of our bigger customers actually. So, our mix of business didn't really change versus our expectations. And we'll just - we'll see, as always [inaudible] roles going forward. But we're right on track with where we expected to be at the end of the third quarter with a stronger first half rebalancing in quarter three, so that phasing we talked about end up happening.

Chris Pitcher: If I look at sort of the benefit perhaps in your FBS business from China reopening, would that benefit, perhaps offset the impact on Sucralose? Is that a fair way to think about it?

Nick Hampton: China opening up is obviously positive for us from a China perspective in its own right. I would think about Sucralose totally separately. And what we do with Sucralose id continue to focus on those customers who want to do business with us. And we've always said we expect to close long term to be a relatively stable, cash generative business for us. So, that remains the focus.

Chris Pitcher: Thanks very much.

Operator: Thank you. And now we're moving on to Alicia Forry of Investec. Please go ahead.

Alicia Forry: Hi, good morning, Nick and Down. Most of my questions have been answered too, but I was just wondering if you could perhaps provide some guidance on what the duration of this Sucralose phasing related weakness might look like. Is this sort of likely to only impact Q3 or will it also drag into Q4 as well? And then I don't know if you confirmed this earlier in the call, but if you did, I missed it. What percent of your FBS business is now locked in with the new higher prices for 2023 and what is sort of floating or not locked in as it were? Thank you.

Nick Hampton: So, let me take the first question first. So, we're substantially cycling - cycled out of the phasing on Sucralose now. So, we should see a return to kind of a normal level of business in the fourth quarter. It was a sort of Q2, Q3 impact. On contracting, I mean, a high level of our contracts across Europe and North America are on annual contracts, although as I said, we've got more dynamic pricing built in this time round. The number is lower in Latin America, Asia and Middle East and Africa, where we've got more monthly type business. So, if you go back to the sort of mix of the business, you'd say you've got 60%, 70% of your business locked on an annual basis at the end of the contracting round. But as I said, it depends a little bit on the nature of the contracts with the dynamic pricing that I just talked about.

Alicia Forry: Thank you.

Operator: Thank you. Once again, to ask a question today, please signal by pressing star, one. We will pause for a brief moment. There appears to be no further questions at this time. I would like to hand the call back over to you, Mr. Hampton, for any additional or closing remarks.

Nick Hampton: Okay. Thank you, Operator and thank you all for your questions. So, I suppose to summarise the call, food and beverage solutions continue to deliver strong top-line growth, and we saw encouraging contracting for the 2023 calendar year. So, despite ongoing economic uncertainty, we continue to deliver successfully against that strategy as a growth focused speciality food and beverage solutions business. I look forward to hosting a capital markets event on Wednesday, the 8th of February at 2:00 in the afternoon UK time. At the event we will outline our strategy, business model, portfolio, markets and the [inaudible], which puts us at the centre of the future of food. I sincerely hope you will all join us for the event. So, thank you everyone for your attention on the call today and have a good day.

Operator: Thank you. Thank you, ladies and gentlemen for joining. And you may now disconnect.

[END OF TRANSCRIPT]