Tate & Lyle PLC

Full Year Results for the year ended 31 March 2020

21 May 2020

Transcript

TATE & LYLE

NH: Nick Hampton

Transcript

Nick Hampton:

Good morning and welcome to the presentation of Tate & Lyle's results for the year ended 31st of March 2020. I hope everyone listening to this presentation is safe and well. Before Imran and I talk about our results, I want to say a few words about COVID-19 and our response to this unprecedented crisis.

COVID-19 is first and foremost, a human tragedy. And on behalf of everyone at Tate & Lyle, I want to send our deepest condolences to everyone who has suffered loss as a result of this pandemic. And to all the healthcare and frontline workers across the world, we salute your incredible courage and resilience and are truly grateful for everything you are doing. I will talk more later about our response to that pandemic, but for now I want to say how proud I am of the incredible way our people have dealt with the many personal and professional challenges they have faced over the last few weeks.

The care they have shown each other, their commitment to keep our operations running and our customers served and their immense hard work has been truly inspiring. It is one of the most amazing things I've seen in my entire business career. And I thank them all from the bottom of my heart.

Turning now to an overview of the results for the 2020 financial year, the group delivered a year of strong performance. Food and beverage solutions delivered 5% revenue and double digit profit growth. Sucralose performed well and profits from primary products were higher despite difficult market conditions.

Our three priorities to sharpen, accelerate and simplify our business, continue to support performance. And our productivity program is delivering ahead of expectations and is being extended. The balance sheet remains strong and the culture of the organisation is increasingly dynamic with people getting things done with greater pace and agility. Underpinning all of this is our purpose. Today we are announcing new long-term commitment to demonstrate how we will live at purpose and measure our progress. These include ambitious new sustainability targets.

In the face of COVID-19, we have put in place a series of measures to support our employees and customers, and to maintain our financial strength.

Looking briefly at the financial results, they show the good progress we are making, executing our strategy. Food and beverage solutions grew revenue by 5%, with 6% growth in North America. Profits in food and beverage solutions group by 10%, while primary products grew profit by 3%.

For the group as a whole adjusted profit before tax was 4% higher and ahead of our guidance at the start of the year. Earnings per share were 8% higher held by a lower effective tax rates and adjusted free cash flow was £35 million higher. The board is recommending that the final dividend is maintained delivering an increase in the full year dividend of 0.7%. So overall, I am delighted with the strong financial performance and the progress we made on delivering our strategy last year.

Looking at the agenda for the rest of the presentation, I will start with a brief update on the business. Imran will run through the financial results. And then I will return to talk about our response to COVID-19 and April trading. Finally, we will take your questions.

Nick Hampton:

I want to begin with purpose. In these unprecedented times our purpose of improving lives for generations has never been more important. It is at the heart of our response to COVID-19 and was a key driver behind our strong performance last year. As I talk to people around the company, it is amazing how motivated they are by our purpose and their belief that through our purpose, we can successfully grow our business and have a positive impact on society. It also resonates strongly with many of our customers.

We live our purpose through three main pillars. Firstly, we support healthy living by using our ingredients and expertise to help people make healthier and tastier your choices when they eat and drink and to lead a more balanced lifestyle. Secondly, we build thriving communities where we operate and support people to achieve their potential. Thirdly, we care for the planet we live on and help protect its natural resources for the benefit of future generations.

During the year, we looked closely at our impact on the world and what we need to do to truly live our purpose over the next five to 10 years. We also considered, which are the UN sustainable development goals we could most impact. From this, we developed a set of new long-term commitments for each purpose pillar. Firstly, caring for our planet.

Other than the outbreak of COVID-19. If there is one issue that has come even more to the forefront over the last 12 months, it's climate change, the climate isn't changing, it has changed and we are committed to playing our part in tackling this critical issue. Today, we are announcing a series of ambitious new environmental targets for 2030 to reduce our carbon footprint, beneficially use 100% of the waste we generate, reduce water consumption and to continue supporting sustainable agriculture. We are also committing to eliminate coal from all our plants by 2025. And to make our scope one, two and three carbon emission targets science-based.

This will ensure we play our part in limiting global warming in line with the goals of the Paris Agreement on climate change. Sustainability is an integral part of our decision-making processes and many of the projects that they run new targets are already underway in planning or will be included in future capital plans. We have also set out commitments for 2025 for the other two pillars of our purpose. These cover areas such as programs to help a quarter of a million people lead a healthier lifestyle and to achieve gender parity in leadership roles by 2025. Currently 27% of leadership roles are held by women. For all our new purpose commitments, we will be reporting on our progress annually and our ambition is not only to meet these targets, but to exceed them.

Turning to how we delivered our strategy in the year. Food and beverage solutions continues to benefit from consumers seeking healthier alternatives from their food and drink, particularly to reduce sugar in their diets. Consumers also continue to look for greater transparency with cleaner labels and more natural ingredients. And the increase in vegan, vegetarian and flexitarian diets is driving demand for more plant-based options. With the onset of COVID-19, food which helps build immunity and digestive health is also increasingly important. Our portfolio of products and technical expertise all help our customers deliver on these trends.

Revenue from sales of product supporting sugar reduction were up 16% with sales of unnatural CVS sweeteners up 23%. Our range of clean label texturants perform particularly well with revenue up 51%. Revenue for our soluble fibres, which allow the amount of sugar in a product to be lowered and provide nutritional benefits such as digestive health and low glycaemic response grew by 13%.

In primary products we faced some challenging market conditions. Demand for carbonated soft drinks in the US declined a little faster at 2%. And US exports to Mexico were lower. The industrial starch market was particularly challenging with higher paper imports into the US and weaker demand for paper and packaging.

Our primary products team navigated these headwinds effectively by continuing to execute our strategy, to manage its portfolio, to maximise margins, optimise product and customer mix. Drive operational efficiency and diversify capacity towards new and growing end markets. For example, the volume of our sweeteners sold during the year X high-fructose corn syrup increased by 4%. For primary products that deliver profit growth in such challenging markets is a testament to its strong leadership team.

Turning now to our three priorities of sharpen, accelerate and simplify. To sharpen, we continue to focus on supporting customer growth with a 26% increase in the number of monthly customer calls focused on growth. And we opened expanded labs in São Paulo and Singapore to support joint customer development. We are also collaborating with customers in new ways, for example, innovative fibre symposiums and healthy workshops. And we simplified the way our customer facing teams are organised to bring them closer to our customers in their local markets and speed up decision-making.

To accelerate, we increased the value of our innovation pipeline by 18% during the year and launched 11 new products. These included CLARIA EVERLAST the latest in our line of clean label starches. And our new texture like starches targeted at the personal care market. We also continue to expand our global open innovation network announcing a new partnership and investment in Zymtronix, a developer of revolutionary enzyme immobilisation technologies. On simplify, we continue to make good progress. During the year we made capital investments to reduce energy costs and increase efficiency like a $75 million investments in a new natural gas fired co-generation system is our corn wet-mill in Lafayette, Indiana.

We also introduced new tools to automate processes and reduce bureaucracy such as the implementation of workday, a single global HR system, replacing nine legacy systems. Our productivity program continues to deliver ahead of expectations. For example, the value of savings delivered from continuous improvement projects increased by 20% during the year. Imran will talk more about the productivity program later.

So to summarise, this was another year of clear progress. Financial performance was strong. Operational execution remains excellent, customer focus is sharper and the organisation is more agile. Our purpose is a powerful motivator, our strategy is working well. And we entered the new financial year with real momentum. So the fundamentals of our business remain sound. And this gives me great confidence in our future despite the challenges of COVID-19. A high-quality portfolio of ingredients and solutions give consumers healthier and tastier products when they eat and drink.

Demand for these products is growing. And this trend is here to stay. If you add to that our financial strength, we are well placed to emerge from this period as an even stronger business. With that I will hand over to Imran.

Imran Nawaz:

Thank you, Nick. And good morning everyone. Before I start with the financial review, can I add to what Nick said earlier and pass on my sincere gratitude to all our people for their amazing work responding to COVID-19. It has really been very special and makes me proud to be a part of the Tate & Lyle team. Turning now to our financial performance for the year. In line with previous presentations, I will focus on adjusted measures, items and percentage growth are in constant currency unless I indicate otherwise. Overall, as Nick said earlier, we have had another strong year. Group sales were up 2%. Profit before tax was up 4% with each trading division ahead of the prior year. Adjusted diluted EPS was up 8% benefiting from a lower effective tax rate. Free cash flow continue to be strong at £247 million up 35 million. The board is recommending an unchanged final dividend meaning the full year dividend is up 0.7%.

I will now go through the key factors driving profit growth. Food and beverage solutions operating profit was up £14 million driven by both good price and good mix management. Sucralose performed solidly with operating profit in line as lower volume was offset by good cost management. Primary products profit was up £5 million reflecting higher profits in both sweeteners and starches and commodities. Productivity and cost discipline have been strong, positively impacting performance in each division. Central costs and interest were £5 million higher. COVID-19 related costs drove central costs higher while the adoption of IFRS 16 pushed interest higher. The share of profit after tax from joint ventures was £3 million lower reflecting weaker demand at our Bio-PDO joint venture. And finally, the impact of foreign exchange was to increase profits by £11 million to £331 million.

Turning now to our divisional performances. Let's start with food and beverage solutions. Volume was up 1% good price and mixed management led to revenue growth of 5%. And as we saw in the first half strong operating leverage together with the benefit of cost discipline lead to profit growth of 10%. This leverage is really pleasing to see, and it shows the good returns we are making from our investments. Let's take a look at our regions. In North America, top line momentum was strong with volume up 2% and revenue up 6% driven by good progress across the beverage, the bakery and dairy categories. In Asia Pacific and Latin America volume increased by 1% and revenue by 7%. In Asia Pacific, we saw revenue growth soften in the second half as demand in China was impacted by COVID-19.

This was partially offset by foreign demand in Southeast Asia. Latin America delivered double digit revenue growth in the year with a strong performance in both Brazil and the Andean region. In Europe, Middle East and Africa volume was 1% lower with revenue 1% higher as we continue to exit lower margin texturant business to improve our mix. In October, we also completed our project to double capacity at our hybrid maltodextrin facility in Slovakia for using categories such as baby food. Sales of new products were up 15% with good growth in clean label and non-GMO texturants, fibres and stevia. New products now represent 12% of food and beverage solution sales. Turning to sucralose, volume and revenue were both 4% lower reflecting the lapping of actions taken in the prior year to optimize inventory levels. The underlying volume growth was actually 1% higher. The operating profit was also 1% higher with cost discipline, more than offsetting the lapping of a 3 million pound, one of gain from a supply contract in the prior year. Moving to primary products, which also includes commodities, total volume was 2% lower with operating profit 3% higher. Sweetener volume was 2% lower reflecting the lower demand from our bio PDL joint venture. Excluding this, sweetener volume was slightly higher than the prior year that's despite a decline in carbonated soft drinks consumption in the U.S. Industrial starch volume was 8% lower, mainly due to the closure of capacity at a customer's facility, higher paper imports into the U.S. and market declines in paper and packaging.

Imran Nawaz:

Our performance improved in the second half, reflecting our strategy to diversify product mix and a recovery of domestic paper production. Profit from sweeteners and starches was 1% higher with productivity gains in manufacturing off setting weaker volumes in industrial starch. We also left a 4 million pound insurance recovery in the prior year. Profit from commodities was up 3 million pounds with good corn gluten meal and cornel recoveries more than offsetting a decline in ethanol cash margins, which moved sharply lower at the end of the year.

On this slide, we show the remaining components of the income statement. Central costs were up £4 million mainly due to incremental costs for our COVID-19 response. Net finance expense was 1 million pounds higher, principally following the adoption of IFRS 16. The effective rate of tax was 310 basis points lower at 17.9% primarily reflecting increases in deferred tax assets, following both the pension buy in transaction and the reversal of the UK government's previously enacted decision to reduce the standard rate of corporation tax. The rate was also lower due to the expiry of the statute of limitations on a number of uncertain tax provisions. We expect the adjusted effective tax rate for the 2021 fiscal year to be in the 17 to 19% range.

Turning to exceptional items. We recognised net exceptional costs of £24 million. This has two elements, one a £19 million charge for our productivity program and two, a £5 million charge for closure costs of our non-core savoury business in primary products. This now closed business contributed operating profits of £7 million to primary products in fiscal 2020. In May, 2018, we started the program to deliver a $100 million of productivity benefits over four years. Two years in, and we are ahead of expectations having already delivered $87 million of benefits. Examples of productivity projects completed during the year include optimising the liquid syrup line at our plant in Slovakia, improving the efficiency of trucks usage in the U.S. and reducing starch yield losses in our plants.

As we execute this program, we continue to identify additional savings opportunities. For that reason, we have decided to extend it by $50 million in two years, so that it delivers a total of $150 million over the six year period ending 31st of March, 2024. The total cash exceptional costs to deliver the program has been increased from $40 million to around $75 million.

Turning to the balance sheet. During the year, we took two actions to strengthen and de-risk our balance sheet. First, we raised $200 million of long term debt to refinance a maturing debt facility at a lower cost. Second, we completed a £930 million bulk annuity insurance buy-in to meet the future obligations of our main UK pension scheme, creating from 2021 fiscal year onwards an annual cash benefit of £20 million. And then after the end of the financial year, we extended the maturity of our revolving credit facility by one year to 2025 and linked its pricing to the delivery of our new environmental targets. We also prized an additional $200 million debt private placement at an average coupon of 2.96%. Following these actions, we will have access to liquidity in excess of $1.3 billion from August onwards after the draw down of the recent private debt placement.

Imran Nawaz:

Turning to cash flow, which continued to be strong. The adjusted free cash flow was £35 million higher at £247 million, £1 million higher on a like for like basis excluding the impact of IFRS 16. This increase was despite capital expenditure being £36 million higher as we invested in new capacity, safety, efficiency and sustaining projects. Capital expenditure for fiscal 2021 is expected to be in the range of £140 and £160 million. Our net debt increased by £114 million to £451 million. The adoption of IFRS 16 increased net debt by £162 million and therefore underlying that debt was actually £48 million lower. Our leverage remains low with net debt to EBITDA of 0.9 times or 0.6 times on a covenant basis.

Overall, I continue to be very pleased with the strength of our balance sheet and financial position, which is actively supporting the business in these difficult times. As Nick said earlier, the 2020 financial year was another year of strong performance. Stepping back a bit further if you look at business performance over the last three years and how we're delivering against the investment case that we set out in May, 2018, it is a story of consistent growth.

Profit before tax is up by a compound annual growth rate of 6%, diluted earnings per share by 8% and the return on capital employed by an average of 65 basis points each year. This consistent level of performance and the financial discipline now installed within the business gives me confidence that while there are clearly some near term challenges, we will navigate this period successfully and protect our strong balance sheet. With that I will now hand back to Nick.

Nick Hampton:

Thank you, Imran. As I said earlier, COVID-19 is foremost a terrible human tragedy and is something we will continue to live with for some time to come. In early March as the pandemic was unfolding we acted decisively to ensure we managed our response to COVID-19 effectively. A global pandemic response team was formed with leaders from across the business and local response teams put in place at every site to focus on the safety of our people and to ensure business continuity. We also implemented an extensive customer and employee communication program and I chaired the daily call to review progress and ensure we moved quickly and decisively.

From the outset our priorities were clear, to look after the health, safety and wellbeing of our colleagues and local communities, to keep our operations running, to serve our customers and to maintain our financial strength. Thanks to the amazing commitment and skill of our people and their desire to live our purpose every day, we have successfully delivered on each of these priorities so far. Let me briefly take each one in turn.

A key pillar of our purpose is to look after our people and support our local communities and this has never been more important. In the face of COVID-19 we took a series of actions to protect and support our employees starting by implementing strict hygiene protocols at all our facilities and labs, including social distancing, sanitisation and wearing appropriate protective equipment. Employee support initiatives were also implemented including full pay for colleagues ill or in isolation and a program focused on keeping people connected, productive, and active during lockdown, and also to support their mental wellbeing.

Nick Hampton:

As part of the program, in a very short period of time, we rolled out Microsoft Teams to over 3000 colleagues in over 30 locations. This is just one example of a significant acceleration in digital technology across the group, which we will benefit from well into the future. We also increased internal communications, including weekly emails and video messages from me and other senior leaders to all employees.

Many of our local communities has suffered significantly from the pandemic and we are committed to helping them in any way we can. For example, the crisis has significantly increased the level of food insecurity among some of the most vulnerable people in these communities with many families, no longer having access to nutritious food. Last month, we leveraged existing relationships with more than 20 food banks across the world to provide around half a million nutritious meals to people in need in our local communities. We also donated PPE to health workers and found a way to reformulate our ethanol so that it can be used in hand sanitiser. This is now helping in the fight against COVID-19.

Our manufacturing network and supply chain have been put under intense pressure since the pandemic began. As a key player in the food supply chain, we recognized the importance of keeping our plants running and ensuring a reliable supply of ingredients. The fact that all our plants have remained fully operational and custom orders fulfilled throughout the pandemic is an outstanding achievement. We have had to operate highly flexible production and planning processes to adapt to the rapidly changing needs of customers. At the same time, our people are operating with a minimum number of people on shifts and reconfigured layouts to ensure a safe working for colleagues and contractors.

Customer communication has also been a key priority and I have received many messages of thanks from customers for our support in these difficult times. Staying close to our customers and continuing to support their growth has been another priority. In the current environment, we are finding new creative ways to support and connect with our customers. Many of these have been so successful that we will continue to use them well after the pandemic is over. Let me give you two examples.

Firstly, started by our Asia business and now being used all over the world, we are hosting regular virtual tasting sessions for customers with prototypes being prepared and sent in advance. We are also holding virtual product training sessions. In April, a joint team from applications, innovation and sales delivered a virtual starch seminar for one major customer to over 160 of their staff from across the world. I doubt we would have been able to get 160 people from one company in so many countries to attend such a seminar pre COVID-19. This is a great example of turning adversity into advantage and provides yet another route for future customer collaboration.

Over the last few years, we have significantly strengthened our balance sheet, meaning we are well placed to navigate through this period. Our leverage is low with significant headroom on borrowings. We have strong liquidity with access to over $1 billion through cash on hand and a revolving credit facility and no debt matures until 2023. Despite our financial strength, as we saw the pandemic unfolding, we recognise the need to take actions to reduce costs and preserve cash. These included freezing salaries, including for the board and senior management, stopping non-essential discretionary spend, freezing recruitment and reprioritising capital commitments.

Nick Hampton:

We have also instituted a daily cash war room to protect our cash position. As we set out and our trading update on the 4th of May, the imposition of lockdowns in many countries across the world throughout April, most notably in our largest market, so the U.S. and Europe led to significant changes in demand patterns for our products. This slide summarises the key changes we saw in each division in April. By way of reminder, food and beverage solutions and soup loads continue to perform well with volume for food and beverage solutions in line with the comparative period and sucrose 18% higher due to phasing of customer orders.

Earlier in the month, demand was strong for ingredients used in packaged and shelved stable foods as consumers in North America and Europe filled their pantries for consumption at home. As the month progressed, this was offset by lower demand for products consumed out of home, which represent between 15 and 25% of sales for this business. In primary products, volume was significantly impacted by the first full month of lockdown in the U.S. Sweetener volume was 26% lower from reduced out of home consumption, which represents about 30% of the divisions' sweetener sales, industrial starch volume was 9% lower and commodities were also impacted as ethanol prices decreased sharply. We continue to work closely with our customers to meet their changing needs and all our manufacturing facilities remain fully operational.

The duration of the pandemic and the depth of its impact remains uncertain. It is not yet clear how consumer behaviour will evolve as countries exit from lockdown, what future government actions will be and when we will see demand return for out of home consumption. In light of this uncertainty, we are not issuing guidance for the 2021 financial year. To keep all stakeholders informed about progress, we will issue a first quarter trading update on the 23rd of July, 2020. For now our focus is on supporting our employees and local communities, maintaining the integrity of our supply chain, staying very close to our customers and on reducing costs and preserving cash.

As we look ahead into the 2021 financial year, our priorities are also clear. Continue to look after our people and communities, build stronger relationships with our customers, continue to progress our strategy and maintain the strength of our balance sheets. While no one knows exactly what the near term future holds, the companies that will emerge stronger are those that will adapt fast to and embrace the new business environments and ways of working. This is a key focus for us and I believe that with our well-balanced business and the momentum we have built over the last two years, we are well placed to emerge from this period as an even stronger and more agile business.

The last two months have been truly extraordinary. And it has been incredible to see the passion of our people living our purpose every day. I can't say enough times how proud I am of all of them. Looking back over the last 12 months, we have a lot to be positive about as strategy to grow food and beverage solutions is delivering. And we have built a strong financial position, which is not only helping us navigate COVID-19, but also provides us with the flexibility to invest for growth. Our purpose continues to inspire and motivate our people and our new long term purpose commitments will help to demonstrate our progress. We have a highly committed and experienced management team and increasing depth of talent in the business, driving us forward with determination and ambition.

Nick Hampton:

As I said earlier, the fundamentals of our business remain silent despite the challenges of COVID-19. A high quality portfolio of ingredients and solutions give consumers healthier and tastier products when they eat and drink. Demand for these products is growing. And this trend is here to stay. Combined with our financial strength, this gives me confidence we will navigate this period successfully and that our future prospects remain strong. I would like to finish by thanking everyone at Tate and Lyle for the hard work that made last year's results possible. And for that unbelievable resilience in these exceptionally difficult times. So many have gone beyond the ordinary call of duty. And for that, I am truly grateful. I hope everyone listening to this presentation remains safe and well, that completes our presentation for today. And I will now hand back to the operator to introduce the Q and A session.

Operator:

Thank you. Ladies and gentlemen, if you wish to ask a question, please signal by pressing star, one on your telephone key pad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. As a reminder, to ask a question please signal by pressing star, one on your telephone keypad. We will pause for just a moment will allow everyone an opportunity to signal for questions. We will take our first question now from Arthur Reeves from Barclays. Please go ahead.

Arthur Reeves:

Thank you and good morning everyone. Three questions from me, if I may please. The first is on food and beverage solutions and there's some really interesting and positive mix we saw in 2020. Tell me in 2021, FY21, if you can maintain flat volumes in that business, can you achieve a 5% profit growth or 10% profit growth through either mix or price increases? In the past you've told us about price increases and there's clearly some quite uneven growth in that business with clean label growing very strongly and fibres growing strongly. Does that give us positive mix? That's my first question.

Arthur Reeves:

My second question is on primary products. How can you cope operationally with that fall off in demand that we've seen because of COVID? And then thirdly, on sucralose. In the past, you've told us that you expected sucralose profits to decline gradually. They've clearly not, or they clearly didn't in 2020 where you lapped some one-offs. Can you just give us an update on how you're thinking on sucralose please?

Nick:

Sure Arthur and good morning everybody. Thank you for joining in the call. So let me take each of your questions in turn and I'll ask Imran to follow up as well. Firstly, let's look on FBS. I should say, look, we're delighted with the progress that we saw last year. I think for the first time across all of our regions, we saw good volume to revenue and then revenue to profit average and that's precisely what we're looking to do. Why did that happen? The quality of our business continues to improve and the strength of our innovation pipeline is allowing us increasingly to move from ingredients to solutions. And that allows us to extract the right kind of price mix for the business. As we enter fiscal 21, that's clearly an intention going forward this year as well. So I would hope we continue to see that kind of balance in our portfolio because fundamentally the innovation pipeline is starting to drive nice performance in the business.

Nick:

I'm sure Imran can give you a little bit more detail on that. On primary products. Despite the fact that we see the short term fall off in demand for sweetness in North America, our plants continue to perform very well, and I'm extremely pleased by the operational discipline we're seeing the flexibility and that's in part demonstrated by the product they delivered last year as well to support performance. And then lastly on sucralose, the team just continues to do an outstanding job of managing the customer mix in that business. We saw good performance in the plants as well, and all that led to stable performance and we're still seeing strong demand for sucralose. But as you know, we are up against capacity limits now. We're continuing to see that as a stable business going forward with a continued growth in demand, which I suspect will continue post COVID-19. Imran, I don't know whether you want to add anything to that.

Imran:

Yeah. Maybe on sucralose. I think when you look at the year we've had, it goes to both excellent cost management, as well as customer management on the mixed side. So you still see the overall dynamic when we talk about sucralose on the competition, therefore having price pressure around 1 to 2% every year that we need to offset. I think the financial discipline, the cost programs actually helped us overcome that this year. Internally when we look, I really still think, we're capacity capped, we will have the exposure to the pricing and we need to continue to do what we're doing to offset that impact over the midterm.

Imran:

I think one of the other things that's really helped us really strongly is our longer term agreements that we hold with customers. I think maybe one additional point on colour on FBS. We saw growth of 1% volume and 5% revenue. The way to think about that is mixed gave us around 2% and price gave around two and maybe pass through on corn was one. That makes really, as you point out, Arthur comes from higher fibre, higher Stevia, all the higher margin innovation that we're launching. And we expect that to continue.

Arthur Reeves:

Thank you very much.

Operator:

Thank you. We will now go to our next question from Martin Deboo from Jefferies. Please go ahead.

Martin Deboo:

Yeah, morning everybody. I've got a couple, I've got a couple more. Maybe I'll do my most important two, but if there's time later, I've just got a couple of followups. The first I want to ask is, clearly you're not going to say very much to us about volume impact of COVID or the duration of that impact. But I think the question one can reasonably ask is based on sort of what you saw in April and the cost mitigation measures you're taking, what should we model as a rate of drop through of lost sales to profit in the primary business? That's the first question.

Martin Deboo:

Second question is around the dividend. I'm not going to ask you for a dividend commitment or forecast, but is the mood of the board based on current knowledge that you will want to pay a dividend in FY21 and are you going to pay an interim and a final, or are you going to pass on the interim and sort of say how you feel at the end of the year? I suppose those are my first two questions.

Nick:

So Martin, let me pick up the dividend point first, then I'll ask Imran to comments on your question on primary products. Look, as you said, we're paying a dividend consistent with last year for the final dividend. I mean, that really reflects the strength of our balance sheets. A clear signal there's no change to our dividend policy, which is progressive. And we see this as sort of balanced sense of approach in the current environment. It reflects our financial strength and that actually, I think also reflects the confidence the board has in the future of the business as we look through the current challenges of COVID-19.

Nick:

I think as I said in the presentation, despite the fact that April trading was mixed, I'm confident, we're well placed to emerge from this period because we do have a high quality portfolio that is helping consumers enjoy healthier and tastier food and drink through these challenging times. Demand continues to grow for those, those ingredients and I don't see that trend changing as we move forward. So the current position on the dividend really reflects that financial strength and the confidence of the board of the future. Obviously that, that positioning on the dividend for the coming financial year will be a decision for the board to make the right time. Imran, you want to pick up on the PP?

Imran:

Yeah. So as you mentioned, look in April, we saw significantly lower primary product volumes, right? Yes. We also saw strength in sucralose, but we mentioned that was praising. And as you point out, FBS volumes were in line. So clearly the key profit driver over the next month will be the volume decline in primary products and how long that lasts. And the way I think about that Martin is it's a lot less volume going through the network and that drives operational de-leveraging on the P&L because you have a high fixed cost base that you need to manage.

Imran:

Now, clearly you saw that we announced some discretionary spend measures, freezing costs, merit raises that will all go to help but clearly, when you have 26% decline in a month, that has a bigger impact than you can mitigate in any month. Question will be how long does that last? What I am very glad about is that we continue to do a really good job on our productivity initiative. I mean, we weren't beating those numbers and that's helped us call the number of big hire as well. And that will also go towards helping us. But clearly as you point out the volume decline with the de-leveraging impact is the one to keep an eye on.

Martin Deboo:

And Imran, are you going to quantify the drop through for us or leave us...

Imran:

As you could tell, we came up with April trading statement because we felt it was important once we're close to April to give you a picture of what we're seeing. We're talking today and we'll talk again towards the end of July to give you sort of exceptionally an update as well on what's happening at Q1, because I recognise it's important to keep you posted. And again, it's not two weeks into May from a trading perspective and we'll have to see how that plays itself out still Martin.

Martin Deboo:

Okay. Thank you.

Operator:

Thank you. We'll go to our next question now from Alicia Forry from Investec. Please go ahead.

Alicia Forry:

Hi, good morning everyone. Two questions from me. I was just wondering if you could provide any update on what's been happening in May so far. Is it a continuation of what you saw in April or given that we're approaching a summer period more closely? Does this mean that the decline is now more pronounced? And then secondly, appreciate your view that the business will be resilient longer term, but if consumer behaviour incomes, et cetera, lead to a sort of permanent lower volume, what sort of level of sustain in volume decline would cause you to need to reconfigure your production base? Say if volumes were permanently 15% lower than pre-crisis, what might that mean for the business? Thank you guys.

Nick:

Thank you Alicia and good morning. Let me take the first couple of questions and I'll maybe ask Imran to comment as well. In May, and we're only sort of two weeks into May, we're seeing similar trends to the ones that we saw in April. No great surprises. There's no real change in exit from lockdown yet in most markets. I think we'll only see anything significantly different when we see lockdown easing over the next few weeks across Europe and North America and the trends will become clearer. What we are seeing if you go around the world though, in Asia, we're seeing a return to some growth. The strong in-home consumption in Asia, a return to some out of home consumption as well. That's positive. And we continue to see a strong centre of the aisle performance in retail in Europe and North America, obviously driven by the fact that people are eating more in home with the continued softness announced at home.

Nick:

It's only two weeks. It's a lot trading statement. So you would wouldn't expect to see anything significant different. I think the critical period for us actually will be the next couple of months as we start to see states come out of lockdown in North America, because that's obviously going to give us a much better sense of how out of home behaviour develops post locked down. And to your point on consumer behaviour, clearly the network is configured to deliver high throughput. It's a bit difficult to put a number on what point you start to consider reconfiguration. We'll continue to track how things evolve over the next few months and obviously it's a consideration that we have to continue to keep in mind as things evolve. Imran, whether you want to add anything to that on the second point.

Imran:

Yeah, I think as you say, I mean, look, volume capacity planning is something we deal with every day. We recognise it's very critical for ourselves. I mean, it's sort of one of the core reasons why we went so aggressively after the productivity project specifically in our supply chains continue to take our cost. And as you say Alicia, as volumes fluctuate, we need to continue to work that equation.

Alicia Forry:

Could I possibly just have one quick follow-up? I was just wondering, can you confirm that your business of exporting into Mexico is still fully operational? Are those trains still running uninterrupted?

Nick:

Yeah. I mean, look all of our operations are running well at the moment, despite the changes in operating procedures. So there's no interruption in the supply chain at the moment.

Alicia Forry:

Thank you.

Operator:

Thank go to our next question now from James Targett from Berenberg.

James Targett:

Hello. Good morning gentlemen. A couple of questions. So firstly, just on your out of home consumption, you flagged what it was for FBS and primary products, but I just want what exactly you include in that kind of out of home definition. Are you talking about food service or also including sales to perhaps some more kind of impulse channels? Trying to get an idea of what your out of home exposure is and particularly the dining or kind of food service proportion-

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James Targett:

The dining or food service proportion of it versus impulse channels. And then on the current trading, or April, of trends you referred to, could you give some colour on the difference in any patterns in developed markets and emerging markets.

James Targett:

And then just finally you mentioned you expect to see strong demand for products from consumers which boost immunity, how well is your SBS portfolio position to be able to collaborate with customers and developing those products?

Nick:

So let's start with definition of out of home. I mean, it's effectively restaurants, food service and quick service restaurants is the sort of the simple definition of it. A little bit of impulse as well, where you're seeing small corner shops shutdown, the traditional definition that probably most of the FMCG companies would use across the world.

Nick:

Picking up on the difference between developed and emerging markets. Well, clearly in developed markets, the majority of Europe and North America went into lockdown in April. So what you saw was a significant increase in home consumption and retail demand, some of it driven by pantry loading and that sort of normalised towards the end of the month. Then you saw a significant decline in out of home.

Nick:

You compare that to emerging markets, I'm particularly thinking Asia because Asia was coming out of lockdown through April. You saw continued strong retail demand, but a start of out of home consumption resuming. And that drove ultimately, on balance, growth for our FBS business. And that's natural given the relative stage of where the pandemic is across the world.

Nick:

And your third question, I've forgotten was?

Imran:

Immunity.

James Targett:

Yes correct, immunity.

Nick:

Immunity, sorry. Well, I think as we come out of lock down, I think there's no doubt there will be an increase in health consciousness amongst consumers, and that will drive healthier diet.

Nick:

How's that going to evolve? It'll be a combination of calories out, sugar reduction. And of course, you know we're well placed in that sphere, given our balance across our fibre, sweeteners and texturants portfolio. But equally increasingly, dietary health will become important. So things like added fibre will become important, our added fibre range is critical there as well.

Nick:

And what we're starting to see is, especially in Asia actually, as lockdown eases is our customers are starting to think about reformulating along those lines. How are we dealing with that in the short term? Well, we're doing a lot of virtual development with customers, sending them samples in advance and having calls on things like Microsoft Teams to help them start to think about reformulation.

Nick:

And actually, we're learning a lot about working with our customers in different ways through this, by using technology which allows us to stay very close to them through lockdown. And as we emerge, I suspect we will continue to use that technology because it's another way we can stay close to our customers, post the pandemic lockdown stopping.

Nick:

Operator, can we move to the next question.

Operator:

Thank you. We'll go to our next question now, from Heidi Vestringen, from Exane BNP Paribas.

Heidi:

Good morning. So you were talking about your innovation pipeline driving mix. Recently we've been hearing from some other broader peers that customers are slowing new launches and that innovation could slow. Do you observe this at all? And if so, could this be temporarily bad for growth or, I guess mix.

Heidi:

And then the second question in Q1 so far, could you please talk about what you're seeing in your various end use categories please? So in terms of beverages, dairy, soups & sauces and others.

Heidi:

And then lastly, to clarify on your out of home exposure, could you state whether this includes both direct and indirect exposures, please? Thank you.

Nick:

So on the last point, it is both direct and indirect exposure that we're talking about. Look, on innovation and mix we are continuing to work with customers on innovation and reformulation. I think it's a bit early to tell how that will evolve. We're very early into the new stage of this, but we are still working with customers and staying close. And we'll just have to monitor that over time. I suspect we may see a little bit of a slow down in the short term. I don't know, Imran , whether you've got anything to add?

Imran:

Yeah, I think on that, the way we're thinking about it internally, as well is as you move into a more price sensitive for our customers environment, we'll probably get more requests on taking out costs for them, and that should continue to be helpful for us as well. So playing both on health and wellness and cost reduction spaces as you reformulate product.

Operator:

We have one more question from Karl Zoete from Kepler Chevreux.

Karl:

Yes, good morning. Thanks for taking the questions, I have two questions. The first one is on the ethanol business and the market here, which has been fairly tough. Can you talk a bit more about the outlook for the business in the coming period and what you have seen here in terms of the month in margins?

Karl:

And the second question would be on your new environmental goals and targets. For us as outsiders, it's difficult to judge how you basically do compare to competitors and peers in the industry. So the new targets that you've announced, how does that place Tate & Lyle compared to others in the industry? Are you already in the top quarter or is it merely catching up?

Karl:

And then as an add-on, in case you achieve those targets to reduce consumption in water, energy, et cetera, what would be more or less the cost savings attached to that? Thank you.

Imran:

So maybe I'll take the question on commodities in general, and maybe ethanol, to your specific question. When I look at the commodity performance for the year, I feel the team has done a nice job. And especially the last few years of delivering a good profit number on commodities, per se.

Imran:

In the trading update that we had done at the end of April, beginning of May, we talked about ethanol being a headwind, it's come down 20, 30% in terms of the market price. So clearly it is going to be a headwind for the year, and it will have a sort of negative impact for sure on the first quarter. And then we need to see how that plays itself out.

Imran:

One, there is just less demand and two, there's a lower price, and that has an impact on cash margins going into negative territory. Fair to say, ethanol is not a huge business for us, as you know, we're quite a minor player in that field, but still having said that, it's going to be a drag in the first quarter for sure. And then we need to see how it plays itself out in the rest of the year.

Nick:

So let me pick up the question on environmental targets. And yes, we're very excited about the ambition that we stated in our target. I think it's important to say to start with, the targets that we've set out today are an acceleration of good performance that we seen over the last 10 years.

Nick:

So we've reduced our greenhouse gas emissions by just over 20% over the last 12 years, we're committing to another 30% reduction by 2030. Importantly, they're science based targets that will allow us to align with the goals of the Paris agreement. So we do our part to deal with the challenges of climate change.

Nick:

And I think from an industry perspective that puts us right up there as a company. Alongside that, of course you see we're committing to continuing to support sustainable agriculture in the US equivalent of all the corn that we buy each year. And that is an industry first. So we feel really good about the ambition of our targets. And it's a really good example of how that purpose is allowing us to grow our business and make a positive impact on society at the same time, which is really, really encouraging.

Nick:

In terms of growing the business, of course this will help us with productivity. And we've seen some of the productivity Imran talked about, in the 87 million we delivered over the last two years, has been driven by our commitment to lower energy use. It's difficult to quantify as we're still working through all the programs, but it's clearly going to contribute to the 150 million extension of the program that we laid out today in the trading statement.

Karl:

All right, thank you.

Operator:

Thank you. We have a followup question now from Alicia Forry from Investec. Please go ahead.

Alicia:

Hi, thanks for the follow-up, just a quick one. Could you remind us about the seasonality of the sweeteners business? What percent of annual profit for that business is typically generated during the summer? That'd be helpful. Thank you.

Imran:

Think of it as first half, second half. When I look at it, it's maybe 65:35, something along those lines. Bigger proportions always get consumed in the summer.

Operator:

Thank you. We will now go to a follow-up question from Martin Deboo.

Martin:

Yeah, thanks for taking the follow up. Just to get more away from the near term trading. The first one just picks up on Carol's thing about the environmental commitments. Sorry to have to be the curmudgeon here but are we going to be presented with a bill in terms of capex for some of these commitments, particularly the transition to coal? Is that transition from coal to gas or is it coal to biomass, and is there a ticket attached to that?

Martin:

And secondly, you've linked the RCF pricing to the environmental targets, is the benefit of that, or the penalty, if you don't deliver the material on the interest line?

Martin:

And then the other one just completely unrelated is, I was just curious why you passed on Pure Circle. I just thought that was an interesting asset for you in Stevia. Was it something to do with the asset or does it say something about that you don't think Stevia is the future? Interested if you can make any comment on that.

Nick:

So let me take the last question first, Martin. Our Stevia strategy is very clear. We formed a joint venture with Sweet Green Fields, we have the opportunity to step up our investment in that asset over time. And we're very comfortable with the competitive portfolio that provides us alongside our own Stevia portfolio, that includes REV M importantly.

Nick:

So, as we look to Pure Circle in the context of where they were on their journey and where our Stevia strategy was evolving, we decided that we were better continuing with what's been a very successful partnership for us so far. As Imran said earlier, I think we saw very strong growth in Stevia last year and we see the potential of that business as very strong.

Nick:

Imran, I don't know whether you want to take the other two questions?

Imran:

Yeah, sure. So maybe first on interest and then specifically with interest on the RCF. I think maybe it's helpful to give you sort of a broader perspective on interest expense. I see some upward pressure from the disappearance that we have of the pension finance income. I'd also expect slower interest income on cash. And we took out new debt at 20 million for 2.96%. So those move it upwards. We did also offset it with the refinancing last year at lower interest rates. So net net, to me that comes out at a modest year on year increase in interest expense for the year '21.

Imran:

When I look at the RCF, it's not material at all. It's a small basis points of the deal. The more important piece of it was to ensure that, one, we extend with the banks and, two, that we demonstrate with them that we're serious about the sustainable goals. But it would not be a material amount if we miss or beat the targets, so to speak, because it goes both ways if we beat it as well.

Imran:

When it comes to your first question on capex bill, think of it as the guidance we have given for the year is between £140 million and £160 million. Within that envelope then, when I look ahead on capital in general, it should remain within that sort of range. It may go up a bit or down a bit, depending on other growth projects, but so far, I feel the capital range that we've given allows us to do both the growth, the safety and the productivity whilst ensuring we are a more caring company for the world. And I think that's sort of the job we have to do in any case.

Imran:

When it comes to the bill on the co-gen with the gas, maybe I pass it also back to Nick a bit, is there's a big payback as well involved in the £75 million, as an example, with taking out coal and replacing with the natural gas. There will be a return on that project as well, which takes up margins.

Imran:

Nick, I don't know if you wanted to add something?

Nick:

I just had one point. Martin, look, all those projects have good paybacks and they're built into our capital forecast. And to answer your more specific question, it is a combination of cogeneration, which is gas-fired that we announced, and biomass. And a combination of those two things will allow us to eliminate coal over the next few years.

Martin:

That was great. Thank you very much.

Nick:

So operator, if I could just summarise before we close the call.

Nick:

Stepping back from all of the current uncertainty, we've just delivered another year of strong financial performance and strategic progress. Both our divisions performed well, and the company overall delivered results slightly ahead of our expectations at the start of the year.

Nick:

Importantly, our priority is to sharpen, accelerate and simplify our business. So really driving performance. We're making good progress with customers. Innovation is driving strong growth with new products up 15% last year. And that productivity program is ahead of target and is being extended.

Nick:

We have a strong financial position. We've got low leverage, over a billion dollars in liquidity and that and the confidence of the board in the future of the business allowed us to hold the final dividends this year. And it also reflects our understanding and the board's understanding of the importance to investors of our dividends.

Nick:

I'm very proud of our response to COVID-19. All our people are safe, all our plants are fully operational and we continue to serve our customers well. And while April trading was mixed, I'm confident that we're well placed to emerge from this period, a stronger company. The fundamentals of our business remain sound. We've got a high quality portfolio, demand for that is growing and I think this trend will continue post COVID. And we have the financial strength that gives us the flexibility to navigate the short term and to continue to invest for growth.

Nick:

So we feel confident about the future. Clearly the short term is more uncertain, but we'll update you on July the 23rd on how things are progressing. And we look forward to talking to you then. In the meantime, I hope you all stay safe and well and we'll talk to you later in July. Thank you.