Tate & Lyle PLC

Half Year Results

5 November 2020

Transcript

TATE & LYLE

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Nick Hampton: Good morning and welcome to the presentation of Tate & Lyle's results for the six months to 30th September 2020.

Nick Hampton: I hope everyone listening to this presentation is safe and well. The last six months have been like no other, and COVID-19 has tested our organisation in ways we have not experienced before. I am so proud of how my colleagues have attacked the challenges they have faced, and for the passion to live our purpose of improving lives for generations in everything they do. For keeping each other safe, for caring for people in our local communities, for keeping our operations running, and our customers served so well. I want to say a big thank you to all my colleagues across the world. You have been simply incredible.

Nick Hampton: Now, turning to an overview of the first half. Despite the challenges of COVID-19, the group delivered robust performance demonstrating the strength, resilience, and agility of our business. Food and beverage solutions delivered revenue and profit growth. Sucralose profit was lower on softer demand and primary products delivered steady earnings helped by strong performance from commodities. Both divisions benefited from strong operational execution and cost discipline.

Nick Hampton: Our three priorities to sharpen, accelerate, and simplify our business, continue to support our progress. And the balance sheet remains strong with cashflow higher and net debt lower in the half. Underpinning everything we do is our purpose, and I am pleased to say we made good initial progress on the long-term purpose commitments we set out in May.

Nick Hampton: Looking briefly at the financial results. Food and beverage solutions grew revenue by 1% with notably 3% revenue growth in North America. Profit in food and beverage solutions grew by 9%, while profit from primary products was in line with the comparative period despite challenging market conditions.

Nick Hampton: For the group as a whole, adjusted profit before tax was up 3% and diluted earnings per share were 9% higher, helped by a lower effective tax rate. Adjusted free cashflow increased by £23 million, and the board has declared an interim dividend of 8.8 pence per share, unchanged from last year.

Nick Hampton: We are making good progress on sustainability, which is a key pillar of our purpose. In September, our scope one, two and three greenhouse gas emission targets were validated by the science-based targets initiative, meaning our targets are in line with the goals of the Paris Agreement on climate change.

Nick Hampton: Three major projects are underway at our plants in Lafayette, Decatur and Santa Rosa, which will reduce our greenhouse gas emissions by up to 20%.

They will also deliver on our commitment to eliminate coal from our operations by 2025, and increase energy efficiency at each site.

Nick Hampton: Our sustainable agriculture program in partnership with Truterra is progressing well. This program actively supports over 1,700 US farmers and covers 1.5 million acres of US grown corn, equivalent to every single acre of corn we buy globally each year.

Nick Hampton: Under the program, participating farmers received customised support to measure and help increase the adoption of conservation practices. We recently received the first year results from the initial 148,000 acres enrolled in the program. These were encouraging with greenhouse gas emissions down 10% and top soil erosion reduced by 6%. This program is gaining strong traction with our customers, as it provides data to support the measurement of their scope three emissions.

Nick Hampton: Looking at the agenda for the rest of the presentation, I will start with an update on the business. Imran will run through the financial results, after which I will return to talk about the outlook and summarise. Finally, Imran and I will take your questions.

Nick Hampton: Starting with our two business divisions. Food and beverage solutions continues to perform well and benefit from consumers seeking healthier alternatives from their food and drink. Consumers are looking for more sugar and calorie reduced products, cleaner labels, and more natural ingredients, as well as improved texture and taste.

Nick Hampton: There is also growing demand for more plant-based options in foods that build immunity and digestive health. This demand is expected to increase as COVID-19 focuses consumers and governments on the importance of diet and health.

Nick Hampton: Our broad portfolio of products and strong technical capabilities in sweetening, texture and mouthfeel, and fibre fortification are well-placed to help our customers deliver on these trends.

Nick Hampton: These capabilities helped drive strong growth in the half. In sweetening, revenue from products supporting sugar reduction, excluding sucralose, were up 20%. In texture and mouthfeel, our range of clean label texturants performed well, with revenue up 34%. And in fibre fortification, 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 11%. These capabilities together with our expertise in key categories allow us to provide unique solutions for our customers.

Nick Hampton: Let me talk in more detail about how this solutions approach is helping our North American business to deliver growth. In North America, we continue to target new business in attractive subcategories. We size each subcategory and prioritise them based on a combination of market trends, growth rates, category insight, customer needs, and the subcategory's fit with our technical capabilities and solutions. Some examples of subcategories from the dairy category are shown on this slide.

Nick Hampton: We then use that knowledge to develop prototype products to demonstrate our solutions to our customers. For example, a reduced sugar, dairy free frozen dessert, including our Promitor fibre and Dolcia Prima allulose.

Nick Hampton: At the same time, we offer our customers a wide range of capabilities, including applications expertise, consumer insights, and regulatory knowledge. We also partner with our customers to show them how our ingredients toolbox can deliver benefits such as sugar reduction, a cleaner label and improved taste and texture. This integrated solutions approach is helping us win new business and become the chosen growth partner for our customers.

Nick Hampton: Turning now to primary products, which faced some challenging market conditions in the first half. In April and May, demand was impacted by lockdowns in the US. The shutting of restaurants, bars, cinemas, and sporting venues led to a significant reduction in demand for sweeteners used in products consumed out of home. The closure of schools and offices and the associated reduction in the use of paper, also led to lower demand for industrial starch.

Nick Hampton: In June and during the second quarter, demand improved as lockdowns eased in the US although out of home demand remains below pre-pandemic levels.

Nick Hampton: Commodities performed better than expected with an increase in home cooking during the pandemic leading to higher market demand for corn oil and some earlier than normal contract phasing. It is to the great credit of the primary products team that they managed to mitigate the impact of COVID-19 through excellent operational and supply chain performance, strong customer service and cost discipline.

Nick Hampton: Primary products also benefited from our strategy to deliver steady earnings by focusing on managing its portfolio to maximise margins, increase operational efficiency and diversify capacity towards new and growing markets.

Nick Hampton: Moving to our key priorities for the year. With the pandemic continuing, keeping our colleagues safe, our operations running and our customers served remains a key focus for us. The global pandemic response team we formed in March remains in place, as do our local response teams at every site. All our manufacturing facilities have remained operational, and we are staying very close to our customers to react quickly and effectively to their changing needs.

Nick Hampton: In May, we set out four priorities for the year. To look after our colleagues and communities, strengthen our relationship with customers, continue to progress our strategy, and to maintain our financial strength. I am pleased to say we are making good progress against these priorities, and I will cover each one in turn, starting with looking after colleagues and communities.

Nick Hampton: In the current environment, our purpose pillars of supporting healthy living and building thriving communities are particularly relevant. As the pandemic continues, we have intensified our program to support the mental wellbeing of colleagues and to promote health education more widely.

Nick Hampton: For example, working with Nestle in Latin America, we recently launched a free online education program on the health benefits of dietary fibre. In the UK, we are supporting the British Nutrition Foundation's research on improving public health through sugar reduction, added fibre and plant-based proteins.

Nick Hampton: To support our local communities, we continue to leverage existing relationships with over 20 food banks across the world to provide nutritious meals to people in need.

Nick Hampton: In July, we became a founder member of the Fast Futures program in the UK, which helps young people from diverse backgrounds learn new skills and increase their employability in support of the UK's post-COVID economic recovery. In addition to funding, our contribution includes providing personal mentors for participants, and seminars with senior management, including me.

Nick Hampton: In the US and Latin America, we have adapted our community schools program to provide grants to assist virtual learning and to donate essential school supplies.

Nick Hampton: Turning now to our second priority, to build stronger relationships with customers. At the outset of the pandemic, we recognised the importance of staying very close to our customers, continuing to support their growth and finding new and creative ways to connect with them using technology.

Nick Hampton: Over 75% of discussions with customers on growth opportunities are now held virtually on Microsoft Teams or Zoom. We have increased the use of customer webinars on topics such as sugar and calorie reduction and plant-based ingredients, and accelerated the launch of customer focused online programs.

Nick Hampton: For example, in July, we launched Sweetener Vantage expert systems, a set of innovative sweetener solution design tools to help our customers create sugar reduced food and drink using low calorie sweeteners. This was originally planned to be launched in 2021, but to support our customers, we brought it forward by a year. Our team got it up and running in six weeks and over 1,600 people registered for the first module.

Nick Hampton: Overall, despite COVID-19, the new business pipeline for food and beverage solutions grew by 10% in the half. And in primary products, high levels of service, product quality and supply chain flexibility have helped to further strengthen customer relationships.

Nick Hampton: Turning to our third priority, continuing to progress our strategy. One of the objectives we have talked about previously is to strengthen our texturant portfolio by expanding our presence in tapioca food starch. For that reason, we are delighted that last month we signed an agreement to acquire an 85% shareholding in a specialty tapioca business in Thailand.

Nick Hampton: This investment brings us new capabilities, a dedicated tapioca facility in Asia Pacific, raw material sourcing expertise and production capacity, which we intend to increase significantly over the next three years. The investment also expands our customer offering in categories, including dairy, bakery, snacks, and noodles.

Nick Hampton: To further increase our focus on higher growth markets, we have established a new region consisting of Asia, Middle East, Africa and Latin America. This region will be led by Andrew Taylor, formerly our president of innovation and commercial development.

Nick Hampton: Turning now to innovation. We continue to work closely with customers to launch new products, and the value of the innovation pipeline increased by 4% in the half. New products launched from our pipeline once again performed well, with revenue up 8% in constant currency. Three ingredients were removed from new products during the half since they were launched more than seven years ago. Had those ingredients been included in new products, revenue growth would have been up 27%.

Nick Hampton: The textured platform delivered double digit revenue growth driven by non-GMO and clean label starches. Our stevia sweeteners also grew strongly, with revenue up 53% in the half. Finally, I'm delighted that this month, Victoria Spadaro Grant became our new president of innovation and commercial development. Victoria joins us from Barilla and brings with her strong R&D experience, commercial and customer facing expertise. Our fourth priority is to maintain our financial strength.

Nick Hampton: Imran will cover this in more detail later, but our financial position is very robust. With a strong balance sheets, low leverage, and high liquidity, our productivity program remains on track. A continuous improvement program has adapted well to the challenges of working during the pandemic and is continuing to deliver meaningful productivity benefits. These projects tend to be numerous but smaller in nature, and 95 projects were completed in the half.

Nick Hampton: Examples include reducing the use of heavy steep water at a Sagamore facility in Indiana, which is saving around $600,000 a year, and optimising the way our roll dryers work at the same facility, giving an annual benefit of around $100,000. So to summarise, after a very challenging six months, to deliver another half of progress is very pleasing. We have shown strong resilience, and we are successfully delivering on the four priorities we set out at the start of the year.

Nick Hampton: The pandemic is making us a more agile organisation. We are connecting and collaborating with customers in new and exciting ways. And the fact that our innovation pipeline and our customer pipeline for food and beverage solutions both grew during the last six months demonstrates the strength of our business and the creativity of our people. With that, I will hand you 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 thanks to all our people. Just to remind you that in line with previous presentations, I will focus on adjusted measures. Items in percentage growth are in constant currency, unless I indicate otherwise. Overall, we made a solid start to the year despite the challenges of COVID-19. Group revenue was 4% lower as a result of lower demand due to the pandemic.

Imran Nawaz: Profit before tax was 3% higher, reflecting excellent operational performance and rigorous cost discipline. Both divisions delivered on their strategy. Food and beverage solutions achieved good profit growth, while earnings from primary products were steady. Adjusted diluted EPS was up 9%, helped by foreign exchange benefit in joint ventures and the lower effective tax rate. Adjusted free cash flow continued to be strong at £194 million, up £23 million, and net debt is £93 million lower at £358 million.

Imran Nawaz: Finally, as Nick mentioned earlier, the board has decided to maintain the interim dividend at 8.8 pence per share. I'll not go through the key factors driving profit growth. Food and beverage solutions operating profit was up £8 million driven by revenue growth, good operational performance, and strong cost discipline. Softer demand for sucralose meant that both volume and profit were lower in the half. In primary products, profit was in line with the comparative period.

Imran Nawaz: Sweeteners and starches profit was £11 million lower, reflecting weaker demand driven by the pandemic. Profit and commodities was up £11 million. Strong cost discipline has been a key feature of our response to COVID-19, and this positively impacted the performance of both divisions. Central costs, however, increased by £2 million due to higher costs of selfinsurance. Interest costs were in line with the comparative period, and the share of profit after tax from joint ventures was £3 million higher.

Imran Nawaz: Finally, the impact of foreign exchange was to decrease profits by £6 million to £180 million. Let's now turn to our divisional performances. Let's start with food and beverage solutions. Volume was in line with the comparative period. Revenue increased by 1% and profit grew by 9%, driven by good operational performance and strong cost discipline. Taking a look at our regions. In North America, top-line momentum continued with volume and revenue up 3%.

Imran Nawaz: The pandemic changed demand patterns significantly in the half with reduced demand for out-of-home consumption, particularly in the food service sector. This was offset by strong growth in in-home consumption across critical categories such as bakery, dairy, soup sauces, and dressings. In Asia Pacific and Latin America, volume decreased by 5% while revenue increased by 1% benefiting from a good price and mix management, especially in Latin America, which benefited from US dollar based pricing.

Imran Nawaz: In Europe, Middle East, and Africa, volume and revenue decreased by 1%. Revenue was in line in Western Europe, but lower in Middle East and Africa as we applied rigorous credit risk management. As Nick said earlier, revenue from new products was up 8% and now represent 12% of food and beverage solutions revenue. Turning to sucralose, volume and revenue decreased by 2%, reflecting softer demand during lockdowns for products consumed out of home, particularly in beverages.

Imran Nawaz: The month of September was higher than usual due to the phasing of some customer orders. The consequences of the lockdowns and lost consumption are expected to continue into the second half. Adjusted operating profit at £25 million was 12% lower in constant currency, reflecting the de-leveraging impact of lower revenue, as well as one-off higher production costs.

Imran Nawaz: Moving to primary products, which also includes commodities, total volume was 7% lower than the comparative period and operating profit was in line. Sweetener volumes were 8% lower as reduced out-of-home consumption during lockdowns in North America impacted consumer consumption patterns. Out-of-home consumption represents around 30% of sweetener consumption. The easing of lockdowns from June onwards led to an improvement in demand as the half progressed, although out-of-home demand remains below pre-pandemic levels.

Imran Nawaz: Industrial starch volume was 9% lower due to weaker demand from customers in the printing and writing paper industry, reflecting the closure of many schools and offices during lockdown. As lockdowns have eased, demand has improved. In packaging, demand was higher, benefiting from increased online shopping during lockdown. Our strategy over recent years to diversify away from domestic paper production has helped to mitigate the impact of the pandemic.

Imran Nawaz: Profit from sweeteners and starches was 13% lower with strong cost discipline, particularly in our operations, mitigating some of the impact of lower volumes. Profits were helped by transactional foreign exchange benefits, which mitigated the loss of profit from the savoury ingredient business we exited in the prior year. Commodities profit was up £11 million.

Imran Nawaz: This was due to significantly higher core product recoveries from Cornwall due to increased market demand, as well as some earlier than normal contract phasing brought forward into the first half. On this slide, we show the remaining components of profit before tax. As I said earlier, central costs were £2 million higher. Net finance charges were in line with the comparative period. This reflects lower borrowing costs following a bond refinancing and the prior year offset by the loss of finance income following last year's pension buy-in.

Imran Nawaz: The group share of profit after tax of joint ventures was 21% higher, principally due to higher profits in Almex, our joint venture in Mexico. Almex are weaker sweetener demand due to pandemic, but profit was higher, benefiting from transactional foreign exchange of £4 million. The effective rate of tax was 430 basis points lower at 16.6%, primarily reflecting the release of a provision for which tax liabilities did not materialise, as well as a beneficial change in US tax law enacted in the half.

Imran Nawaz: We expect the effective rate of tax for the full year to be at a similar level. Turning to exceptional items, we recognised net exceptional costs of £18 million in the half. This comprised mainly of charges relating to simplification as part of our $150 million productivity program. During the half, we took steps to significantly reduce costs, preserve cash, and drive productivity to mitigate the financial impact of lower demand.

Imran Nawaz: Actions taken include significantly reducing discretionary costs, including travel and consulting, as well as freezing recruitment. These actions benefited both business divisions. On productivity, our program to deliver $150 million of benefits over a six-year period through to March 2024 remains fully on track. These benefits come from a range of areas, including capital investments to reduce energy costs, supply chain efficiency improvements, our continuous improvement program, and SG&A savings.

Imran Nawaz: The combination of SG&A savings and productivity resulted in £19 million of benefits in the half. Turning to cash flow and the balance sheet, cash management continued to be strong. Adjusted free cash flow was £23 million higher at £194 million, driven by strong working capital management and lower retirement benefit contributions following the buy-in of the main UK pension scheme in the prior year. We continue to expect capital expenditure for the 2021 financial year to be between £140 and £160 million.

Imran Nawaz: Net debt decreased by £93 million to £358 million, and our net debt to EBITDA ratio is now at 0.7 times. We continue to strengthen our balance sheet. In May, we extended the maturity of our committed but undrawn $800 million revolving credit facility by one year to 2025. In August, we also issued $200 million in US private placement bonds at an average coupon of 2.96%. As a result, we have strong liquidity headroom with access to more than $1.4 billion through cash on hand and a committed and undrawn revolving credit facility.

Imran Nawaz: So in summary, we delivered a robust financial performance with adjusted profit before tax up 3%. both business divisions performed in line with our strategy with profit growth in food and beverage solutions and steady earnings from primary products supported by a strong operational performance and cost discipline. Diluted EPS was up 9% held by a lower effective tax rate and cash management was good with adjusted free cash flow up once again. We have maintained our interim dividend.

Imran Nawaz: Our balance sheet is strong, and we are well-placed to navigate these difficult times. With that, let me hand you back to Nick.

Nick Hampton: Thank you, Imran. Before I talk to the outlook, this will, of course, be the last time Imran presents a full set of financial results for Tate & Lyle. Imran has been a highly valued member of the board and executive team and a great colleague to work with. While he will still be with us for another six months, I would like to take this opportunity to thank him for his contribution to Tate & Lyle and wish him every success in the next stage of his career.

Nick Hampton: Turning now to the outlook. While we are pleased with our progress in what has been a challenging environment, considerable uncertainty remains. The duration and severity of the pandemic is still unclear. We don't know what future actions governments may take and demand for products for out-of-home consumption remains below pre-pandemic levels. In this environment, we also need to complete the 2021 annual sweetener contracting round. Given this uncertainty, we are not issuing guidance for the current financial year ending the 31st of March 2021. Instead, we will update stakeholders of our progress in our third quarter trading update on the 28th of January 2021.

Nick Hampton: As reviewed, we have made good progress against the four priorities we set out at the start of the year and they remain our near-term focus. We will continue to support our employees and local communities, strengthen our relationships with our customers, progress our strategy and maintain our financial strength. We will also continue to adapt to and embrace the new business environment and ways of working, and to invest in the business to ensure we emerged from this period an even stronger business.

Nick Hampton: Despite all the challenges, it's been an encouraging six months and we have made good progress. Our performance has been robust and we are progressing our strategy. Our financial position is strong and this is enabling us to successfully navigate COVID-19 and invest for growth. Underpinning all of this is our purpose of improving lives for generations. The fundamentals of our business remain sound. Our high quality portfolio and technical capabilities in sweetening, texture and mouthfeel, and fibre fortification help to make healthier food and drink that is lower in sugar, calories and fats, and with added fibre. COVID-19 is heightening people's awareness of the importance of healthier living and demand for healthier food and our solutions will continue to grow. I remain confident in the future of our business.

Nick Hampton: I would like to finish by thanking everyone at Tate & Lyle for their hard work in delivering these solid results and for living our purpose with great passion and belief. So many have gone beyond the ordinary call of duty. And for that, I am truly grateful.

Operator: Thank you, ladies and gentlemen. That is the end of the recording. I will now hand over to Nick Hampton for a few words before we start the Q&A session.

Nick Hampton: Thank you, operator. And I hope everyone listening to this presentation remains safe and well. As I said, the first half of the year has demonstrated the strength, resilience, and agility of our business. With group profit higher, revenue growth in food and beverage solutions and the interim dividend maintained. The business is navigating COVID-19 well and our long-term growth prospects remain strong. Imran and I would now be very happy to take any questions.

Operator: Thank you. If you would like to ask a question, please signal by pressing *1 on your telephone keypad. If you are using a speaker phone, please ensure your mute function is turned off to allow your signal to reach our equipment. Again, that's *1 to ask a question.

Operator: We'll now take our first question from Karel from Kepler. Please go ahead. Your line is open.

Karel: Yes. Good morning. Thanks for taking the questions. I have two questions. The first one is with regards to your capital allocation priorities. We've seen another period with strong cash flow, but still you keep the dividend stable and you've been able to announce a nice add-on deal in Asia. So can you talk a bit about what are the priorities and if cashflow remains strong, would you consider also to buy back shares, for example, later this book year?

Karel: The second question would be about your performance in Asia. Can you speak a bit more how are you performing in that market currently? Have you seen any benefits from lockdowns being lifted in some markets? And also, in relation to that, the new setup of your emerging markets of business in food and beverage solutions, how and why will you prosper from that? Thank you.

Nick Hampton: Okay. Thank you for your two questions, or maybe even three. Why don't I take Asia and faster growing markets first, and then I'll ask Imran to comment on capital allocation. So firstly in Asia, it's really a mixed picture. So we're seeing the emergence of strong growth in China as China came out of lockdown earlier and dealt with the challenges of the pandemic pretty well. And China really is now operating pretty much as normal. So we saw good growth there. Some weakness in Southeast Asia as lockdown has continued for longer. And as you know, Japan is still pretty much in full lockdown, where beverages have been suffering. So where we've seen markets emerge from lockdown, some encouraging growth, especially in the health and wellness part of our portfolio. Where markets are coming out more slowly, it's a little bit more muted.

Nick Hampton: On the reasons for creating the new region across Africa, Middle East Asia and Latin America, these are clearly our high-growth markets, and we want to make sure that we share learning's as effectively as possible across those markets. There are some very similar dynamics from both the consumer and a customer perspective, notably faster pace of innovation. So it made sense to reorganise in a way that allowed us to manage more effectively across each of those regions. And obviously, in Andrew Taylor, we've got a very talented leader to lead that business forward. So it's really a reflection of the importance of those markets to our growth going forward.

Nick Hampton: Imran, how about you take capital allocation?

Imran Nawaz: Yeah, of course. So as you say, we have built a very strong balance sheet over the last three years and feeling that we're in a really good place and I said EBITDA is 0.7.

Imran Nawaz: And as you saw on the half, we continued the great work on working capital, cash and just sort of shoring up our overall strength. That strength is giving us a lot of optionality at this point in time. And clearly our preferences are on organic investments. You will have seen we continue to spend our cap ex in line with prior year, did not need to cut because we need to continue to invest in our growth. As you also pointed out, we continue our journey and that's how we managed to do the acquisition we just did in Thailand. And of course the dividend continues to remain a high priority, which we confirmed at the end of last year and again now at the interim. So I don't really see any change to our capital allocation philosophy at this point in time. And again, I would say investing in growth, organic or inorganic, is the main priority alongside the dividend.

Karel: Thank you.

Operator: We will now take our next question from John Ennis from Goldman Sachs. Please go ahead. Your line is open.

John Ennis: Yeah, good morning, everyone. A couple of questions as well from me, please. The first is on cost saving delivery. I wondered if you could give us an update on where we stand with regards to the 150 million cost savings target that you originally outlined, how much of that is left to be delivered. And with the remainder of that saving plan, are you planning a potentially higher level of reinvestments versus, say, this year? I'd be interested to have a bit of colour on that.

John Ennis: And then I wanted to ask one on the commodity segment as well. I guess we've now had consistently higher profits in this segment for the last four years, quite reasonably ahead of the sort of rough 10 to 20 million guidance level that we tend to think as analysts is kind of sustainable for this business. Can you maybe give us a bit of a sense of what you've done differently to generate consistently higher profits within the commodity segment? Or maybe give us a bit more of a steer on how we should think about medium term profits for this part of the business. Is the 10 million lower end at that rough historical range too low, even with a more normalised corn oil price. I'm interested to get some colour there as well. Thanks guys.

Nick Hampton: John, let me give you some headlines and I'll ask Imran to comment as well. Let me start with commodities. I think what the commodities team has done a really good job of over the last really two to three years is to manage our commodities very much on a risk-based approach and making sure that we are maximising cash earnings and things like changing the way we think about co-products and corn oil have really paid dividends. And that's been reflected in two or three years of strong performance, at least first half performance this year, where obviously we saw exceptional delivery from corn oil has come as some of the dynamics in the market and home cooking that we talked about in the presentation. I'll ask Imran to comment a bit more on commodities in a minute.

Nick Hampton: On cost savings, really proud of the way the team has continued to deliver strong productivity on the line, but also lent in, in the first half to make sure we were very judicious on costs to help maintain our financial strength. So there's a real productivity to spend in the business is paying fruits. Imran can give you some more colour on the $150 million program and how that's progressing. Imran.

Imran Nawaz: Yeah, of course. So maybe, John, on your question on commodities, I mean, we will see how the second half evolves. If I think about this year, typically as you point out, we guide between 10 and 20 million. Fair to say this first half we've delivered 16. So probably we'll be at the upper end or probably even above the 20 by the time we close the year.

Imran Nawaz: As Nick said, given our focus on risk management as the main sort of driver on the commodity side, I think we've done a nice job the last few years, but I wouldn't change the overall range. I think the pandemic truly led to a spike in home cooking and there was at the same time, a real dearth of supply of corn oil. And we were able to take advantage of that in a nice way and deliver higher profits because of the spike in corn oil price was just there for the taking and we took it. But I would not change the overall sort of midterm outlook in terms of where commodities can bookend, sort of 10 to 20 feels right.

Imran Nawaz: Your second question on cost savings and productivity. So in the half we delivered around 19 million. Of the 19, I would say £8 million pounds relate to our $150 million cost saving project. You remember we started off with 100 million. Then last year, we already closed at 87. The fact that we could add another eight million pounds, so call it $12 million, brings us to a good place. And I think thus far we've demonstrated that we use the investments to reinvest for growth, protect the financial strength of the company and keep optionality’s when it comes to our cash management as well. So overall, we feel like we're in a really good place and we'll continue. Obviously you would expect me to say this, look for more, but at this point in time, given that we just recently upped our guidance from 100 million to 150 million, no plans to do that at this stage.

John Ennis: That's super helpful. And I guess just to be clear, if you sort of delivered $12 million this year, you're running effectively 100 of the 150 million, roughly.

Imran Nawaz: Yeah. That's roughly right. That's the gross, that will be the gross savings. That's right.

John Ennis: Perfect. Thanks a lot guys.

Operator: We'll now move to our next question from Martin Deboo from Jefferies. Please go ahead. Your line is open.

Martin Deboo: Yeah. Morning everybody. Two from me. Can we talk a bit more about this three percent volume development in North America, which you rightly highlighted. It's an impressive number in a difficult market. Can I sort of understand a bit more what's going on on the ground to give you that. Is this contract wins, new products, new customers, share of customer or all that sort of stuff?

Martin Deboo: And the second one is really purely short term on financial. Given you're not giving guidance and I'm not going to ask you to give me anything revenue dependent, but what are the obvious call outs for H2, both positive and negative that we should be aware of? Some of the things like transaction FX, Vico, the production headwind in sucralose. What things that you can be definite about are we going to see recur in H2 on the positive and negative side? Those are the two, thank you.

Nick Hampton: So Martin, let me cover the second question first and we'll come back to volumes. So, clearly we came into the half facing the challenges of COVID-19, and we had four key priorities. So, keeping our colleagues safe and serving our communities, which you've done. We strengthened our relationships with customers and served them well. We've maintained that financial strength, indeed, strengthened the balance sheet with strong cost control. And importantly progressed the strategy, which as you point out, revenue growth in FBS, strong new growth, growth of new products and the close of our tapioca acquisition in Thailand.

Nick Hampton: So, we feel really good about the resilience and agility of the business. And we're going to be very focused on the same things in the second half. And I'm confident if we continue to do that, then we will continue to demonstrate our resilience. But clearly, we have to navigate the challenges of COVID-19 and we'll be in a much better position to give you a view on the outlook in January when we've exited the winter and completed the suite of the pricing round. Having said that, ex volumes, there were a few things that happened in the first half that will unwind in the second half. And Imran will probably talk to those in a minute.

Nick Hampton: On your second question on North American volume, it's really just a continued focus from the commercial team in North America on maintaining our core business, winning new business, especially driven by the trends in health and wellness, and balanced category growth across the categories where we continue to serve. So, we're maintaining good customer contacts through agility and in using remote-working effectively. And that's allowing us to continue to progress our solutions approach with customers in the key categories. And we also saw very strong retail performance because essentially they all obviously perform well where we have a good business as well.

Nick Hampton: So, it really is a continuation of what we saw last year. And we saw an acceleration second quarter as we came out of more locked down in quarter one in North America. So very, very strong performance. We're very pleased with it, but it's a continuation of the trends we saw pre-COVID with a slight shift in channel mix.

Nick Hampton: Imran, whether you want to pick up on the pluses and minuses in the second half?

Imran Nawaz: Yeah, without going into over-detail much, and I think the way I look at it is Sucralose, when you look at the first half, we reported a minus 2% volume. I think the underlying volume is more like -5% because there was some forward shipments just on customer orders. So, I think the second half will continue. I would say, just to be impacted by that phasing. I think on the commodity phasing side, our review is, the core node pricing has started to come back down. So, the upside we saw in the first half, I don't see that replicating itself in the second, as far as I can see at least. And then the

Forex benefits again, they were driven by the Mexico devaluation versus the US dollar in the first half. And I don't see that replicating itself either in the second half, because it has re-strengthened against the dollar again.

Imran Nawaz: So, those are just some big ticket items. I think as already mentioned, the tax rate first half, second half, we expect to be similar. Other than that, I think the key is, as Nick said, volumes in the pandemic and the pricing round.

Martin Deboo: Thank you.

Operator: We will now move to our next question from Alicia Forry from Investec. Please go ahead, your line is open.

Alicia Forry: Hi, good morning guys. Thanks for the questions. First one is on the US market. As the US has now been open for several months, has a new level of volume demand normalised for primary products and what level is that at roughly? And then secondly, the cost savings of £19 million in H1, should we expect a similar level in H2 or might there be an increase or decrease in that? Thanks.

Nick Hampton: Sure. So, good morning, Alicia. Mr. Let me take your first question first. We saw sequential improvements in volumes going into the second quarter in both primary products and SPS. So, you'll recall that I think our Q1 number on primary products is roughly down 12 for the half, we're down seven to eight. So, we're in low to mid single digits decline coming out of the pandemic to date. It'll be interesting to see how things evolve through the third quarter and into Q4 simply because we're seeing the signs of a second spike, but we clearly saw an improvement on primary products that gets the run rate more into a 3%-5% range, at least for now. And we'll see how that evolves.

Nick Hampton: On cost savings, as Imran said, we delivered 19 million in the first half. Eight of that was in the core productivity program, 11 from the tough cost control we put in place as we went into lockdown. I mean, clearly we'd expect to see some of that in the second half as well. And as things evolve and we see how the world comes out of the pandemic, we will obviously adjust short term costs view appropriately. Imran, I don't know whether you have anything to add to that.

Nick Hampton: I think you're on mute.

Imran Nawaz: I was agreeing with you, sorry. I was nodding and then I realised I'm not on the screen. I was agreeing with you, yeah. Nothing to add.

Operator: Great, thank you. And just as a reminder, it is *1 to ask a question. We'll now take our next question from Alex Sloane from Barclays. Please go ahead, your line is open.

Alex Sloane: Oh yeah. Good morning, gentlemen. I wondered whether we could come back just to this sweetener pricing round outlook. And just in terms of where corn costs are year-on-year, if you could give any kind of broad guidance on what level of pricing you might need on sweeteners to maintain flat unit margins and how you feel about that when you take into account current industry capacity utilisation. Anything you could say on that would be appreciated.

Alex Sloane: And then just secondly, just on Bio-PDO™, I appreciate it's not really a business that moves the needle today, but we have seen a lot of optimism appear in bioplastic solutions, particularly PLA which for many years of promising but not delivering finally is delivering. So, I just wonder if you could talk maybe on Bio-PDO™ about the midterm outlook, and could it actually be potentially a driver of the diversification away from HFCS that you said is part of the strategy in corn wet-milling. Thanks.

Nick Hampton: Surely, and thanks for the questions. Let me take the Bio-PDO™ question first, and then I'll ask Imran to comment on the pricing round.

Nick Hampton: Look, we remain very optimistic and encouraged by Bio-PDO™ performance. It is a core part of our diversification strategy in primary products away from HFCS, and we're seeing good growth in the direct channels that are into things like cosmetics. So, I think over time we expect it to become a more significant part of the primary products business. And we are very comfortable with the progress we're making so far. It's clearly got legs for a number of years. So, it's core to what we're trying to do in primary products.

Nick Hampton: Imran, I don't know whether you want to talk about the pricing round.

Imran Nawaz: Yeah. I mean, as you point out corn, although was lower in the first half has steadily risen in the last few months amid weakening harvest expectations. But as a reminder, the majority of our business, we are very transparent to the customer and pass through the cost to our customers. So, corn itself is not a headwind from our angle. But, as you could imagine, the sensitivity of giving any pricing information while you're just about to kick off the pricing season in earnest would probably be not wise for me to comment on this point. I mean, as you mentioned, the goal is always to recover and hold margins flat. But, at this point in time, it's early days and it's why we have a late January call with all of you to give you an update on how it went.

Alex Sloane: Okay. Thanks very much.

Operator: We have no more questions. So, I would now like to hand the call back to chief executive, Nick Hampton,

Nick Hampton: Thank you operator, and thank you all for your questions. So just to summarise, we clearly made good progress in the first half and we successfully delivered against the four priorities we set out at the start of the year. Our financial position is strong. We're continuing to progress our strategy and we are investing in the company to ensure we emerge from this period an even stronger business.

Nick Hampton: So, thank you all for your time today and I wish you all a very good rest of the day.