

S1 2024 Earnings Call

Company Participants

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

Presentation

Nick Hampton {BIO 18794378 <GO>}

Good morning, and thank you for joining us. I am pleased to present Tate & Lyle's results for the six months to the 30th of September 2023. The agenda for today's presentation is on the screen. I will begin with an overview of the first half. Dawn will run through the financial results and then I will talk about our strategic progress and the outlook. Finally, Dawn and I will be happy to take your questions.

Starting then with the key headlines. We delivered another robust performance in the first half, with good revenue and profit growth and strong cash generation. The strategic repositioning of Tate & Lyle as a growth-focused speciality food and beverage solutions business continues to progress well. We are seeing positive progress from our focus on providing solutions to customers and we continue to invest in the business to drive long-term growth. We remain focused on managing challenging short-term market dynamics and investing in the business to build strong foundations for the future.

In the short term, we are operating in a volatile cost environment with inflation and the cost of living crisis driving softer consumer demand and customer destocking. It is a sign of the quality and resilience of the business and a great credit to my management team that despite these challenging market dynamics, we still met our key financial measures in the first half.

At the same time, we continue to invest in the business to ensure we are well positioned to capture future growth opportunities. We are expanding our portfolio, increasing our investment in innovation and solution selling, investing in growth capacity, and significantly advancing our sustainability program. These investments support our position at the center of the future of food, helping our customers create healthier, tastier, and more convenient food and drink that is both more sustainable and affordable.

Turning to the financial highlights. Group revenue was up 4% and EBITDA was up 7%. Cash management was strong, with free cash flow GBP15 million higher and we delivered \$17 million of productivity savings. We also made good progress, delivering on our commitment to science, solutions, and society. Science and solutions selling are at the heart of how we deliver our strategy. Our customers increasingly rely on our innovation expertise to solve the challenges of food reformulation and to deliver nutrition

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improvement and taste. That is why building stronger solutions-based partnerships with customers is critical.

In the first half, we increased investments in innovation and solution selling by a 11% and the mix of new business wins coming from solutions increased by 4 percentage points to 22%. For society, we continue to make good progress against our purpose targets, including our sustainability agenda, which I will talk more about later, and on our ambition to improve the diets of people across the world. For example, in the last three and a half years, our no- and low-calorie sweeteners and fibers have helped to remove 7 million tonnes of sugar from the world's diets. That's 28 trillion calories.

As we build the new Tate & Lyle, it's also key that we really understand what our customers think of us, where we are seen as strong and where we can continue to improve. This year, we undertook our second annual brand equity survey, in which around 500 customers and prospective customers are asked what they think about Tate & Lyle. The results are very encouraging. 81% saw us as a leader in ingredient innovation, with 80% also seeing us as a leader in sustainability. These scores were up by 7 and 10 percentage points, respectively, from the survey in 2022.

Importantly, our Net Promoter Score, which is a measure used to gauge customers' loyalty, satisfaction, and enthusiasm about Tate & Lyle, is also high at a very positive score of 61, an increase of 9 points. These results give me great confidence that the new Tate & Lyle is increasingly being seen as a valued innovation and growth partner for our customers as well as an attractive partner for prospective customers. And the way we have reshaped and focused the business is resonating strongly.

I will come back to talk about our strategic progress and the outlook later, but for now, I will hand over to Dawn to talk through the financial results. Dawn, over to you.

Dawn Allen {BIO 20417710 <GO>}

Thank you, Nick, and good morning, everyone. In line with previous presentations, I will focus on adjusted measures. Items with percentage growth are in constant currency unless I indicate otherwise. As Nick said, the Group performed well in the first half, delivering against our key financial measures. Revenue and profit growth was robust, navigating a tough external environment. We continue to invest for the long term across all three pillars of science, solutions, and society. Cash performance was strong by significantly improved cash conversion. All of this resulted in a strong balance sheet, providing the flexibility for further investment.

In terms of financial highlights, Group revenue was 4% higher. We delivered EBITDA growth of 7% with EBITDA margin 70 basis points higher at 20.8%. Profit before tax was 16% higher, reflecting strong performance from Tate & Lyle and improved performance in our minority holding in Primient and lower finance charges in the half. Earnings per share were 19% higher and free cash flow was GBP15 million higher at GBP77 million pounds. So, overall, a pleasing set of results.

Moving on to the performance of our three operating segments, starting with Food & Beverage Solutions. This business is our growth engine and represents more than 80% of our revenue. Its role is to drive margin-accretive growth. Revenue in the half was 5% higher, with 2 percentage points decrease from volume and price mix which was more than offset by 7 percentage points increase from the recovery of inflation. The volume and price mix decrease of 2 percentage points is driven by two factors. Firstly, a 6 percentage points benefit from our focus on strategic mix management and solutions selling and secondly, 8 percentage points volume reduction from the impact of consumer demand softness and customer destocking.

Looking at the performance of our three regions, in North America, revenue grew 2%. Despite some soft demand, we saw good gains in the beverage, confectionery, and bakery categories, particularly with our largest customers. In Asia, Middle East, Africa, and Latin America, revenue was up 1%, reflecting a mixed picture with pockets of growth and some regional challenges.

In Asia, revenue was broadly in line with the comparative period, with robust growth in China, supported by the acquisition of Quantum. In Latin America, revenue declined, driven by lower-priced imports from outside the region, especially in Mexico and in the Middle East and Africa, we saw good demand. In Europe, revenue growth at 19% was strong, reflecting the pricing through of significant input cost inflation. We also continued to exit some low-margin business.

EBITDA grew ahead of revenue at 10%, benefiting from increased solutions selling, customer and product mix, as well as from contributions from productivity savings. As a result, the business delivered 90 basis points of EBITDA margin expansion.

As I said at our Capital Markets event earlier this year, our five-year revenue growth ambition is on an underlying basis, excluding the impact of abnormal inflation and deflation. Consecutive periods of high input cost inflation have significantly accelerated revenue growth with Food & Beverage Solutions revenue 19% higher in each of the last two years, well ahead of our five-year overall ambition of 4% to 6% growth each year. Following this period of rapid inflation, we are now seeing cost deflation across a range of inputs. While the renewal of customer contracts for the 2024 calendar year is still in its early stages, revenue in the second half is expected to reflect the pass-through of these lower costs.

Let's move to Sucralose. This is a strongly cash-generative business and its role is to provide attractive returns. The underlying performance of this business was steady after taking into account the phasing of customer orders into the first half of last year. Revenue was down 5%, reflecting the more normal phasing of orders and inflation recovery. EBITDA at GBP28 million was 14% lower as multi-year contracts limited our near-term recovery of inflation. Stepping back, industry demand for Sucralose remains robust, driven by growing consumer demand for both reduced sugar and calorie food and drink. In addition, we continued to see good demand from our larger customers.

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Primary Product Europe is the smallest segment comprising 7% of our revenue. We continue to optimize the financial performance of this segment as we transition capacity to higher-margin Food & Beverage Solutions ingredients. Revenue declined by 2%, with lower volume partially mitigated by improved pricing from more favorable market conditions and the recovery of input cost inflation. EBITDA losses improved significantly to GBP3 million.

So pulling this all together, Food & Beverage Solutions increased EBITDA by 10% or GBP40 million. Sucralose saw a decline in EBITDA of GBP5 million and in Primary Products Europe, EBITDA losses were GBP3 million lower. Overall, this led to an increase in absolute EBITDA in constant currency of GBP12 million, or 7%. The impact of foreign exchange was to decrease EBITDA by GBP6 million to GBP178 million.

Turning now to productivity, we delivered \$17 million of productivity savings in the half, demonstrating the strong productivity culture across the business. Savings came from a number of areas, including capital investments to increase efficiency and reduce energy costs, more efficiencies in our supply chain, and cost savings in SG&A. We expect to deliver productivity savings in the 2024 financial year of more than \$25 million, and we are on track to deliver our target of \$100 million productivity savings in the five years ending the 31st of March 2028.

Let's move on to talk through tax and exceptional items. The adjusted effective tax rate for the year was 21.9%, in line with the comparative period. We anticipate the adjusted effective tax rate for the 2024 financial year will be 1 to 2 percentage points higher than last year's full-year rate, which was 19.9%. The key drivers of this are the increase in the headline UK corporation tax rate from 19% to 25% and more profit being taxed in higher rate jurisdictions. In terms of exceptional items, net pre-tax exceptional charges were GBP8 million, most of which related to restructuring cost to drive organizational improvements and productivity benefits.

From a cash flow perspective, this translated into a total exceptional cash outflow of GBP11 million. Primient's performance improved in the first half. Our share of profit was 32% higher at GBP17 million, as Primient benefited from strong commercial performance and sweetener demand, alongside an improving operational performance. This more than offset higher interest charges and a reduction in the share of profits from Primient-owned joint ventures. We received \$17 million in cash dividends from Primient in the half with a further dividend of \$37 million received in early November, bringing the total year-to-date dividend to \$54 million.

Moving now to free cash flow. Adjusted free cash flow was GBP15 million higher at GBP77 million pounds. A strong focus on cash generation delivered a GBP47 million improvement in net working capital compared to the comparative period. We continue to invest in long-term growth, with capital expenditure GBP20 million higher at GBP46 million. For the 2024 financial year, we continue to expect capital expenditure to be in the GBP90 million to GBP100 million range. Cash conversion was strong at 69%, a 14 percentage points increase from the comparative period and we are well on track to deliver our ambition to increase cash conversion to 75% over the next five years.

Moving on to net debt and dividends. Net debt was GBP11 million higher at GBP249 million. This was driven by two main factors. Firstly, strong cash generation and secondly, the payment of the final dividend to shareholders of GBP52 million. Our net debt to EBITDA ratio is 0.8 times. We continue to have strong liquidity headroom to invest for growth with access to more than GBP1 billion through cash on hand and our undrawn revolving credit facility. We have repaid \$120 million of debt since the 31st of March 2023 from cash, of which \$95 million was floating rate debt.

The Board has declared an interim dividend of 6.2 pence per share, an increase of 0.8 pence per share. As previously stated, this reflects the adoption of our approach to pay interim dividends equal to one-third of the prior year's full year dividend. The Board continues to operate a progressive dividend policy.

I want to leave you with three key messages. The first is that we are delivering on our growth strategy and successfully navigating a challenging external environment to deliver robust financial performance. Secondly, we continue to generate strong cash flow and maintain a culture of productivity and cost discipline. And thirdly, we are investing for the future across our pillars of science, solutions, and society, more of which Nick will talk about shortly. These results are a sign of the strength and resilience of the business and the financial discipline we have instilled. This gives us flexibility to continue to invest for long term growth, both organically and through M&A.

With that, let me hand you back to Nick.

Nick Hampton {BIO 18794378 <GO>}

Thank you, Dawn. I'm now going to give you a brief update on our strategic progress and talk to the outlook. Over the last two years, we have repositioned Tate & Lyle to be right at the center of the future of food, focused on creating solutions that meet growing consumer demand for healthier, tastier, and more sustainable food and drink. This is starting to show real benefits.

Solutions revenue from new business wins is increasing and we are building progressively deeper solutions-based partnerships with customers. To further strengthen these partnerships and our customer offering, we are increasing investments in R&D, innovation and sustainability and also adding growth capacity.

As we detailed in our Capital Markets event earlier this year, we have repositioned Tate & Lyle to benefit from a number of structural megatrends, which are driving consumer purchasing and consumption patterns. The global population is growing rapidly. People are living longer and they are all much more knowledgeable about climate change and their impact on the planet. The rise of diseases like obesity and diabetes and concerns about digestive health and immunity are also causing people to increase focus on their health and well-being. All these factors are leading consumers to demand food and drink, which is healthier, tastier, more convenient, sustainable, and affordable. And that plays right into taking Tate & Lyle's areas of expertise.

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Through our capabilities in sweetening, mouthfeel, and fortification, we are experts in taking sugar and calories out of food, enhancing the texture and mouthfeel experience, as well as improving the nutritional profile by adding fiber and protein. These capabilities mean we are well-placed to benefit from longer-term trends towards healthier diets and lifestyles. We believe that people who want to live healthier lives, whether by taking more exercise, adopting a more nutritious diet, or even through some form of medication like weight loss drugs, or indeed a combination of all three, will look to consume healthier food and drink, particularly products that are lower in sugar and calories and with added fiber. That is exactly what Tate & Lyle does and why we are excited about the growth opportunities ahead.

To ensure we are in a position to capture those growth opportunities, we are investing in the business in a number of key areas. The first is innovation. New product revenue grew by 18% in the half on a like-for-like basis, with particularly good growth in the mouthfeel platform. Our innovation pipeline remains strong and we continue to launch exciting new products into the market. For example, in July we expanded our natural sweetener portfolio by launching a new Stevia Sweetener called TASTEVA SOL. This new product represents a patent-protective breakthrough in stevia technology. It is a premium tasting and clean label stevia that has over 200 times the solubility of existing Reb M and Reb D products on the market. This means TASTEVA SOL has the ability to solve customer solubility challenges that are often found in applications such as beverage concentrates and dairy at high levels of sugar replacement.

A key part of our innovation approach is investing in new technology to improve our product offering and increase our speed to market. Let me give you three examples of how we are using technology to support our customers. At our R&D hub in Chicago, our scientists are using AI to undertake predictive modeling of sensory and other data to develop targeted recipes for customers and accelerate the adoption of solutions. In Singapore, we have installed a new robotic system with the ability to run characterization tests at around 10 times the current rate and with enhanced predictive modeling capabilities. This system enables our scientists to assess the chemistry, performance, and customer benefits of a new mouthfeel solution with much greater efficiency and increased speed to market. And finally, we are enhancing our technical knowledge management systems to increase knowledge sharing and the pace of innovation across our regions.

Turning next to solutions, we continue to make good progress, building stronger solutions-based partnerships with our customers, and we increased our investment in innovation and solution selling by 11% in the first half. Areas of particular focus were infrastructure and capabilities. In June, we opened a new Customer Innovation and Collaboration Center in Jakarta and Indonesia, bringing the total number of our centers globally to 17. These centers ensure our solutions can be applied to our customers' products in their local markets. The center in Jakarta is already having a positive impact on customer relationships and generating new projects.

On capabilities, we continue to strengthen our expertise in the key area of sensory and to increase our focus on open innovation as we look to work with partners to develop new technologies and ingredients. We are also adding growth capacity. We continued to see strong customer demand for both fiber fortification and sugar reduction. As a result, we

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are investing EUR25 million to add new capacity for non-GMO PROMITOR Soluble Fibres at our facility in Slovakia. This new capacity will come online in the middle of 2024 and represents the first part of a program to add fiber capacity at this site over time.

Dietary fiber is an exciting growth opportunity as people become increasingly aware of the importance of getting more fiber in their diets. The World Health Organization recommends that adults eat at least 25 grams of fiber every day, but most people are not getting enough fiber and in many cases nowhere near enough. This is important as low fiber intake is associated with higher levels of cardiovascular disease and diabetes. And studies show that fiber can support gut health and promote calcium absorption.

As shown in the customer survey I talked about earlier, we are increasingly being seen as a partner for our customers for sustainability, and this is now an important part of our customer offering. In August, our production facility in Brazil became our first site to be powered entirely by renewable energy, including using locally sourced biomass. In addition, at our production sites across the UK, Netherlands and Italy, we are now purchasing 100% of our electricity from renewable sources. 20% of global greenhouse gas emissions come from agriculture, which is why our sustainable agriculture programs are so important both to us and our customers.

In China, our program for sustainable stevia farming is delivering double-digit reductions in greenhouse gas emissions, and in the US, our sustainable corn program is progressing well and we continue to invest in intervention programs to support local farmers. This includes helping to manage nitrogen levels in the soil to increase crop yields, improve soil health, and minimize the impact on local watersheds. Today, sustainability is at the front and center of our business, and I look forward to talking more about our progress in this area in the future.

Turning then to the outlook for the full year, we expect to deliver progress in line with our five-year ambition to the 31st of March 2028, with revenue reflecting both strategic momentum and the impact of the expected pass-through of input cost deflation in the second half. Therefore, for the year ending the 31st of March 2024, in constant currency, we expect to deliver revenue slightly ahead of the prior year and EBITDA growth of 7% to 9%. We also continue to expect stronger profits from our minority holding in Primient.

In summary, then, we delivered a robust financial performance in the first half, successfully navigating a tough external environment. We continued to deliver on our growth-focused strategy, increasing our solution-based business with our customers and investing for long-term growth across R&D, innovation, growth capacity and sustainability.

Looking ahead over the next 20 years, the world is facing a major challenge. How do we feed a rapidly growing population with healthier, affordable, and more nutritious food in a way that doesn't harm the planet and also suits modern lifestyles. Tate & Lyle has been repositioned at the center of the future of food with a clear strategy focused on meeting that challenge. Our extensive portfolio and technical expertise in sweetening, mouthfeel, and fortification enables us to create solutions which provide healthier, tastier, more

convenient, and sustainable food and drink. That is what consumers want and that is what Tate & Lyle is focused on delivering.

As always, I would like to finish by thanking everyone at Tate & Lyle for their hard work in delivering these results and for living our purpose with great passion and belief. For all their support, I am truly grateful.

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