S1 2023 Earnings Call

Company Participants

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

Other Participants

- Alicia Forry, Analyst
- Chris Pitcher, Analyst
- John Ennis, Analyst
- Karel Zoete, Analyst
- Lauren Molyneux, Analyst
- Martin Deboo, Analyst
- Patrick Higgins, Analyst

Presentation

Nick Hampton {BIO 18794378 <GO>}

Good morning, everyone, and thank you for joining us. I am pleased to present Tate & Lyle's results for the six months to September 30, 2022. Before I get to the details of the presentation, I want to briefly reflect on what has been an excellent first six months for Tate & Lyle as a newly transformed, growth-focused, specialty food and beverage solutions business.

Following the successful separation of Tate & Lyle and Primient on the 1st of April, I have seen a real shift in how our business is operating. With our full focus on growing our specialty food and beverage solutions business, we are closer to our customers and a more resilient and agile business. This is serving us well as we navigate a difficult external environment and it's a great testament to the skill and commitment of our people. But despite all the challenges in the world around us, we have delivered strong financial results in the first half.

Tate & Lyle today is a much simpler business. We have a clear purpose of transforming lives through the science of food, deep scientific expertise and an obsession with being our customers' partner of choice. We are a high-quality growth-focused specialty business operating in growing segments of the food and beverage markets. We have significant growth potential. And while the transformation of Tate & Lyle is still ongoing, I am delighted with the progress we continue to make.

Turning to the agenda for today's presentation, I will begin with an overview of the first half and our strategic progress. Dawn will run through the financial results and then I will come back to talk about the outlook. Finally, Dawn and I will be happy to take your questions.

So starting with an overview of the first half, overall, we did what we said we would do, delivering positive growth momentum and strong financial results. Food and beverage solutions saw double-digit organic revenue growth across all regions which flowed through to strong group operating profit growth and operating margin expansion. We demonstrated agility and effectively managing the impact of rising cost inflation through strategic mix management, a program of supplementary pricing and a continued focus on productivity and cost discipline.

We also continue to invest in growth. We have strengthened our customer-facing solution capability and infrastructure and invested further in category and consumer insights, which is particularly important in the current uncertain economic environment. We are investing capital to expand capacity both to drive long-term growth and ease capacity constraints.

Turning to the financial highlights, Group revenue was up 20% with operating profit up 29% and operating margin 110 basis points higher. In Food and Beverage Solutions, revenue was 21% higher and operating profit was 26% higher. Sucralose once again delivered steady earnings, with operating profit up 8%. Overall, strong financial performance and very encouraging in the context of our strategic transformation and the challenging external environment. Given this, it is notable that we also maintained good progress, delivering our growth focus strategy. Innovation is a key aspect of our growth strategy and it was good to see new product revenue grow by 19% and for 15% of Food and Beverage Solutions revenue to come from new products.

Portfolio expansion is another important parts of our growth strategy and we acquired two new businesses in the first half. In April, we acquired Nutriati, a small ingredient technology business developing and producing chickpea protein and flour. Nutriati expands our capability to offer customers sustainable plant-based solutions and we have seen strong revenue growth and customer interest for both product lines.

In June, we completed the acquisition of Quantum Hi-Tech, a leading prebiotic fiber business in China for $238 million with its high-quality FOS and GOS dietary fibers. Quantum strengthens our fortification platform and our position as a leading global player in the fast-growing fibers markets. The integration of Quantum is progressing well. The business has strong customer relationships. And despite some challenges with COVID-19 lockdowns in China, it is performing well. Finally, we continue to strengthen our customer-facing solutions capability in areas such as sensory and nutrition.

Tate & Lyle is a global leader in sweetening, mouth feel and fortification and we saw growth across each of these platforms in the half. Consumer demand for healthier food and drink and customer demand for solutions, which reduce sugar, provide cleaner labels and add fiber remain robust. The sweetener platform saw 8% revenue growth, impacted by the decision to exit certain low-margin business.

New product revenue grew by 1%, reflecting capacity constraints, especially in stevia. The mouthfeel platform delivered strong performance with 29% revenue growth and 10% revenue growth from new products. We are seeing increasing customer interest for ingredients from this platform for innovation, cleaner labels, and cost optimization.

The fortification platform benefited from continued strong customer demand and from the acquisition of Quantum in June, with 30% revenue growth across the platform and 79% revenue growth from new products. We continue to look at opportunities to further strengthen these platforms and our customer offerings, both organically and through acquisition.

Tate & Lyle is a purpose-led company. And with continued challenges, such as COVID-19, the cost of living crisis, and the impact of climate change, we are as determined as ever to deliver on our purpose commitments. The new Tate & Lyle's more ambitious purpose of transforming lives through the science of food is gaining strong traction with employees, customers and community partners. We continue to make good progress in each of our three pillars.

Let me give you one or two examples. Under supporting healthy living, we partnered with the British Nutrition Foundation to launch a new online fiber calculator to help consumers understand the fiber gap in their diets. We are also supporting the University of Aberdeen Rowett Institute's three-year research study on how poverty, food and security, and obesity affects shopping habits in the UK.

Under building thriving communities, we are increasing support for our food bank partners in our local communities and working with mental health experts to train more than 80 colleagues across the world as mental health first aiders.

Under our caring for our planet pillar, following a successful pilot last year, we have expanded our sustainable agriculture program for stevia in China, working in partnership with EarthWatch and Nanjing Agricultural University. This program focuses on improving the environmental and social impacts of stevia production. We also continue to make excellent progress on waste management with over 90% of the waste we generate beneficially used.

Turning to demand dynamics, the long-term consumer trend towards healthier food and drink is here to stay. And demand for sugar reduction, fiber fortification and cleaner labels continues to grow. Our specialty portfolio and technical expertise means we are well-placed to benefit from this trend. Looking at the first half, we saw robust customer demand. Put simply, we sold everything we made. Staying close to our customers and supporting them as market conditions evolve is a key priority for us. We are closely monitoring consumer demand and have increased our investment in consumer insights and data across our key categories and regions to help with this.

As we saw during the pandemic, we expect demand will shift within and between categories with, for example, a great to move to in-home consumption and a move towards center of the isle products as consumers seek to manage their finances. Our technical capabilities mean we can support our customers as they look to reformulate, cost-optimize, and extend the shelf life of their products. And where a premium proposition is maintained, our solutions can provide both high functionality and evidence for any claims made. So, overall, we are well-positioned to adapt to our customer's changing needs.

Let me now turn to how we are managing cost inflation and pricing. We successfully navigated significant inflation and supply chain disruption in the first half, with gross cost inflation totaling GBP85 million across areas such as corn, energy, consumables, and transportation. To help manage input cost inflation and to build supply continuity, we use forward purchase commitments globally and hedging for corn and energy in the US as well as providing security of supply. Such arrangements delayed the impact of cost increases.

While we entered the 2022 calendar year with customer contracts that offset expected inflation, the conflict in Ukraine has caused significant further inflation in raw materials, energy, and logistics costs, especially in Europe. It has also created supply chain challenges across the range of inputs consumed in our production facilities across the world. As a result, from May we implemented a program of supplementary price increases across our main markets to recover further input cost inflation. Under this program, we have worked closely with customers to provide visibility of increasing input costs and are adjusting customer prices on a rolling quarterly basis. Together with a focus on strategic mix management, delivering productivity and strong cost discipline, we were able to offset this further input cost inflation. We will continue to work closely with customers as we move through the 2023 calendar contracting round over the next few weeks.

Food and Beverage Solutions saw strong revenue growth across all regions. North America grew revenue by 14%. Asia, Middle East, Africa and Latin America grew revenue by 29% and revenue in Europe was 23% higher. Overall, revenue in Food and Beverage Solutions was up 21%. On this slide, we show volume to revenue growth. Volume in the first half was 5% lower excluding a decline of 3 percentage points from Primary Products Europe.

Looking at the levers we pulled to deliver revenue growth, firstly, we priced through input cost inflation and higher corn costs, which contributed 13 percentage points of leverage. Secondly, our focus on strategic mix management to deliver higher margin business contributed 12 percentage points of leverage. And finally, acquisitions contributed 1 percentage point. Overall, these factors delivered revenue growth of 21%.

We continue to invest in growth. In addition to our strong in-house scientific capabilities, we are building partnerships with leading academic organizations to help accelerate the delivery of our strategy. For example, in July, we extended our partnership with APC Microbiome in Ireland through a new two-year research project to increase understanding of how dietary fibers can impact the functioning of the gut microbiome. Then in August, we announced a jointly filed international patent application for a symbiotic fiber technology that has shown positive preliminary results in improving metabolic health.

We are also investing in infrastructure to support our customers. In May, we opened a new state-of-the-art customer innovation and collaboration center in Santiago, Chile. This expands our integrated network of centers across Latin America, including Brazil and Mexico. We have 16 of these centers across the world where we work with our customers to develop products for their local markets.

In our sweetener platform, to meet growing customer demand, we are investing in our stevia facility in China and have recently increased stevia capacity in the US. We are continuing to invest in strengthening customer-facing capabilities. To build a deeper understanding of consumer trends in our key categories and markets, we have expanded our category and consumer insight team across our regions and increased the nature and frequency of the category and consumer data we are accessing. To further enhance our innovation and solutions offering, we are investing in areas such as sensory, nutrition, and regulatory, targeted programs to develop new ways of working with customers are progressing well and helping to build stronger solutions-based partnerships.

Finally, an update on the Primient joint venture. To the great credits of both teams, the separation of Tate & Lyle and Primient was executed successfully on the 1st of April. Our relationship with KPS Capital Partners, who have operational control of the business, has started positively and the 20-year agreements to provide supply and economic security for both businesses are operating effectively. Our holding in Primient offers an attractive cash dividend stream. We have received $76 million of cash dividends from Primient, representing the full amount expected for the year. Of this amount, $31 million relates to distributions from profits earned by a former joint venture prior to disposal and $15 million to settle tax obligations on Primient profits.

Primient had a difficult first half due to the impact of inflation and some operational challenges in their plant network. While they executed in-year supplementary pricing where possible, our share of profits was 62% lower at GBP13 million. The 2023 calendar year bulk sweetener contracting round provides the ability to further price through inflation.

In summary, we continue to make good progress building a strong platform for future growth and to deliver on our five-year ambition. We are seeing positive revenue momentum across the business and operating margin expansion. Innovation continues to accelerate growth, with new product revenue representing 15% of Food and Beverage Solutions revenue. Acquisitions are strengthening our key platforms. And as I covered earlier, we are investing in innovation and customer-facing capabilities and building growth capacity. So, overall, I am delighted with our performance in the first half and the progress we are making, delivering our growth strategy. We will provide more detail at our Capital Markets event, which will be held on Wednesday the 8th of February next year.

I will now hand over to Dawn to talk to the financial results in more detail. Over to you, Dawn.

Dawn Allen {BIO 20417710 <GO>}

Thank you, Nick, and good morning, everyone. As Nick said, it has been an encouraging start to the year. The business remains in a good financial position with a strong balance sheet, providing significant flexibility to invest in both organic and inorganic growth. In line with previous presentations, I will focus on adjusted measures, items with percentage growth or in constant currency, unless I indicate otherwise and pro forma financial information for the comparative period has been used to calculate growth rates.

In terms of financial highlights for the first half, the Group performed strongly, with revenue up 20%, operating profit up 29%, and profit before tax 10% higher. Diluted earnings per share were 9% higher and free cash flow was GBP62 million, up GBP42 million. The Board has declared an interim dividend of 5.4 pence per share. So let's dig deeper into some of the key performance drivers. Starting with Food and Beverage Solutions, revenue was strong, 21% higher at GBP752 million, with double-digit growth across each region. We successfully prioritized mix and price recovery across the business.

Let me give you some more details on our performance in each region. In North America, revenue was 14% higher with robust demand particularly in the beverage and soups, sauces and dressings categories as we targeted higher margin fortification and mouthfeel solutions. In Asia, Middle East, Africa and Latin America, revenue was 29% higher, with especially strong performance in Southeast Asia and Southern Latin America. In Europe, revenue was 23% higher, benefiting from growth across the bakery and soups, sauces and dressings categories.

Operating profit for Food and Beverage Solutions was 26% higher at GBP113 million, with operating margin expansion of 60 basis points. Revenue from new products continue to be strong, up 19% to GBP114 million.

Turning now to volume, underlying volume was 2% higher from robust customer demand. Reported volume was 8% lower, driven by three main factors, each with around equal impact. Firstly, the planned transition of Primary Products capacity in Europe towards specialty ingredients. As we have said before, this transition is expected to continue into future financial years. Secondly, volume was impacted by challenges in the operating environment from COVID-19 lockdowns in China and supply chain disruption. Thirdly, one-off factors including our decision to exit the certain low-margin business and the impact of industrial action at our corn wet mill in The Netherlands, over a two-week period, which is now concluded. As Nick said earlier, we sold everything we could make, but challenges across the end-to-end supply chain disrupted production, resulting in some capacity constraints across our network.

So let's move on and take a look at Sucralose. Volume increased by 9% due to strong customer demand, a small phasing benefit and modest production optimization at our facility in Alabama. Revenue was up 12% at GBP97 million benefiting from higher volume and a good customer mix. Operating profit at GBP39 million was 8% higher. This reflected the operational leverage of higher volume which was offset by the impact of inflation.

Looking now at the key factors driving profit performance. As previously explained, operating profit was up 29%. This strong performance comes from 26% higher profit in food and beverage solutions and 8% higher profit in Sucralose, which translated into absolute profit increases of GBP21 million and GBP2 million, respectively. Central costs were 23% lower, reflecting additional investment in consumer and category insight, which was more than offset by strong cost discipline as well as GBP2 million of one-off income from an investment in a former joint venture. The impact of foreign exchange was to increase operating profit by GBP16 million to GBP137 million driven by the average dollar sterling exchange rate being 13% lower than the comparative period.

Moving on to the drivers of profit before tax, which increased by 10% in constant currency. Firstly, our share of profits from our minority holding in Primient were GBP18 million lower, reflecting the impact of cost inflation and operational challenges. Secondly, net finance expense was GBP2 million lower, reflecting higher income earned on net cash balances, whilst we paid interest on our borrowings at substantially fixed rates.

Let's move on to talk through the remaining components of the financials. The adjusted effective tax rate was 10 basis points higher at 21.9%, with the rate in both periods reflecting the prevailing rates of corporation tax in the US and UK, the jurisdictions most applicable to our business. We expect the adjusted effective tax rate for the year ending March 31, 2023, to be similar to that of the first half of the year.

In terms of exceptional items, net pre-tax exceptional income was GBP87 million. The main driver was the provisional gain on the disposal of Primient of GBP98 million. We also incurred cash costs totaling GBP13 million associated with the transaction to dispose of Primient. From a cash flow perspective, the total exceptional cash outflow was GBP37 million in the period.

Over the last 12 months, we have returned GBP590 million in cash dividends to shareholders, including GBP497 million for the special dividend paid in May. The Board has declared an interim dividend of GBP0.054 [ph] per share, reflecting the Company's new earnings base, the share consolidation earlier this year and underlying growth of 2.5%.

Productivity is an important part of our culture and a key focus for us. We continue to make good progress delivering benefits in the half. As a result, we are increasing our target for productivity in the full year from $10 million to $15 million. Productivity in our operations comes from a range of areas, including capital investments to increase efficiency and reduce energy costs, supply chain efficiencies from continuous improvement as well as procurement activities.

Let me give you some examples. At our corn wet mill in Indiana, we have improved the reliability and efficiency of our gas turbine, delivering $1.5 million in savings. Modest capital investment to improve process efficiencies at our Sucralose facility in Alabama has increased throughput with an annualized value of $1.9 million.

Our procurement team has navigated supply chain challenges by using alternate suppliers for key inputs, including consumables, bulk containers and other packaging. This work helps to offset inflation and improved supply continuity. Cost discipline is also an important part of our culture with tight control of discretionary spend.

If we move on now to focus on cash generation. Adjusted free cash flow was GBP42 million higher at GBP62 million, measured against continuing operations in the comparative period. If we look at the split of where this year-on-year increase is coming from, GBP40 million is from higher profits. We also saw a GBP75 million working capital outflow which was in line with the comparative period. This reflects a significant focus in this area as we work to optimize working capital and absorb the adverse impact of inflation over the preceding 12 months. Capital expenditure was GBP8 million higher at GBP33 million. We expect the inflationary environment will continue to put pressure on our working capital in the second half, and cash delivery remains a key focus area.

Let's move on to the other items on the balance sheet. In terms of net debt, this decreased by GBP345 million in the half to GBP281 million. This has been driven by four significant one-off cash flows. These are the consideration received from the Primient transaction, leading to a GBP1 billion net debt reduction, the payment of the special dividend of GBP497 million, acquisitions of GBP192 million, mainly the completion payment for Quantum, and other movements of GBP35 million. This relates mainly to the impact of foreign exchange retranslation of GBP26 million.

We received GBP13 million of cash dividends from Primient in the first half, and a further $61 million cash dividends in November. Our net debt to EBITDA ratio is 1 times before the receipt of the recent dividends from Primient. We continue to have strong liquidity headroom with access to around GBP1.2 billion through cash on hand and our revolving credit facility.

So overall, there are three key messages I want to leave you with. The first one is that we have strong revenue growth momentum, delivering 21% growth in food and beverage solutions, double-digit growth across all regions, and 19% new products revenue growth in the half.

Secondly, we have demonstrated both agility and resilience in a challenging environment to deliver robust financial performance with adjusted operating profit of 29% and free cash flow 3 times higher than the comparative period. Our strength in commercial execution, alongside a culture of productivity and strong cost discipline supported these outcomes.

Thirdly, our strong balance sheet gives us flexibility to continue to invest for the future, both organically and inorganically. It provides a solid platform on which to execute our growth strategy.

With that, let me hand you back to Nick.

Nick Hampton {BIO 18794378 <GO>}

Thank you, Dawn. I'm going to finish by talking to the outlook and then we will take your questions.

We entered the 2023 financial year with strong top line momentum, innovation gathering pace and our productivity program continuing to deliver benefits. The conflict in Ukraine continues to cause significant inflation in raw material, energy and logistics costs, especially in Europe. Importantly, however, customer demand remains robust.

Turning to the outlook for the year ending March 31, 2023. We continue to expect to see revenue growth reflecting current top line momentum to offset input cost inflation through strategic mix management, pricing, productivity and cost discipline, and for adjusted profit before tax to be in line with current market expectations with stronger profits in Food & Beverage Solutions offsetting lower profits from the minority holding in Primient.

As we move forward, we will continue to focus on the four priorities, which has served us well over the last 12 months. The first is to ensure continuity of supply for which we have committed agreements in place for key production inputs, such as corn and energy. The second priority is keeping very close to our customers to support them as best we can in what remains a difficult and volatile economic environment. Thirdly, we are focusing on maintaining our financial strength, and lastly, maintaining our strategic progress.

To conclude, the strategic repositioning of Tate & Lyle is progressing well, and to significantly enhance the quality and resilience of the business. Performance remains strong despite significant challenges in the world around us. And we remain focused on managing the impact of cost inflation and supply chain challenges through strategic mix management, pricing, productivity and cost discipline. We are also continuing to invest in innovation, capabilities and capacity in line with our growth-focused strategy.

We have returned GBP590 million to shareholders through cash dividends over the last 12 months, and continue to operate a progressive dividend policy. Overall, we have built a strong platform for growth as a global speciality food and beverage solutions business. We are among focused, agile and ambitious business, well positioned to unlock the significant growth opportunities ahead.

While the economic outlook is uncertain and there will undoubtedly be more challenges ahead, we are confident that the strength of our ingredients portfolio across attractive categories and regions, our focus on serving our customers and the expertise of our people will enable us to successfully deliver our growth-focused strategy.

I would like to finish by thanking everyone at Tate & Lyle for their hard work in delivering a strong set of financial results for continuing to serve our customers and leading our purpose with great passion and belief. For all their support, as always, I am truly grateful.

Questions And Answers

A - Nick Hampton {BIO 18794378 <GO>}

Good morning, everyone, and thank you for joining today's half-year results presentation. We are now into the live Q&A.

As I said in the prerecording, the Group has made an encouraging start to the year, with strong revenue and profit growth. The transformation of Tate & Lyle into a purpose-led science-driven and customer-obsessed business continues to go well, and we are successfully navigating a difficult external environment.

Turning now to your questions. And the first question comes from John Ennis at Goldman Sachs. John, good morning.

Q - John Ennis {BIO 18291755 <GO>}

Hello, everyone. Thanks all for taking my question. And I stick to actually two. My first is on the volume within FBS. You cited 10 percentage point adjustment between what you consider the underlying volume growth versus the reported volume growth. Can you break down the different movement parts there, and give us some more specific color on the -- on which of those continue into the second half, so that we can try and work out what to adjust for?

And then my second question is actually on the cash inflow from Primient going forward. You said it was GBP76 million, GBP31 million was part of a prior JV, GBP15 million for a tax obligation, so I guess the underlying is about GBP30 million. And is that effectively the correct run rate post this year? Or is there anything else we need to consider just as we try and model this sort of cash contribution from that business unit?

And I've got some others, but I'll leave it there and pass the mic, and I can always come back on.

A - Nick Hampton {BIO 18794378 <GO>}

Thank you. And let me take volume first. So as you rightly said, we talked about an underlying volume of 2% and that's important because we are seeing a strong structural customer demand. When you break down the difference between that and the reported number, firstly, this impact of reporting the primary products businesses in Europe in the numbers for the first time, they used to assist in primary products. And as you know, we're looking to exit that business over time. So there was about a 3 points difference -- 3 points to 4 points difference because of primary products Europe, and that's because we're shifting low-margin business there into high-margin business in food and beverage solutions where the volume ratios are very different.

The second issue was driven by some one-offs. So we are exiting some low-margin business in Europe and we had some disruption in our (inaudible) facility in the first half. We don't expect those to continue. I mean clearly, the drift on primary products Europe will. And then finally, the operating environment is really quite difficult at the moment. So we saw some supply chain challenges in the first half, and getting raw materials into plants, getting transport to deliver products to customers, that had an impact as well. And I think we'll see some of that continue into the second half as well as we start to see supply chains stabilize across the world.

So I think in summary, now we sell, pretty much everything that we made in the first half with some challenges in supply chain likely to continue into the second half alongside the primary products in Europe. So hopefully that gives you a sort of a bridge to work with as we go into the second half.

On your point on Primient cash, you're right, there were three components to the GBP76 million. Thus what we might consider the typical ongoing dividend stream coming out of that business of about GBP30 million, there was the GBP31 million for previous year in dividends from a joint venture, and then a top up for tax because of the way the tax structure works, we play some of the cash taxes for Primient.

In terms of going forward, I mean clearly the ongoing dividend we expect to continue into future years. So the GBP30 million odd. We're also expecting a little bit more of dividends from prior earned JV earnings in the following year as well. So I'd say, we'll see a little bit more next year, ex-tax and then the GBP30 million should sustain beyond the second year.

I don't know, Dawn, is there anything you need to add to that?

A - Dawn Allen {BIO 20417710 <GO>}

Yeah. I think the only thing I'd say is clearly in addition to the GBP30 million, we will also get the tax each year because remember, the tax actually sits in our tax line. It's not netted off in the JV line as well.

A - Nick Hampton {BIO 18794378 <GO>}

So, Joh, hopefully, that helps.

Q - John Ennis {BIO 18291755 <GO>}

Yeah, that's perfect. So just to fully clarify, effectively GBP45 billion a year, but next year a bit higher because you still have some more coming from the prior JVs.

A - Nick Hampton {BIO 18794378 <GO>}

Yeah. I think that's a good way of putting that. [ph]

Q - John Ennis {BIO 18291755 <GO>}

Yeah. Lovely. Thanks.

A - Nick Hampton {BIO 18794378 <GO>}

Great. So we'll go to our next question, which is from Patrick Higgins at Goodbody. Patrick, good morning.

Q - Patrick Higgins {BIO 17720947 <GO>}

Morning, guys. Hi. Thanks for taking my questions. And I guess firstly just on costs. Could you give us a sense on your observation expectations into H2? Do you need supplementary pricing ahead of finalizing current pricing negotiations for 2023? And how should we -- I guess, so generally, take about dynamics between your hedging, your current inflationary prices -- inflationary pressures are in pricing. And is there any risk to security of supply we should be aware of within Europe as well?

And second question is just I guess, one trend we've seen across some of your ingredient peers has been destocking by customers into Q4. Is that something you've seen in recent months?

A - Nick Hampton {BIO 18794378 <GO>}

Okay. So let me give you some headlines on inflation and ask Dawn to add, and I'll come back on supply security and destocking.

So -- I mean clearly significant inflation in the first half, which we successfully offset with the right balance between productivity and inflation pass through. We're going to see some incremental inflation in the second half, including our third quarter because obviously, we were well hedged in the first half compared to the second half. And that has required the continuation of some supplementary pricing which is pretty much done for the third quarter, and obviously, the pricing round for next year is in very early stages.

And I don't know, Dawn do you want to put some numbers around that maybe?

A - Dawn Allen {BIO 20417710 <GO>}

Yeah. So I think in the first half, we've seen GBP85 million of inflation which is virtually the same that we saw in the whole of last year on FBS. I think as Nick said, we covered all of the inflation in the first half through productivity, cost control mix and pricing. As we move into second half, we expect that level of inflation to increase, maybe in the region of 20%, and the reason for that is obviously we've been hedging at higher prices. In the first half, we sold the benefit in terms of hedging that we've taken previously in the year and in the prior year.

So we are expecting inflation to tick up. And what we will look to do is clearly to cover that as we have done in the first half and we did last year through the four levers that I talked about.

A - Nick Hampton {BIO 18794378 <GO>}

Great. Thank you, Dawn. So, Patrick, going back to your second two questions, let me cover destocking first. So far what we're seeing is very consistent demand and pull from our customers. We haven't seen any significant sign of destocking yet. There are some ups and downs across regions and customers as always, but that's a normal course of business. We're staying very close to it. We're hearing the same things that you were hearing. But so far, good consistent customer demand. We'll see how that evolves through the second half of the year and into next year as inflation continues to bite.

On supply security, I'd say, I got to give the team a huge amount of credit in the first half for navigating some very challenging situations, getting raw materials in, products out to customers because of some transport challenges, and consistently doing a good job of that. And I don't think those challenges are going to going to go away magically in the second half. So we're going to have to continue to be agile and resilient and make sure we're really focused on working with our customers to serve them as best we can. So I think we expect to see more of the same in the second half.

Q - Patrick Higgins {BIO 17720947 <GO>}

That's great. Thank you very much.

A - Nick Hampton {BIO 18794378 <GO>}

Okay. So our next question comes from Chris Pitcher at Redburn. Chris?

Q - Chris Pitcher {BIO 2496733 <GO>}

Hi, there. Thank you very much. A couple of questions please, I mean, a follow-up on the dividend. Can you just confirm the mechanics of the dividend that is not exposed to earnings, but actually driven by equity values as a return on that, so that carries on?

And then in terms of operating questions, can you give us an idea of the sales-on-profit contribution from Quantum? How is it performing? And in terms of your China business, can you share a specific growth rate? And what sort of working assumptions you have for COVID restrictions because there's been a lot of press around perhaps lifting, perhaps tightening? Thanks.

A - Nick Hampton {BIO 18794378 <GO>}

Sure. So let me take the dividend first. You're right, it's linked to the equity ownership, not to earnings. So there is an agreement on the level of payout based upon that, as you mentioned.

On Quantum, and Quantum performing very well despite some of the challenges of lockdown in China and delivering as we expected. As you would have seen, we said that the M&A that we've done in -- or integrated in the first half was about a point of contribution to growth on the top line. So that gives you some kind of level of Quantum. And what we're seeing in China, in the first quarter when probably lockdowns were there severest, so you had a significant lockdown in Shanghai, for instance, we did see a reduction in demand from customers. And that started to recover in the second quarter and we're starting to see China get back into growth.

I mean we're assuming that we're going to see some more stability in China as things evolve. But like every other company, we're watching very carefully to see how the situation with COVID evolves. I mean the good news is despite the lockdowns in China and some of the short-term challenges in the first quarter, especially we still saw a good performance from the overall business. So it's not impacting the total business, but obviously, we need to keep on watching how things evolve.

Q - Chris Pitcher {BIO 2496733 <GO>}

And just on the dividend. If Primient runs a loss and the value of the equity diminishes as a result of that, or indeed there is only impairment, does that then affects the ability to pay the dividend? Or is it -- or there are contingencies against that?

A - Nick Hampton {BIO 18794378 <GO>}

A conversation specifically with KPS, our partner there about Primient going into loss, and what would happen to the dividend stream. I mean we're clearly not expecting Primient to go into loss. They had a more challenging first half, but we've seen that in the primary products business before is -- as inflationary challenges hit the business. So we are anticipating Primient performing very well going forward. So it's not something we've really focused on up until this point.

Q - Chris Pitcher {BIO 2496733 <GO>}

Okay. Thank you.

A - Nick Hampton {BIO 18794378 <GO>}

And our next question comes from Martin Deboo at Jefferies. Martin, good morning. We're not picking anything up from Martin at the moment at this end.

Q - Martin Deboo {BIO 15155849 <GO>}

Guys, I think I was muted.

A - Nick Hampton {BIO 18794378 <GO>}

No problem. Good morning, Martin.

Q - Martin Deboo {BIO 15155849 <GO>}

Good morning. I'm dialing about to the grunge [ph] I'm afraid, and I don't take that as I'm not impressed by the FBS and sucralose, [ph] I'd say, I am. So just to clarify why I'm pushing. But I do need to push a bit on Primient in Europe. That is going to be a bit technical. I'm happy to just ask one, pause and let you answer and ask the second one.

So Primient and clearly, the earnings down was very scary, but just to make sure I've understood, there is a lot of leverage in that business, so the operating profits won't be down as much as 62%, I assume, feels to me that probably down 20% or something, just clarify that.

Secondly, what were these operational challenges? Did they result from the operational unbundling occurred a separation, other words are essentially sort of one-off results of that. Or are they something else, so just we need to understand them given the earnings materiality? And did they affect you in terms of the cross-supply agreement back into Tate & Lyle PLC?

And then just picking on some of the questions that were asked about leverage at Primient. I'm just looking forward now. What's the fixed floating debt mix at Primient, and therefore, what's the downside risk to the earnings next year from rising interest rates?

And then just a final footnote on Primient. What was the JV business that was sold? And just -- I don't know what that was. I've got some questions on Europe, but if you want to pause there, that would be great.

A - Nick Hampton {BIO 18794378 <GO>}

Let me try and unbundle those. Dawn, why don't I get you to talk about the interest and therefore the impact on earnings?

On the operational challenges, let me cover that first. So really two things, inflation impact of raw materials coming into the plants and the timing of ability to pass through pricing is different in the primary products business, as you're aware, Martin. Secondly, some operational disruption in the plants, so some challenges in manufacturing in the short term that we've seen in the past. And from a reliability perspective, sometimes plants have some challenges. We saw that in the first half and expect that to abate over time.

So we're absolutely confident with KPS's support that, that they'll work through all of that because that's why we brought them in. They're a very strong manufacturing-based company. It really wasn't driven at all by the separation of the two businesses. Actually, the separation in the first half went pretty flawlessly in terms of all of the cross-agreements we've got on supply and transition service agreements, et cetera. So that clearly went well. And KPS is proving to be a very positive partner for us.

In terms of some of those operational challenges in the plants impacting Tate & Lyle volumes, there was a limited impact because of the cross-supply agreements, but not significant in the grand scheme of things for our business in the first half. So overall a tough half for the business operationally and with inflation, but as I've said, we've seen that before in the past, and I'm sure that's going to improve over time.

And do you want to talk about the leverage points and impact on earnings?

A - Dawn Allen {BIO 20417710 <GO>}

Yeah. I think -- I mean clearly, from a Primient perspective, I mean, half of that debt is fixed and half is variable. Having said that, they have negotiated quite a good deal in terms of the debt. And I think what we need to remember is the Primient is a strong cash-generation business, and we've seen that if you think about the dividends that we've received year-to-date.

A - Nick Hampton {BIO 18794378 <GO>}

So, Martin, on your first question. Clearly, the impact on earnings, the interest charge would have impacted the earnings flow through as well. So that's your first question.

Q - Martin Deboo {BIO 15155849 <GO>}

Yeah. No, clearly, it would. So I think the underlying operating fall isn't as high. I've got some questions on Europe. Are you happy to table on that, or shall I defer to someone else, so I can come back at the end?

A - Nick Hampton {BIO 18794378 <GO>}

Please, go ahead.

Q - Martin Deboo {BIO 15155849 <GO>}

Okay. So in Europe, just to understand this transition out of primary. So the first thing is again just established on it. It looks to me as if your primary product volumes in Europe are probably down 40% to 50%, I am getting that from the 3% that you excluded sort of tie the [ph] materiality of that business. So it seems that business is really now contracting fast. So what is the nature of the transition you're trying to pursue and you're trying to get out of isoglucose and switch the growing capacity into something else?

And just a factual question. The 12% you excluded in that nice bridge, you had Dawn, you excluded Europe primary from the volume number. But does the 12 percentage points of mix in FBS benefit from the Europe decline? Because I'm coming back to the sort of non-grunge bait, these mix numbers you're posting consistently are just absolutely amazing. And I'm trying to get a sense of what's the sustainability of that versus how much is the Europe primary mix effect. Okay. I'm done on those. Thank you.

A - Nick Hampton {BIO 18794378 <GO>}

Why don't I let Dawn take the mixed question? And on the overall materiality of the exit is not nearly as significant as 40%, Martin. I don't have the precise number in my mind, but we can come back to you on that. But you're absolutely right. What we're trying to do is exit out of isoglucose and to some extent industrial starch, and trade those up into higher-margin specialty products like maltodextrin and clean-label starches. And we've got a capital investment program that we'll evolve over time to help us do that.

We saw that migration continue in the first half, that's good. And I'd say importantly on top of that as well, we also saw improvements in the earnings profile of the primary products Europe business because of pricing improving as we said it would. So we had two benefits. One is, we're trading into higher margin business in FBS as we trade out of PP Europe, but we're also seeing an improvement in the performance of that business as well.

Do you want to take the next one?

A - Dawn Allen {BIO 20417710 <GO>}

Yeah. And I think to pick up on your other point, I mean remember, there is an impact from the cook strike on primary products volume clearly from a co-product perspective, which is possibly also impacting the numbers that you're sharing.

In terms of the mix piece, I mean as you said, it's very strong mixed benefit that we've seen in the half. And those 12 points comes from three primary drivers and they're broadly equal-weighted. So the first one is the exit of low-margin business, which is a choice for us to exit that which clearly we will start to lap as we move to the back end of this year. The second one actually is a really strong performance by the team in terms of customer and product mix management. And the third one is actually the move -- you know, the strategic move to become a more innovation and solutions business, which clearly we envisage that piece will be sustainable as we move forward. And I think the customer and product mix certainly in the short term, here we would see that continuing.

Q - Martin Deboo {BIO 15155849 <GO>}

Thank you very much.

A - Nick Hampton {BIO 18794378 <GO>}

Great. Thank you, Martin. And our next question comes from Alicia Forry, Investec, Alicia, good morning.

Q - Alicia Forry {BIO 16511988 <GO>}

Hi. Good morning, Dawn and Nick. Thanks for taking my question. And I wanted to ask about M&A. You've mentioned growth should come from inorganic as well as organic over the medium term. So can you discuss what the M&A hunting grounds look like at the moment? Are you seeing handfuls of targets, or is it more like tens of potential targets out there that you're considering?

And then you did mention on sucralose that there was some phasing impact in H1. Can you possibly quantify that estimated phasing impact for us? Thank you.

A - Nick Hampton {BIO 18794378 <GO>}

Sure. So on the M&A point, so, I mean, firstly delighted with the success of the integration we've seen so far of the M&A we've done. So the stevia business doing very well. Quantum successfully integrated in the first half of the year. So we're getting real momentum from the M&A we've done. And it's important that we focus on that as well because those are the businesses that we need to be successful.

The M&A pipeline continues to evolve and it's focused on the things that we've talked about before, so strengthening our core platforms in sweetening, in texturants and in fortification. And the deals we've done so far are very focused on that, extending into more fortification areas. So we did a small chickpea protein acquisition in the first half as well, which gives us exposure to plant-based proteins which will help us with formulation across our categories. And we're continuing to look for deals like that to help strengthen the core portfolio.

The pipeline is growing. It's certainly not a handful of companies but equally, it's always difficult to predict when you're going to do the next deal. So we're working at it. The good news is the deals we've already done are contributing. And on top of that because of the strong cash generation of the business, independent of the dividend from Primient, we saw 3 times the cash delivery in the first half that we saw last year. We've got the balance sheet to be able to deploy it when we find the right deals, but the key is to find the right deals first.

On sucralose, I think that the phasing in the first half was on top of a very strong underlying performance for the business. I'd say there's probably a handful of percentage points of volume growth in there. And it's always difficult to be precise, to be honest, what's really customer phasing versus growth. But we do think there were a few points that means that the volume growth we saw in the first half is unlikely to sustain into the second half.

Q - Alicia Forry {BIO 16511988 <GO>}

Thanks. I'll pass it along.

A - Nick Hampton {BIO 18794378 <GO>}

Great. Thank you. And our next question comes from Lauren Molyneux at Citi. Lauren, good morning.

Q - Lauren Molyneux {BIO 20012144 <GO>}

Hi. Good morning, Nick and Dawn. Thanks so much for taking my questions. And just had a couple left really. And firstly, I just wanted to dig a bit more into these productivities. Obviously, it's impressive that you've upgraded this target for productivities now, but can you talk a bit more about what factors are giving you the confidence to upgrade here the target? And where you see the biggest opportunities I guess to drive more upgrades? And then how we should think about the phasing of this GBP15 million, where it falls into H1 versus H2? And whether there's any ongoing benefits into the next fiscal year as well that we can think of.

And then my other question would just be around -- obviously, you've announced this new aftermarket stay for February next year. So just can we get any sort of flavor or early indications as to what to expect from this event? What do you want to focus on and highlight on the day? Thank you.

A - Nick Hampton {BIO 18794378 <GO>}

So why don't you take productivity and I'll take Capital Markets Day?

A - Dawn Allen {BIO 20417710 <GO>}

Yeah. So thanks, Lauren. So you're right. We have upgraded our target for the year from GBP10 million to GBP15 million, and I think that reflects a really strong culture that we're seeing around productivity and cost control in the business. And if you look at central costs, we're 23% down in the half. And so I think a really strong performance.

In terms of the areas that we look to target on productivity, clearly, it's coming across a range of areas, whether it's on raw materials, packaging, whether it's the efficiency of how we run our plants in terms of debottlenecking, those plants, but also in terms of procurement as well. So it's pretty much across the piece, and here we continue to focus on that because it's an important lever, not only to ensure that we can continue to invest for the future but also an important lever in terms of offsetting inflation as well.

A - Nick Hampton {BIO 18794378 <GO>}

Thanks, Dawn. So, Lauren, on a Capital Markets Day, I mean, I suppose, put very simply because we don't want to kind of get into too much detail about the event at this point. We're trying to really shine a light at how through the transformation that we're delivering in Tate & Lyle, you know, notably with the transactions are separated out Tate & Lyle and Primient, we're really creating this specialty growth-focused science-driven solutions company to help our customers grow in the areas where food is growing.

So putting ourselves right at the center of the future of food, that's really the headline. And then to unpack for you how that's going to evolve over the next few years, and the focus for the innovation and the markets that we're looking to serve. So it's about really shining a light on the new Tate & Lyle, and building confidence and belief in the future growth potential, there is no doubt, we demonstrated in the first half of this year.

Q - Lauren Molyneux {BIO 20012144 <GO>}

Great. Thank you.

A - Nick Hampton {BIO 18794378 <GO>}

Thank you. All right. Our next question comes from Karel Zoete at Kepler. Karel, good morning.

Q - Karel Zoete {BIO 4452327 <GO>}

Yes. Good morning. Thanks for taking the question. And I've a couple of follow-ups. The first one is on the momentum in stevia. And can you provide an update what you're seeing? And we see quite some optimistic remarks here from many others but -- for example, growth in North America was a bit slower, or in sweetness than the Group average. So that's the first question.

And the other question is on the Thailand scale-up and your tapioca-based starches. What's the momentum here? And general textures did quite well, so are we already seeing an impact, or is that yet to come? Thank you.

A - Nick Hampton {BIO 18794378 <GO>}

On stevia like others, we're very optimistic about the future of our stevia business. The acquisition we made a couple of years ago is performing extraordinarily well, and actually, at the moment, we're selling all of the stevia that we can make. So we're in the middle of upgrading our stevia facility in the US and in China. And that capacity is coming on stream through the second half of next year, into this year rather into next year to allow us to continue growth events from stevia, and part of that is trading up into high-value stevia as well, so improving the quality of our stevia business. So we remain very confident in that business.

In our Thailand business, as you say, we're seeing a very strong focus on texturants and very good growth in texturants. At the moment, we're in the middle of a capacity upgrade there to allow us to unlock growth going forward. So we feel good about having that business in the portfolio.

Q - Karel Zoete {BIO 4452327 <GO>}

All right. Can I do a follow-up question on stevia? Is the market structure in terms of new entrants technologies, is that changing or is it fairly stable?

A - Nick Hampton {BIO 18794378 <GO>}

I think we're seeing very strong demand for the traditional range of stevia products that's been driving the business historically. What we're also seeing because of the improvements in technology and the ability to make more cost-effectively high value, high-quality stevia products, we're seeing a shift also towards higher quality stevia as the cost of production of that comes down. And that's where, for example, their enzymatic technology is really, really important. And that's the basis of some of the premium products that we're starting to see come into the market. So I think the stevia market is becoming more sophisticated as technology creates greater quality and better-tasting variance to allow for reformulation.

Q - Karel Zoete {BIO 4452327 <GO>}

All right. Thank you.

A - Nick Hampton {BIO 18794378 <GO>}

So I think we're going back to Alicia at Investec. Alicia?

Q - Alicia Forry {BIO 16511988 <GO>}

Sorry, I didn't have a question. I just forgot to lower my hand. Excuse me.

A - Nick Hampton {BIO 18794378 <GO>}

Fair enough. Okay. So I think we have no more questions. So with that, thank you to everyone for watching and for all of your questions.

In summary, the Group has made an encouraging start to the year, delivering strong revenue and profit growth, and importantly, we are continuing to progress our growth-focused strategy. We look forward to speaking to you again at the Capital Markets event in February.

And with that, thank you for your time, and I hope you all have a great day. Bye now.