

Treatt plc Preliminary Results



for the year ended 30 September 2016

Daemmon Reeve - Chief Executive Officer
Richard Hope - Finance Director

Agenda

- **Executive Summary**
- **Results at a glance**
- **Financial Review**
- **Our Strategy**
- **Commercial Review**
- **Future Developments**
- **Current Trading & Outlook**

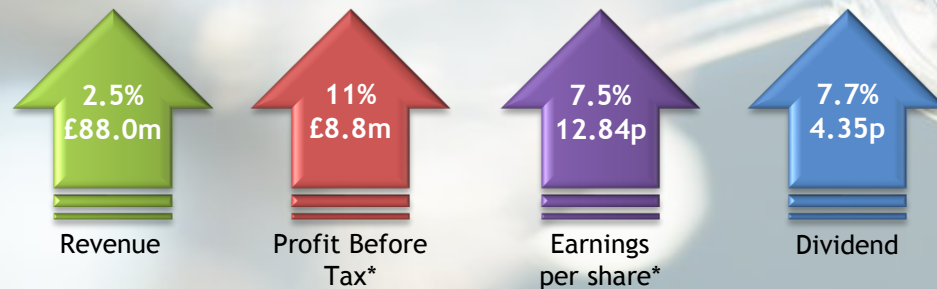


Executive Summary

- 2020 strategic plan on track
- Improved margins
- Better Q1 than prior year and strong momentum in Q4
- Adverse FX impact of £0.5m
- Year on year cash flow improvement
- Growth in sales of Citrus and Sugar Reduction products

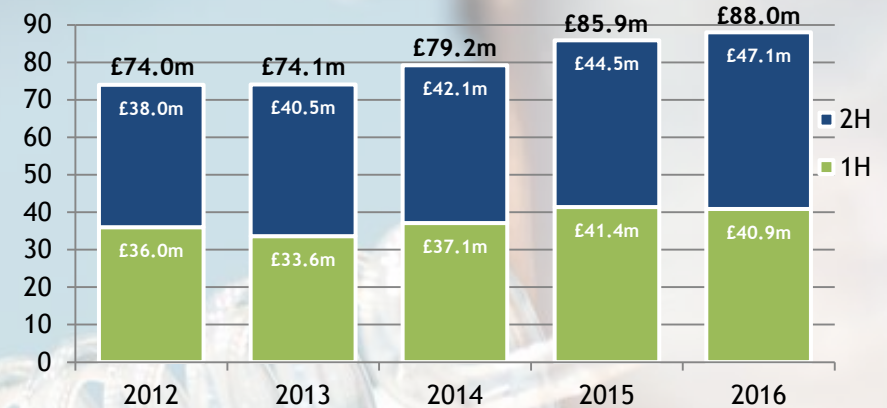
Results at a Glance

Year ended 30 September	2015	2016
Revenue	£85.9m	£88.0m
EBITDA*	£10.1m	£11.0m
Profit before tax *	£8.0m	£8.8m
Earnings per share *	11.94p	12.84p
Dividends per share	4.04p	4.35p
Net Assets per share	63.0p	71.0p

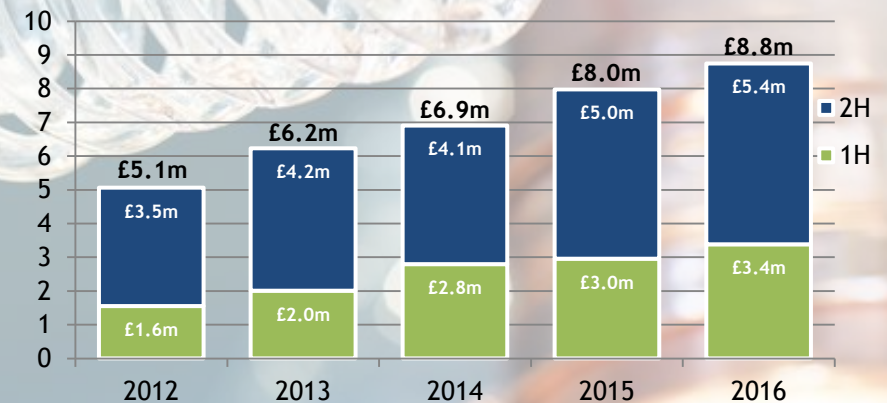


* Excludes exceptional items

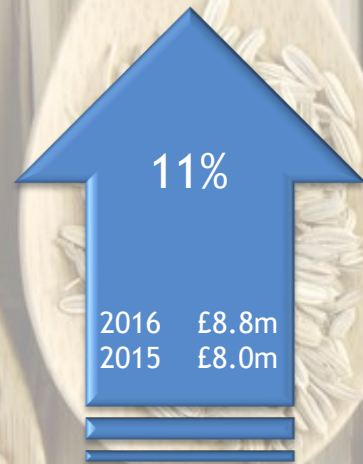
Revenue £'m



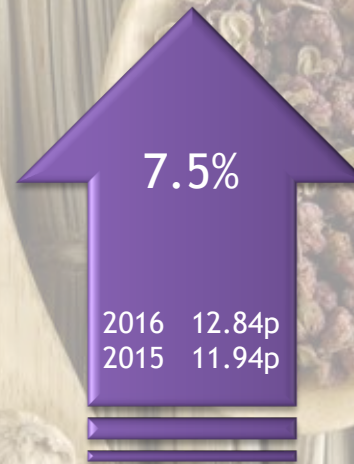
Profit before tax* £'m



Key Performance Indicators



Profit Before Tax



Earnings per share

	2015	2016
Net operating margin	10.1%	10.8%
Return on capital employed	22.1%	24.6%
Average net debt to EBITDA	0.78 x	0.35x

2016 Financial Review

Income Statement

	<u>2015</u> <u>£'000</u>	<u>Change</u> <u>%</u>	<u>2016</u> <u>£'000</u>
Revenue	85,934	+2.45%	88,040 ❶
Gross Profit	18,979		20,401
<i>Gross Profit %</i>	22.1%		23.2% ❷
Administrative expenses	(10,289)		(10,852) ❸
Operating Profit	8,690	+9.88%	9,549
<i>Operating Profit %</i>	10.1%		10.8%
Net Finance costs	(740)		(703) ❹
Profit before taxation & exceptionals	7,950	+11.27%	8,846 ❺
Exceptional items	(174)		(553)
Profit before taxation	7,776	+6.65%	8,293 ❻
Taxation	(1,786)		(2,144)
Profit for the period	5,990	+2.7%	6,149

Key Points

1. Increase in value-added revenue offset by reduction in traded business
2. Stronger margins through increased added-value and process improvement
3. 5.4% increase in admin expenses due to FX re-translation of US costs
4. Lower average borrowings
5. Exceptional costs re. Earthoil Earnout dispute and restructuring costs
6. Effective tax rate of 24.7% v 22.7% due to higher US profits

2016 Financial Review

Balance Sheet

<u>As at 30 September</u>	<u>2015</u>	<u>2016</u>
Goodwill	£1.1m	£2.7m ❶
Fixed Assets	£11.7m	£12.0m
Inventories	£25.8m	£30.0m ❷
Debtors	£17.6m	£17.9m
Creditors	(£10.9m)	(£14.2m)
Working Capital	£32.5m	£33.7m
Taxation	(£1.1m)	(£0.7m)
Net Debt	(£6.2m)	(£1.7m)
Pension deficit	(£3.0m)	(£7.4m) ❸
Other net liabilities	(£1.8m)	(£1.4m)
Shareholders' Funds	£33.2m	£37.2m

- Group headroom of £20.7m (Sept 2015: £14.5m)
- Multi bank facilities totalling £22.4m

Key Points

1. Increase in Goodwill following Earthoil settlement
2. Inventory levels higher due to raw materials prices and FX
3. Pension accounting deficit of £7m (2015: £3m) v actuarial deficit of £2m
4. £3m FX gain on US assets

2016 Financial Review

Cash Flow

	<u>2015</u> <u>£'000</u>	<u>2016</u> <u>£'000</u>
Net cash from operating activities	7,198	8,782
<i>Cash flow from investing activities</i>		
Investments in subsidiaries	-	(752)
Purchase of property, plant and equipment	(924)	(679)
Purchase of intangible assets	(108)	(109)
Other	6	8
	(1,026)	(1,532)
Free cash flow	6,172	7,250
<i>Cash flow from financing activities</i>		
Interest payable	(741)	(711)
Dividends paid	(1,978)	(2,095)
Net sales of own shares by Share Trust	180	265
	(2,539)	(2,541)
Net decrease in net debt	3,633	4,709
Effect of foreign exchange rates	(204)	(208)
Movement in net debt	3,429	4,501

Key Points

1. Strong operating cash flow with improved cash conversion
2. Lowest net debt since 2005
3. Some capex deferred due to impending site relocation

Cash Performance

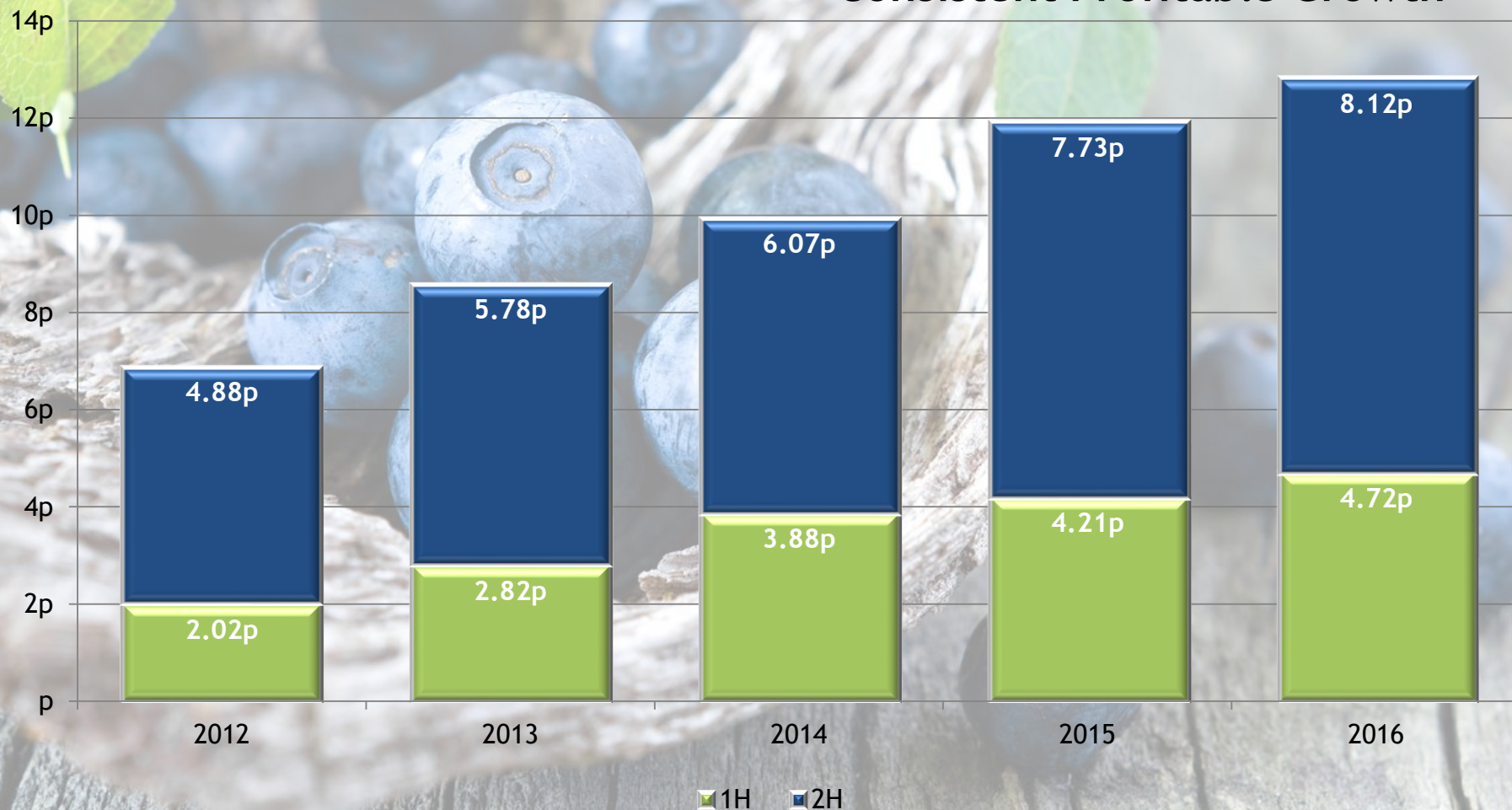
- **Free Cash Flow £8.0m**
(2015: £6.2m)
- **Cash Conversion 84%**
(2015: 71%)



Interim/Final Earnings per Share

2012-2016

“Consistent Profitable Growth”



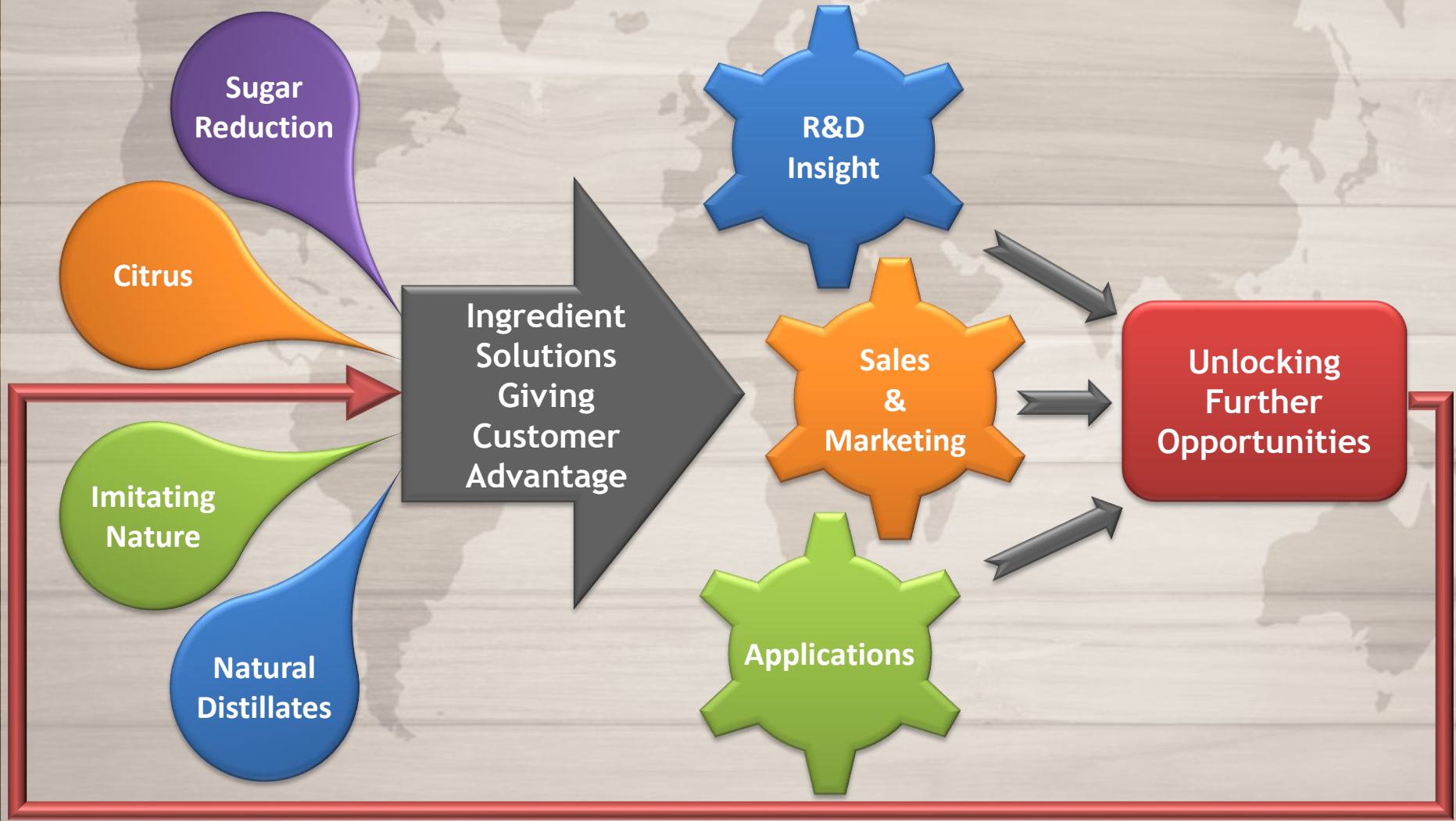
Interim / Final Dividends

2007-2016

“Progressive Dividend Policy”



Growth Map



2020 Strategic Plan

“To deliver sustainable growth in profits in the flavour, fragrance and FMCG markets”



Product Innovation

- Major drive to reduce sugar in soft drinks
- Launching new tea varieties in global ready to drink market
- Expanding High Impact Chemical uses
- Launching new Natural Aqueous Distillates
- Process reviews to further enhance innovation

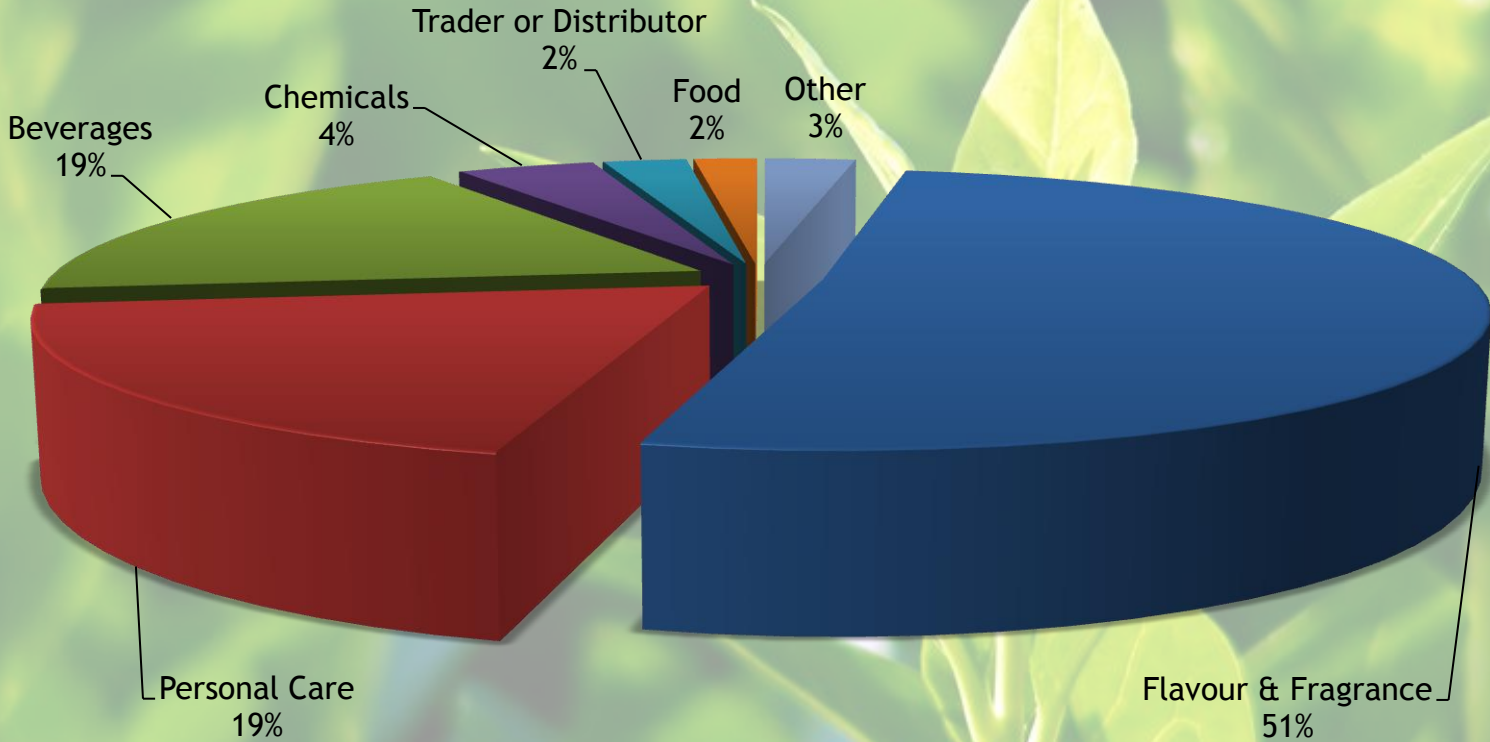
Commercial Review

- Growth in margins driven by strategic focus
- Increase investment in R&D and Technical capabilities
 - Sugar Reduction and Citrus
- China expansion - enhanced capabilities and strong team
- Emphasis on people, staff engagement and culture - key drivers of business success
- Earthoil profits increased for 6th successive year, earn out settled
- New business wins in price-stable ingredient solutions

Customer Industry Sectors

Sales

Sales



Future Developments

A close-up photograph of a glass of honey being poured from a spoon. The honey is thick and golden, dripping from the spoon into the glass. The background is a warm, textured wooden surface, possibly a table or a piece of bark, with some dried grass or straw visible in the upper left. The lighting is soft and warm, creating a cozy and natural atmosphere.

Key drivers of growth:

- UK site relocation
- Targeting strong growth in China
- Enhanced customer facing technical infrastructure in US
- Increased headcount investment in revenue driving areas

UK Site Relocation

- 10 acre site in Bury St Edmunds
- Planning and regulatory consent expected to take 6-9 months
- We will update shareholders as plans progress
- Total project costs of:

Land, buildings, and move costs	£20m - £26m
Capital projects held back over the last three years	£3m - £5m
Upgraded plant and machinery and new technologies	£3m - £5m
Less: Disposal of current site	(£5m)
Total estimated cash outflow over 2-3 years:	£21m -£31m

Current Trading & Outlook

- Q1 momentum continues with solid revenues
- Further margin gains
- Order books up year on year
- Positive FX impact of stronger US Dollar
- Significant increase in sales from China
- Earthoil growth to continue following increased capacity
- Improved cash performance to continue prior to relocation



TREATT

www.treatt.com