Dairy Crest: Interim Results 17/18

Performance update - Mark Allen, CEO

Q: How would you summarise Dairy Crest's performance for the six-month period?

A: We've had a really good first half. Turnover is up about 16%, profit's up 8% and our brands have performed really well. All four brands together in volume and value growth. Very pleased about that. But in particular, the star of the show, Cathedral City, is up 10% in volume terms and about 7% in value. A really good performance in a market that's only up 3%.

Q: What about Clover, how has Clover performed?

A: Clover's performed well. It has vindicated the work that we've done over the last few years. Taking out the artificial ingredients, making it more natural, moving it closer to butter and consumers have supported us. In a category that's been very challenged, where sales are going back by about 3%, we've got growth of about 2%; so we're outperforming the category and growing share.

Q: Now you're making a number of changes to your Butter and Spreads business in Kirkby, what are these changes and why are you making them?

A: Well, there's two fundamental reasons as to why we're changing. The dynamics in the Spreads and Butter industry is changing, it's become much more promotional and volume goes up and down on a fairly regular basis. What we want to do is have a flexible workforce that allows us to deal with those volume swings between days of the week, and weeks of the month, and months of the year. The changes we're implementing helps us do that. We go to a seven-day, 24-hour operation. Then the second thing… in what is a very competitive market, it also helps us to take a little bit of cost out of the business. We, in fact, take about £2.5 million annually out of the cost base.

Q: Now turning to your functional ingredients division, how are you building your customer base?

A: This is an exciting part of Dairy Crest over the next few years. Probably taking a little bit longer than we would have hoped to establish the customer base, because they are very demanding. Very demanding on quality, very demanding on the constituent parts of the demineralised whey and galacto-oligosaccharide that we make. The good news is that the customer base is starting to accelerate now. We're starting to bring in orders from the big infant formula manufacturers, which is really exciting.

Financial update – Tom Atherton, Finance Director

Q: Revenues and profit before tax are both up significantly for the period, what were the key drivers behind those figures?

A: This was really down to a strong branded performance. Most of our brands increased both volume and revenue over the six months. It was helped a bit more by strong ingredient sales and revenue was up 16% at £220 million. We did suffer some input cost challenges, particularly in our Butter business, but we managed through those and profit before tax of £20.6 million is up 8%.

Q: What has been the overall impact on the business of the high cream price?

A: Well, cream has been high at the start of the year and it got even higher during the course of the first half. It affects us in two ways, both positively and negatively. We buy bulk butter based on cream pricing for our Butter business, so we did suffer input cost increases on that side of the business, but we do benefit from selling whey butter and cream as part of our Cheese operations.

So as cream prices go up, it hurts our Butter business and it benefits our Ingredients business.

Q: So, talk me through the balance sheet.

A: Well, there are two big areas on the balance sheet that we're looking to address. One is net debt, that a lot of people focus on. We're committing to getting that to below two times gearing in the next two to three years and that will come down this year as well across the course of the whole year.

But the other equally important area is pensions. We've reduced the liabilities in our pension scheme this month by well over £100 million.

That's now in surplus from an accounting point of view. Even from a funding point of view that's now a sub £50 million deficit. That's very important because when we come to do the next valuation in March 2019 there's a good chance that that deficit's been extinguished and cash contributions can stop.

Q: You're committed to maintaining your progressive dividend policy?

A: Yes, we remain committed to the progressive dividend policy and we've delivered again this year with a 2% increase, an interim dividend of 6.3p. The business is high margin. We're showing top line growth. That all bodes well for future dividend increases in line with that policy.

Outlook – Mark Allen, CEO

Q: What's your outlook for the rest of the year and beyond?

A: We've had a really good first half and I'd expect that to continue for the second. Our brands are performing well and delivering profit in line with consensus.

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