



## Dairy Crest - Final Results 2017/18

### Final Results 2017/18 - Mark Allen, Chief Executive

**Q: What are the highlights for Dairy Crest from this financial year?**

A: I think this is a year I'm really pleased with. There are a number of highlights. Firstly, turnover is up 10%. Secondly, our margin remains resolutely strong at 15.7%. And thirdly, our brands have performed really well, turnover growing 6%. And then finally, I'd just point out the performance in our Functional Ingredients business, which is up - turnover's up 51% this year. Excellent performance.

**Q: So looking at things in a little bit more detail, how have your key brands performed?**

A: I think the really important thing for the brands is to focus on our innovation performance. And we've seen 14% of our sales come from things that we developed in the previous three years. Our brand performance has clearly benefited from that.

If I go through the individual brands, Cathedral City has had another stellar year, outperformed the market, turnover up 6% or 7% in the year.

Clover is a star in many respects. The spreads category, is a category that's been going back over recent times. And really since we introduced the new 'no artificial ingredients' product, Clover has gone from strength-to-strength. It has outperformed the market year-in and year-out and has seen growth this year.

Frylight, again double-digit growth, it is the number one oil brand – a fantastic performance.

I think it's fair to say that Country Life was a little bit challenged, we had 200% input cost inflation in the first half of the year, but we managed that brand very well. We reduced promotions, put prices up a little bit and really our Spreads business overall benefited from the downside on Country Life, as consumers moved to spreads away from butter. In our Spreads business we had about 10% or 11% increase in sales... and remember that's a category that historically has been going backwards.

## **Functional Ingredients - Mark Allen, Chief Executive**

**Q: Let's turn now to the Functional Ingredients division. How are things going with demineralised whey?**

A: Yes, we're starting to get real traction in this area. Sales were up 51% and importantly, profit which sits in our Cheese business is up around about 18% or 19%. We're now starting to see the real benefits of the investment we made a couple of years ago.

**Q: How are things progressing with galacto-oligosaccharide?**

A: We're doing well. We're making progress in animal nutrition, in animal feed, across a range of sectors. We're also developing our sales in infant formula and in fact, we're probably the leading supplier already of organic galacto-oligosaccharide. I think that's an important position because it earmarks us from a quality point of view. And then finally, I think it's likely during the next year that we'll launch our first foray into human nutrition, where we'll launch a GOS shot for everybody that wants to have a healthier gut.

## **Financial Performance -Tom Atherton, Deputy Chief Executive and Group Finance Director**

**Q: Revenues and profit before tax were both up for the year, so what drove that?**

A: You're right, revenues were up 10% for the Group and we grew revenues in all areas across our Branded and Functional Ingredients business. So in Cheese and Functional Ingredients, revenues were up 9%. Within that, Functional Ingredients were actually up 51%. And on the spreads side, Spreads, Butters and Oils grew by 16%. If you look at EBITDA, that grew by 8% to over £90m. Again, our Cheese and Functional Ingredients profits grew by 17%; margins there of 18.1% are the best we've ever delivered in that part of the business.

Our Butters business did have to cope with some big input cost increases over the course of the year, but coped well. In the second half margins improved dramatically.

And overall, the Group achieved profits of £62.3m, that's an increase of 3% on the year. Good result.

**Q: You're also reporting a large exceptional gain due to the reduction in your pension fund liability, what's behind that?**

A: We had a long negotiation with the pension trustees around the pension scheme and they agreed during the year to move the basis of inflation to CPI from RPI. At a stroke that removed £130m from future liabilities and swung the scheme from a deficit year before of £109m to a surplus this year of £94m.

The importance there is that we pay more in pension costs than we do in interest costs on our debt and what this does is bring forward the date when the scheme becomes self-sufficient and we no longer have to put any money into it. And that's going to help cash flows in the future.

**Q: Your net debt has increased, so can you give us some little more details on that?**

A: It has gone up over the year by about £16m or 6%. The value of our stock though has gone up by over £30m, so half of that stock build has been funded from the rest of our balance sheet. We've got good sales momentum, that stock will sell through and turn into cash in the new year and that will manage the debt situation, as well as our input costs have softened a little bit since the fourth quarter.

## **Outlook - Mark Allen, Chief Executive**

**Q: So looking ahead now, what's the outlook for Dairy Crest?**

A: I think it's an exciting time for Dairy Crest. We continue with our fantastic branded performance; great margins, growing brands, that's really important. We're also starting to see the benefits of our investment in Functional Ingredients. I would expect to see similar improvements in performance next year, as we've seen this year.

So put that all together, it's great news, great business to be associated with.

**Q: And you've announced this morning an expansion in Davidstow, so can you give us a little bit more detail on that?**

A: This is fantastic news. Davidstow and our Cheese business have been the cornerstone for Dairy Crest for many, many years. Great margins, great brands and growing all the time.

It's been so successful that we're now at the stage where we're running out of capacity, both from a manufacturing point of view down at

Davidstow and from a packing point of view in sliced, grated and block. So we've announced this morning we're going to be spending around about £85m upgrading our manufacturing capability, our packing capability and making us more sustainable. So this is great news, it futureproofs the business for the next 10 to 15 years.

**[end]**