

Financial Review

In an unprecedented year, we delivered a resilient performance, with a strong recovery in business volumes and profit margin.



Marguerite Larkin
Chief Financial Officer

In a year that was significantly impacted by COVID-19, the Group delivered revenue of €7 billion, trading profit of €797m and free cash flow of €412m. We have made a strong recovery with business volumes returning to growth in the fourth quarter and trading profit margin recovering. The strength of this recovery, agility of our business model and resilience of our business gives me confidence that we will continue our strong track record of creating value for all our stakeholders.

The Financial Review provides an overview of the Group's financial performance for the year ended 31 December 2020 and the Group's financial position at that date.

The Key Financial Performance Indicators outlined below are used to track business and operational performance and help the Group drive value creation. The Group has a strong track record and a disciplined financial approach of targeting continued growth while meeting return on investment objectives. This combination of growth and return help ensure the Group's financial objective of maximising shareholder return is achieved.

Key Financial Indicators

	Group Volume Growth	Group Trading Margin	Adjusted EPS Growth in Constant Currency
Growth	2020 (2.9%)	2020 11.5%	2020 (9.4%)
	2019 2.8%	2019 12.5%	2019 8.3%
	ROACE	Cash Conversion	Dividend
Return	2020 9.8%	2020 €412m 67%	2020 86.5 cent
	2019 11.8%	2019 €515m 74%	2019 78.6 cent

Further detail is set out within the Key Performance Indicators section on pages 30-31 and within the Supplementary Information section – Financial Definitions on pages 231-234.

Analysis of Results

	% change	2020 €'m	2019 €'m
Revenue	(4.0%)	6,953.4	7,241.3
Trading profit	(11.7%)	797.2	902.7
<i>Trading margin</i>		11.5%	12.5%
Computer software amortisation		(28.4)	(26.5)
Finance costs (net)		(72.4)	(81.6)
Adjusted earnings before taxation		696.4	794.6
Income taxes (excluding non-trading items)		(85.1)	(98.6)
Adjusted earnings after taxation	(12.2%)	611.3	696.0
Brand related intangible asset amortisation		(41.7)	(37.8)
Non-trading items (net of related tax)		(15.5)	(91.7)
Profit after taxation		554.1	566.5
		EPS cent	EPS cent
Basic EPS	(2.3%)	313.0	320.4
Brand related intangible asset amortisation		23.6	21.4
Non-trading items (net of related tax)		8.8	51.9
Adjusted* EPS	(12.3%)	345.4	393.7
Impact of retranslating prior year adjusted earnings per share at current year average exchange rates		-	(12.3)
Adjusted* EPS in constant currency	(9.4%)	345.4	381.4

* Before brand related intangible asset amortisation and non-trading items (net of related tax).

Revenue

Group revenue was **€7.0 billion** (2019: €7.2 billion) reflecting a reported decrease of **4.0%**. This comprised a volume decrease of **2.9%** primarily due to the impact of COVID-19, positive pricing of **0.3%**, an adverse transaction currency impact of **0.1%**, an adverse translation currency impact of **2.3%** and contribution from business acquisitions of **1.0%**.

2019: Group reported revenue +9.6%, volume growth +2.8%, pricing flat, translation currency +2.1%, contribution from business acquisitions of +4.7%.

Taste & Nutrition revenue was **€5.8 billion** (2019: €6.0 billion) reflecting a reported revenue decrease of **4.4%**. This comprised a volume decrease of **3.0%** due to the impact of COVID-19, positive pricing of **0.1%**, an adverse transaction currency impact of **0.1%**, an adverse translation currency impact of **2.6%** and contribution from business acquisitions of **1.2%**.

2019: Taste & Nutrition reported revenue +12.5%, volume growth +4.0%, pricing increase +0.1%, translation currency +2.6%, acquisitions +5.8%.

Consumer Foods revenue was **€1.28 billion** (2019: €1.31 billion) reflecting a reported revenue decrease of **2.1%**. This comprised a volume decrease of **2.6%**, positive pricing of **1.2%** and an adverse translation currency impact of **0.7%**. Excluding the impact of the ready meals contract exit, volume would have increased by **2.2%**.

2019: Consumer Foods reported revenue (2.4%), volume reduction (2.2%), pricing (0.5%), translation currency +0.3%.

Trading Profit & Margin

Group reported trading profit of **€797.2m** (2019: €902.7m) and a trading margin of **11.5%**, a decrease of **100bps**, primarily reflecting significant operating leverage from lower volumes in Taste & Nutrition and COVID-related costs partially offset by cost mitigation actions.

Taste & Nutrition had a trading margin of **14.2%**, a decrease of **110bps** reflecting significant operating leverage and COVID-related costs partially offset by cost mitigation actions.

Consumer Foods had a trading margin of **7.8%**, an increase of **20bps**, reflecting efficiencies delivered from the 2019 Realignment Programme and cost mitigation actions partially offset by net COVID-related costs and negative net pricing in a challenging market.

The trading profit reflects an EBITDA of **€1.0 billion** (2019: €1.1 billion) and an EBITDA margin of **14.4%** (2019: 15.1%).

A comprehensive analysis of the revenue and trading performance of the Taste & Nutrition and Consumer Foods divisions is included in the Business Reviews on pages 40-45.

Computer Software Amortisation

Computer software amortisation increased by **€1.9m** to **€28.4m** (2019: €26.5m) reflecting the ongoing progression of the KerryConnect Programme including costs associated with the rollout across our sites in North America. The capitalised element of the cost of this project is being amortised over a seven year period.

Brand Related Intangible Asset Amortisation

Brand related intangible asset amortisation increased to **€41.7m** (2019: €37.8m) which is reflective of recent acquisition activity.

Finance Costs (net)

Finance costs (net) for the year decreased by **€9.2m** to **€72.4m** (2019: €81.6m) primarily due to lower interest rates. The Group's average interest rate for the year was **3.0%** (2019: 3.7%).

Taxation

The tax charge for the year before non-trading items was **€85.1m** (2019: €98.6m) representing an effective tax rate of **13.0%** (2019: 13.0%) and is reflective of the geographical mix of earnings.

Acquisitions

During the year, the Group completed three acquisitions for a total consideration of **€280.0m**. These acquisitions were aligned to the Group's strategic priorities for growth; enhancing both the Group's taste and nutrition technologies, expanding its presence in developing markets and in the foodservice channel.

Non-Trading Items

During the year, the Group incurred a non-trading item charge of **€15.5m** (2019: €91.7m) net of tax. The charge in the year primarily related to costs associated with the integration of business acquisitions.

Adjusted EPS in Constant Currency

Adjusted EPS in constant currency decreased by **9.4%** to **345.4 cent** (2019: +8.3%) due to the impact of COVID-19 on business performance.

Basic EPS

Basic EPS decreased by **2.3%** to **313.0 cent** (2019: 320.4 cent). Basic EPS is calculated after accounting for brand related intangible asset amortisation of **23.6 cent** (2019: 21.4 cent) and a non-trading item charge of **8.8 cent** net of related tax (2019: 51.9 cent).

Return on Average Capital Employed

ROACE in the year was **9.8%** (2019: 11.8%) reflecting the impact of COVID-19 on current year profits.

Exchange Rates

Group results are impacted by year-on-year fluctuations in exchange rates versus the euro. The average rates below are the principal rates used for the translation of results. The closing rates below are used to translate assets and liabilities at year end.

	Average Rates		Closing Rates	
	2020	2019	2020	2019
Australian Dollar	1.66	1.61	1.59	1.60
Brazilian Real	5.75	4.44	6.38	4.53
British Pound Sterling	0.89	0.88	0.90	0.85
Chinese Yuan Renminbi	7.86	7.73	8.03	7.82
Malaysian Ringgit	4.77	4.65	4.92	4.60
Mexican Peso	24.34	21.59	24.46	21.19
Russian Ruble	81.16	72.28	90.68	69.34
South African Rand	18.62	16.20	18.02	15.77
US Dollar	1.13	1.12	1.23	1.12

Dividends

During the year, the Group paid an interim dividend of 25.9 cent per A ordinary share, which was an increase of 10.2%. The Board has proposed a final dividend of 60.6 cent per A ordinary share, payable on 14 May 2021 to shareholders registered on the record date of 16 April 2021. When combined with the interim dividend, the total dividend for the year amounts to 86.5 cent per share (2019: 78.6 cent per share), which is an increase of 10.1% over last year's dividend. The Group's aim is to have double digit dividend growth each year. Over 34 years as a listed company, the Group has grown its dividend at a compound rate of 16.5%.

Balance Sheet

A summary balance sheet as at 31 December is provided below:

	2020 €'m	2019 €'m
Property, plant & equipment	1,990.6	2,062.9
Intangible assets	4,687.1	4,589.7
Other non-current assets	170.6	179.5
Current assets	2,594.8	2,672.2
Total assets	9,443.1	9,504.3
Current liabilities	1,696.3	2,014.0
Non-current liabilities	3,091.3	2,928.1
Total liabilities	4,787.6	4,942.1
Net assets	4,655.5	4,562.2
Shareholders' equity	4,655.5	4,562.2

Property, Plant & Equipment

Property, plant and equipment decreased by €72.3m to €1,990.6m (2019: €2,062.9m) primarily due to the depreciation charge and the impact of foreign exchange translation partially offset by additions made in the period. Net capital expenditure in the year (including computer software) amounted to €310.7m (2019: €315.3m). The level of capital investment supports the Group's growth initiatives and included the strategic development of its Georgia, US facility, creating a world-leading manufacturing facility to meet increasing demand for integrated solutions across a variety of protein applications.

Intangible Assets & Acquisitions

Intangible assets increased by **€97.4m** to **€4,687.1m** (2019: €4,589.7m) due to the acquisitions made in the year partially offset by amortisation charge and the impact of foreign exchange translation.

Current Assets

Current assets decreased by **€77.4m** to **€2,594.8m** (2019: €2,672.2m) due to decreased inventory and trade and other receivables.

Retirement Benefits

At the balance sheet date, the total net deficit for all defined benefit schemes (after deferred tax) was **€43.6m** (2019: €8.6m). The increase in the net deficit was driven primarily by lower discount rates which increased schemes' liabilities, partially offset by strong returns on schemes' assets. The net deficit expressed as a percentage of market capitalisation at 31 December 2020 was **0.2%** (2019: 0.04%).

Shareholders' Equity

Shareholders' equity increased by **€93.3m** to **€4,655.5m** (2019: €4,562.2m), resulting from profits generated during the year, offset in part by dividends.

A full reconciliation of shareholders' equity is disclosed in the Consolidated Statement of Changes in Equity on page 162.

Capital Structure

The Group finances its operations through a combination of equity and borrowing facilities, including bank borrowings and senior notes from capital markets.

The financing structure of the Group is managed in order to optimise shareholder value while allowing the Group to take advantage of opportunities that might arise to grow the business. The Group targets acquisition and investment opportunities that are value enhancing and the Group's policy is to fund these transactions from cash flow or borrowings while maintaining its investment grade debt status.

This is managed by setting Net debt to EBITDA targets while allowing flexibility to accommodate significant acquisition opportunities. Any expected variation from these targets should be reversible between 18 and 24 months; otherwise consideration would be given to issuing additional equity in the Group.

Free Cash Flow

In 2020, the Group achieved free cash flow of **€412.0m** (2019: €514.6m).

Free Cash Flow	2020 €'m	2019 €'m
Trading profit	797.2	902.7
Depreciation (net)	200.7	191.4
Movement in average working capital	(102.5)	(89.5)
Pension contributions paid less pension expense	(23.4)	(26.7)
Cash flow from operations	872.0	977.9
Finance costs paid (net)	(74.6)	(80.8)
Income taxes paid	(74.7)	(67.2)
Purchase of non-current assets	(310.7)	(315.3)
Free cash flow	412.0	514.6
Cash conversion ¹	67%	74%

¹ Cash conversion is free cash flow expressed as a percentage of adjusted earnings after taxation.

Total Net Debt

Total net debt at the end of the year was **€1,945.1m** (2019: €1,972.2m). Lease liabilities are included in total net debt for 2020 and 2019. The increase during the year is analysed in the table below:

Movement in Total Net Debt	2020 €'m	2019 €'m
Free cash flow	412.0	514.6
Acquisitions (net of disposals) including payments relating to previous acquisitions	(258.6)	(568.0)
Disposal of financial asset investments	5.3	-
Difference between average working capital and year end working capital	(6.2)	25.6
Non-trading items	(39.7)	(89.1)
Dividends paid	(143.1)	(128.3)
Shares issued during the financial year	-	0.1
Exchange translation adjustment	(4.6)	(2.5)
Increase in net debt resulting from cash flows	(34.9)	(247.6)
Fair value movement on interest rate swaps	7.6	12.5
Exchange translation adjustment on net debt	26.5	(4.2)
Increase in net debt in the year	(0.8)	(239.3)
Net debt at beginning of year	(1,862.8)	(1,623.5)
Net debt at the end of year – pre lease liabilities	(1,863.6)	(1,862.8)
Lease liabilities	(81.5)	(109.4)
Total net debt* at the end of year	(1,945.1)	(1,972.2)

* Prior year has been re-presented to include lease liabilities in total net debt.

The exchange translation adjustment of **€26.5m** results primarily from borrowings denominated in US dollar translated at a year end rate of \$1.23 versus a rate of \$1.12 in 2019.

Maturity Profile of Total Net Debt	2020 €'m	2019 €'m
Within 1 year	533.3	374.9
Between 1 and 2 years	(104.9)	(25.6)
Between 2 and 5 years	(1,626.3)	(765.4)
Over 5 years	(747.2)	(1,556.1)
Total net debt at end of year	(1,945.1)	(1,972.2)
Weighted average maturity (years)	5.2	5.9

Credit Facilities

Undrawn committed facilities at the end of the year were **€1,100m** (2019: €1,100m) while undrawn standby facilities were **€320.0m** (2019: €330.0m).

In early 2020, the Group repaid US\$208m of maturing private placement notes. During the second quarter of 2020, the Group completed a €200m tap issuance onto its 2025 Senior Notes and exercised the first of the two 'plus one year' extension options on the revolving credit facility to further extend the maturity date of this facility to June 2025.

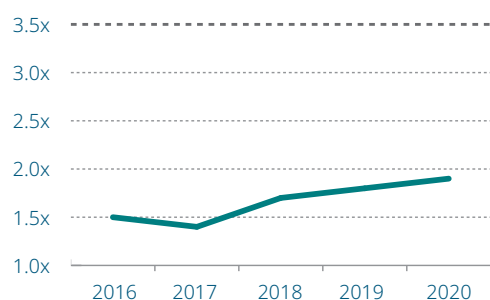
Full details of the Group's financial liabilities, cash at bank and in hand and credit facilities are disclosed in notes 22 and 23 to the Consolidated Financial Statements. Of the cash at bank and in hand at year end, €75m was on short term deposit under a Sustainable Deposits programme.

Key Financial Ratios

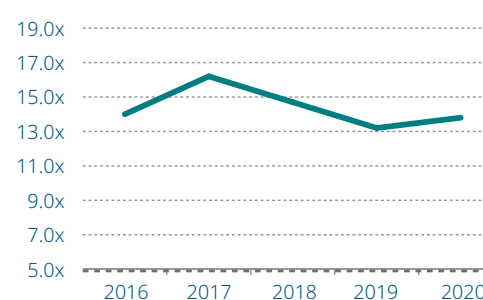
The Group's balance sheet is in a strong position with a Net debt to EBITDA* ratio of 1.9 times. At this ratio the Group has significant liquidity headroom to support future growth plans. The Group's debt is not subject to financial covenants, other than €163.0m of US\$ Private Placements. Group Treasury monitors compliance with all financial covenants and at 31 December the key ratios are as follows:

	Covenant	2020 Times	2019 Times
Net debt: EBITDA*	Maximum 3.5	1.9	1.8
EBITDA: Net interest*	Minimum 4.0	13.8	13.2

Net Debt: EBITDA*



EBITDA: Net Interest*



* Calculated in accordance with lenders' facility agreements which take account of adjustments as outlined on page 233.

Share Price and Market Capitalisation

The Company's shares traded in the range **€91.95** to **€125.60** during the year. The share price at 31 December 2020 was **€118.50** (2019: €111.10) giving a market capitalisation of **€20.9 billion** (2019: €19.6 billion). Total Shareholder Return for 2020 was **7.4%** (2019: 29.3%).

Financial Risk Management

Within the Group risk management framework as described in the Risk Management Report on page 72, the Group has a Financial Risk Management Programme, which is approved by the Board of Directors and is subject to regular monitoring by the Finance Committee and Group Internal Audit. The Group does not engage in speculative trading.

Further details relating to the Group's financial and compliance risks and their associated mitigation processes are discussed in the Risk Management Report on pages 71-83 and in note 23 to the Consolidated Financial Statements.

Summary and Financial Outlook

The Group delivered a resilient performance in 2020, generating revenue of **€7.0 billion**, trading profit of **€797m** and free cash flow of **€412m** through an unprecedented year which saw significant impact from COVID-19. At year end the balance sheet is in a good position and with a Net debt: EBITDA ratio of **1.9 times**, the Group has significant headroom to support the future growth plans of the organisation.

The Group will continue to invest for growth aligned to the changing market landscape and pursue M&A opportunities aligned to our strategic growth priorities.

10 Year Earnings History

A strong history of positive results

	2011 €'m	**2012 €'m	2013 €'m	2014 €'m	2015 €'m	2016 €'m	2017 €'m	2018 €'m	2019 €'m	2020 €'m
Revenue	5,302.2	5,848.3	5,836.7	5,756.6	6,104.9	6,130.6	6,407.9	6,607.6	7,241.3	6,953.4
Trading profit	500.5	559.0	611.4	636.4	700.1	749.6	781.3	805.6	902.7	797.2
Computer software amortisation	(5.4)	(8.7)	(11.5)	(13.6)	(18.7)	(23.4)	(24.3)	(25.0)	(26.5)	(28.4)
Finance costs (net)	(46.0)	(62.1)	(67.6)	(52.9)	(69.3)	(70.4)	(65.6)	(67.0)	(81.6)	(72.4)
Adjusted earnings before taxation*	449.1	488.2	532.3	569.9	612.1	655.8	691.4	713.6	794.6	696.4
Income taxes (excluding non-trading items)	(74.6)	(77.3)	(79.1)	(79.6)	(81.1)	(86.7)	(89.5)	(89.2)	(98.6)	(85.1)
Adjusted earnings after taxation*	374.5	410.9	453.2	490.3	531.0	569.1	601.9	624.4	696.0	611.3
Brand related intangible asset amortisation	(13.9)	(14.7)	(16.6)	(14.4)	(18.7)	(23.0)	(23.6)	(28.8)	(37.8)	(41.7)
Non-trading items (net of related tax)	0.1	(135.5)	(352.2)	4.0	13.1	(13.0)	10.2	(55.1)	(91.7)	(15.5)
Profit after taxation attributable to owners of the parent	360.7	260.7	84.4	479.9	525.4	533.1	588.5	540.5	566.5	554.1
Adjusted EPS (cent)*	213.4	234.0	257.9	278.9	301.9	323.4	341.2	353.4	393.7	345.4

* Adjusted EPS, adjusted earnings before taxation and adjusted earnings after taxation are calculated before brand related intangible asset amortisation and non-trading items (net of related tax) and are considered more reflective of the Group's underlying trading performance. Adjusted EPS performance on a constant currency basis is disclosed on page 232.

** 2012 was restated in line with IAS 19 (2011) 'Employee Benefits' which was adopted as required by IFRS in 2013. All other years are presented as reported.