

Financial Review



We are pleased with the Group's overall financial performance and progression in the year, against the backdrop of a highly variable marketplace.

Marguerite Larkin
Chief Financial Officer

The Financial Review provides an overview of the Group's financial performance for the year ended 31 December 2021 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 are important measures for the Group as it aims to deliver consistent shareholder returns.

KEY FINANCIAL METRICS

GROWTH	Group Revenue Volume Growth		Group Trading Margin		Adjusted EPS Growth in Constant Currency	
	2021	8.0%	2021	11.9% +40bps	2021	12.1%
2020	(2.9%)	2020	11.5% (100bps)	2020	(9.4%)	

RETURN	ROACE		Free Cash Flow Conversion		Dividend	
	2021	9.9%	2021	566 84%	2021	95.2 cent +10.1%
2020	9.8%	2020	412 67%	2020	86.5 cent +10.1%	

Further detail is set out within the Key Performance Indicators section on pages 34-35 and within the Supplementary Information section – Financial Definitions on pages 234-238.

Analysis of Results

	% change	2021 €'m	2020 €'m
Revenue	+5.7%	7,350.6	6,953.4
Trading profit	+9.8%	875.5	797.2
Trading margin		11.9%	11.5%
Computer software amortisation		(34.6)	(28.4)
Finance costs (net)		(69.9)	(72.4)
Adjusted earnings before taxation		771.0	696.4
Income taxes (excluding non-trading items)		(96.2)	(85.1)
Adjusted earnings after taxation	+10.4%	674.8	611.3
Brand related intangible asset amortisation		(46.2)	(41.7)
Non-trading items (net of related tax)		134.4	(15.5)
Profit after taxation		763.0	554.1
		EPS cent	EPS cent
Basic EPS	+37.6%	430.6	313.0
Brand related intangible asset amortisation		26.0	23.6
Non-trading items (net of related tax)		(75.8)	8.8
Adjusted EPS	+10.2%	380.8	345.4
Impact of exchange rate translation	+1.9%		
Adjusted EPS growth in constant currency	+12.1%		(9.4%)

Revenue

Group revenue was **€7.4 billion** (2020: €7.0 billion) reflecting a reported increase of **5.7%**. This comprised a volume increase of **8.0%**, increased pricing of **1.2%**, an adverse translation currency impact of **1.8%** and an adverse impact from business disposals net of acquisitions of **1.7%**.

2020: Group reported revenue (4.0%), volume decrease (2.9%), pricing increase +0.3%, transaction currency (0.1%), translation currency (2.3%), contribution from business acquisitions of +1.0%.

Taste & Nutrition revenue was **€6.3 billion** (2020: €5.8 billion) reflecting a reported revenue increase of **9.0%**. This comprised a volume increase of **8.3%**, increased pricing of **1.3%**, an adverse translation currency impact of **2.7%** and contribution from business acquisitions net of disposals of **2.1%**.

2020: Taste & Nutrition reported revenue (4.4%), volume decrease (3.0%), pricing increase +0.1%, transaction currency (0.1%), translation currency (2.6%), contribution from business acquisitions of +1.2%.

Consumer Foods revenue was **€1.1 billion** (2020: €1.28 billion) reflecting a reported revenue decrease of **10.5%**. This comprised a volume increase of **6.0%**, increased pricing of **0.5%**, a favourable transaction currency impact of **0.1%**, a favourable translation currency impact of **1.7%** and an adverse impact from the disposal of the Meats and Meals business of **18.8%**.

2020: Consumer Foods reported revenue (2.1%), volume reduction (2.6%), pricing +1.2%, translation currency (0.7%). Excluding the impact of the ready meals contract exit, volume would have increased by 2.2%.

Trading Profit & Margin

Group reported trading profit was **€875.5m** (2020: €797.2m) and trading margin was **11.9%**, representing an increase of **40bps**, driven by the recovery of operating leverage and net contribution of acquisitions and disposals, partially offset by pricing, supply chain oncosts and KerryExcel investments.

Taste & Nutrition reported trading profit of **€913.4m** (2020: €814.2m) and trading margin of **14.6%**, an increase of **40bps**, driven principally by operating leverage.

Consumer Foods reported trading profit of **€82.1m** (2020: €99.2m) and trading margin of **7.2%**, a decrease of **60bps**, principally reflecting the sale of the Meats and Meals business.

The trading profit reflects Group EBITDA of **€1.1 billion** (2020: €1.0 billion) and an EBITDA margin of **14.7%**.

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 44-49.

Computer Software Amortisation

Computer software amortisation increased by **€6.2m** to **€34.6m** (2020: €28.4m) 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 **€46.2m** (2020: €41.7m) which is reflective of recent acquisition activity.

Finance Costs (net)

Finance costs (net) for the year decreased by **€2.5m** to **€69.9m** (2020: €72.4m) primarily due to lower interest rates. The Group's average interest rate for the year was **2.7%** (2020: 3.0%).

Taxation

The tax charge for the year before non-trading items was **€96.2m** (2020: €85.1m) representing an effective tax rate of **13.3%** (2020: 13.0%) and reflective of the geographical mix of earnings.

Acquisitions

During the year, the Group completed five acquisitions for a total consideration of **€1,106.5m**. These acquisitions were aligned to the Group's strategic priorities: enhancing the Group's taste and nutrition capabilities, while also expanding its presence in emerging markets.

Non-Trading Items

During the year, the Group incurred a non-trading credit of **€134.4m** (2020: €15.5m charge) net of tax. The credit in the year primarily related to the gain on the disposal of the Consumer Foods Meats and Meals business, partially offset by costs related to acquisition integration.

Adjusted EPS in Constant Currency

Adjusted EPS in constant currency increased by **12.1%** to **380.8 cent** (2020: 9.4% decrease) reflecting the strong overall business performance in the year.

Basic EPS

Basic EPS increased by **37.6%** to **430.6 cent** (2020: 313.0 cent). Basic EPS is calculated after accounting for brand related intangible asset amortisation of **26.0 cent** (2020: 23.6 cent) and a non-trading item credit of **75.8 cent** net of related tax (2020: 8.8 cent charge).

Return on Average Capital Employed

ROACE increased to **9.9%** (2020: 9.8%) reflecting business performance and the impact of portfolio developments in the year.

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	
	2021	2020	2021	2020
Australian Dollar	1.57	1.66	1.56	1.59
Brazilian Real	6.34	5.75	6.32	6.38
British Pound Sterling	0.86	0.89	0.84	0.90
Chinese Yuan Renminbi	7.63	7.86	7.22	8.03
Malaysian Ringgit	4.92	4.77	4.73	4.92
Mexican Peso	24.06	24.34	23.30	24.46
Russian Ruble	87.24	81.16	84.07	90.68
South African Rand	17.40	18.62	18.06	18.02
US Dollar	1.19	1.13	1.13	1.23

Balance Sheet

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

	2021 €'m	2020 €'m
Property, plant & equipment	2,091.3	1,990.6
Intangible assets	5,580.7	4,687.1
Other non-current assets	264.5	170.6
Current assets	3,458.9	2,594.8
Total assets	11,395.4	9,443.1
Current liabilities	1,995.4	1,696.3
Non-current liabilities	3,798.8	3,091.3
Total liabilities	5,794.2	4,787.6
Net assets	5,601.2	4,655.5
Shareholders' equity	5,601.2	4,655.5

Property, Plant & Equipment

Property, plant and equipment increased by €100.7m to €2,091.3m (2020: €1,990.6m) primarily due to additions and the impact of foreign exchange translation, partially offset by the depreciation charge. Net capital expenditure in the year (including computer software) amounted to €315.2m (2020: €310.7m). The level of capital investment supports the Group's growth initiatives and included the strategic development of its Rome, 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 **€893.6m** to **€5,580.7m** (2020: €4,687.1m) due to a number of acquisitions made in the year including the acquisition of Niacet and the impact of foreign exchange translation, partially offset by the impact of business disposals and the amortisation charge.

Current Assets

Current assets increased by **€864.1m** to **€3,458.9m** (2020: €2,594.8m) due to increased cash at bank and in hand, increased inventory and increased trade and other receivables.

Retirement Benefits

At the balance sheet date, the net surplus for all defined benefit schemes (after deferred tax) was **€56.3m** (2020: deficit of €43.6m). The improvement in the net position was driven primarily by strong returns on schemes' assets which was partially offset by an increase in schemes' liabilities. The net surplus expressed as a percentage of market capitalisation at 31 December 2021 was **0.3%** (2020: 0.2%).

Shareholders' Equity

Shareholders' equity increased by **€945.7m** to **€5,601.2m** (2020: €4,655.5m), 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 164.

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 2021, the Group achieved free cash flow of **€566.1m** (2020: €412.0m) reflecting 84% cash conversion in the year.

	2021 €'m	2020 €'m
Free Cash Flow		
Trading profit	875.5	797.2
Depreciation (net)	201.5	200.7
Movement in average working capital	(37.7)	(102.5)
Pension contributions paid less pension expense	(14.7)	(23.4)
Finance costs paid (net)	(71.3)	(74.6)
Income taxes paid	(72.0)	(74.7)
Purchase of non-current assets	(315.2)	(310.7)
Free cash flow	566.1	412.0
Cash conversion ¹	84%	67%

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 **€2,124.1m** (2020: €1,945.1m). The increase during the year is analysed in the table below:

Movement in Total Net Debt	2021 €'m	2020 €'m
Free cash flow	566.1	412.0
Acquisitions (net of disposals) including payments relating to previous acquisitions	(344.0)	(258.6)
(Purchase)/disposal of financial asset investments	(4.4)	5.3
Difference between average working capital and year end working capital	(146.6)	(4.6)
Share of profit from joint ventures	(3.9)	(1.6)
Non-trading items	(76.1)	(39.7)
Dividends paid	(157.5)	(143.1)
Shares issued during the financial year	-	-
Exchange translation adjustment	(0.7)	(4.6)
Increase in net debt resulting from cash flows	(167.1)	(34.9)
Fair value movement on interest rate swaps	(0.1)	7.6
Exchange translation adjustment on net debt	(19.1)	26.5
Increase in net debt in the year	(186.3)	(0.8)
Net debt at beginning of year	(1,863.6)	(1,862.8)
Net debt at the end of year – pre-lease liabilities	(2,049.9)	(1,863.6)
Lease liabilities	(74.2)	(81.5)
Total net debt at the end of year	(2,124.1)	(1,945.1)

The exchange translation adjustment of **€19.1m** results primarily from borrowings denominated in US dollar translated at a year end rate of \$1.13 versus a rate of \$1.23 in 2020.

Maturity Profile of Total Net Debt	2021 €'m	2020 €'m
Within 1 year	1,005.5	533.3
Between 1 and 2 years	(661.1)	(104.9)
Between 2 and 5 years	(977.4)	(1,626.3)
Over 5 years	(1,491.1)	(747.2)
Total net debt at end of year	(2,124.1)	(1,945.1)
Weighted average maturity (years)	5.7	5.2

Financing

Undrawn committed facilities at the end of the year were **€1,100m** (2020: €1,100m) while undrawn standby facilities were **€337.0m** (2020: €320.0m).

Full details of the Group's financial liabilities, cash at bank and in hand and credit facilities are disclosed in notes 23 and 24 to the Consolidated Financial Statements. Of the cash at bank and in hand at year end, **€100.0m** was on short term deposit under a Sustainable Deposits programme.

Sustainability-Linked Bond Progress Report

In 2021, Kerry issued a €750 million, ten year Sustainability-Linked Bond (SLB) aligned with the Sustainability-Linked Bond Principles (SLBPs) administered by the International Capital Markets Association. The bond has a sustainability-linked feature that could result in an interest coupon step-up if certain KPI targets are not met, as outlined below, by December 2030.

The KPIs that have been included in the SLB have been selected as they reflect material environmental sustainability challenges for our industry and key focus areas under our *Beyond the Horizon* strategy. These KPIs and targets are as follows:

KPI 1: 55% Absolute reduction in Scope 1 & 2 greenhouse gas emissions

KPI 2: 50% Food waste reduction across our operations

2021 Performance

In 2021, we made strong progress against both targets, delivering a 39% reduction in our absolute 1 & 2 emissions and a 19% reduction in our food waste volumes, versus a 2017 baseline for both KPIs.

Emissions (CO ₂ e)	2021	2017	Food Waste	2021	2017
Scope 1 & 2 (Tonnes)	536,370	878,363	Tonnes	10,290	12,780
% change	39%	-	% change	19%	-

For more details of our efforts to reduce emissions and food waste, see our Sustainability Review on page 50 and also our 2021 GRI Sustainability Report at kerrygroup.com.

Key Financial Ratios

The Group's balance sheet is in a strong position. With a Net debt to EBITDA ratio of 2.0 times, the Group has sufficient headroom to support future growth plans. During the year, the Group repaid US\$200m of outstanding private placement notes. Following this repayment, the Group now has no financial arrangements that carry financial covenants.

	2021	2020
Net debt: EBITDA	2.0	1.9
EBITDA: Net interest	14.9	13.8

Share Price and Market Capitalisation

The Company's shares traded in the range €99.95 to €130.00 during the year. The share price at 31 December 2021 was €113.25 (2020: €118.50) giving a market capitalisation of €20.0 billion (2020: €20.9 billion). Total shareholder return for 2021 was (3.7%) (2020: +7.4%).

Financial Risk Management

Within the Group risk management framework as described in the Risk Management Report on page 76, 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 75-85 and in note 24 to the Consolidated Financial Statements.

Dividend and Annual General Meeting

During the year, the Group paid an interim dividend of 28.5 cent per A ordinary share, which was an increase of 10.0%. The Board has proposed a final dividend of 66.7 cent per A ordinary share, payable on 6 May 2022 to shareholders registered on the record date of 8 April 2022. When combined with the interim dividend, the total dividend for the year amounts to 95.2 cent per share (2020: 86.5 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 35 years as a listed company, the Group has grown its dividend at a compound rate of 16.3%.

Kerry's Annual General Meeting is scheduled to take place on 28 April 2022.

10 Year Earnings History

A strong history of positive results

	2012 ¹ €'m	2013 €'m	2014 €'m	2015 €'m	2016 €'m	2017 €'m	2018 €'m	2019 €'m	2020 €'m	2021 €'m
Revenue	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	7,350.6
Trading profit	559.0	611.4	636.4	700.1	749.6	781.3	805.6	902.7	797.2	875.5
Computer software amortisation	(8.7)	(11.5)	(13.6)	(18.7)	(23.4)	(24.3)	(25.0)	(26.5)	(28.4)	(34.6)
Finance costs (net)	(62.1)	(67.6)	(52.9)	(69.3)	(70.4)	(65.6)	(67.0)	(81.6)	(72.4)	(69.9)
Adjusted earnings before taxation²	488.2	532.3	569.9	612.1	655.8	691.4	713.6	794.6	696.4	771.0
Income taxes (excluding non-trading items)	(77.3)	(79.1)	(79.6)	(81.1)	(86.7)	(89.5)	(89.2)	(98.6)	(85.1)	(96.2)
Adjusted earnings after taxation²	410.9	453.2	490.3	531.0	569.1	601.9	624.4	696.0	611.3	674.8
Brand related intangible asset amortisation	(14.7)	(16.6)	(14.4)	(18.7)	(23.0)	(23.6)	(28.8)	(37.8)	(41.7)	(46.2)
Non-trading items (net of related tax)	(135.5)	(352.2)	4.0	13.1	(13.0)	10.2	(55.1)	(91.7)	(15.5)	134.4
Profit after taxation attributable to owners of the parent	260.7	84.4	479.9	525.4	533.1	588.5	540.5	566.5	554.1	763.0
Adjusted EPS (cent)*	234.0	257.9	278.9	301.9	323.4	341.2	353.4	393.7	345.4	380.8

¹ 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.

² 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 235.