Continued consistent delivery with good growth

Marguerite Larkin
Chief Financial Officer

The Group continued to deliver good revenue and trading profit growth in the year against the backdrop of softer market volumes in certain developed markets. This was achieved primarily through consistent volume growth in our Taste & Nutrition business and the contribution from recently acquired businesses, which resulted in good overall adjusted EPS growth in the year.

The Financial Review provides an overview of the Group's financial performance for the year ended 31 December 2019 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 to drive value creation. The Group has a disciplined financial approach of targeting continued growth while meeting its return on investment objectives. This combination of growth and return help ensure the Group's financial objective of maximising shareholder return is achieved.

A combination of Growth and Return

GROWTH	**Group Volume Growth** +2.8% Outperforming our market	**Group Trading Margin Expansion** +30bps Group Trading Margin of 12.5%	**Adjusted* EPS Growth Constant Currency** +8.3% **Basic EPS Growth** +4.7%
RETURN	**ROACE*** 11.8% Reflecting strategic acquisitions and investments	**Free Cash Flow** €515m 74% conversion[1]	**Increased Total Dividend** +12.0% Final dividend of 55.1 cent proposed

Definitions, calculations and reconciliations for these are set out within the Key Performance Indicators section on pages 32-33 and within the Supplementary Information section – Financial Definitions on pages 216-219.

* Before brand related intangible asset amortisation and non-trading items (net of related tax).
[1] Expressed as a percentage of adjusted earnings after tax.

Analysis of Results

	% change	**2019 €'m**	2018 €'m
Revenue	9.6%	**7,241.3**	6,607.6
Trading profit	12.1%	**902.7**	805.6
Trading margin		***12.5%***	*12.2%*
Computer software amortisation		**(26.5)**	(25.0)
Finance costs (net)		**(81.6)**	(67.0)
Adjusted earnings before taxation		**794.6**	713.6
Income taxes (excluding non-trading items)		**(98.6)**	(89.2)
Adjusted earnings after taxation	11.5%	**696.0**	624.4
Brand related intangible asset amortisation		**(37.8)**	(28.8)
Non-trading items (net of related tax)		**(91.7)**	(55.1)
Profit after taxation		**566.5**	540.5
		EPS Cent	EPS Cent
Basic EPS	4.7%	**320.4**	305.9
Brand related intangible asset amortisation		**21.4**	16.3
Non-trading items (net of related tax)		**51.9**	31.2
Adjusted* EPS	11.4%	**393.7**	353.4
Impact of retranslating prior year adjusted earnings per share at current year average exchange rates		-	10.1
Adjusted* EPS in constant currency	**8.3%**	**393.7**	363.5

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

Revenue

Group reported revenue increased by **9.6%** to **€7.2 billion** (2018: €6.6 billion), reflecting volume growth of **2.8%**, flat overall pricing impact, favourable translation currency impact of **2.1%** and contribution from business acquisitions of **4.7%**.

2018: Group reported revenue +3.1%, volume growth +3.5%, pricing (0.5%), transaction currency (0.1%), translation currency (3.4%) and contribution from business acquisitions of +3.6%.

Taste & Nutrition reported revenue increased by **12.5%** to **€6.0 billion** (2018: €5.4 billion), reflecting volume growth of **4.0%**, pricing increase of **0.1%** related to raw material movements, translation currency impact of **2.6%** and contribution from business acquisitions of **5.8%**.

2018: Taste & Nutrition reported revenue +3.7%, volume growth +4.1%, pricing (0.5%), transaction currency (0.1%), translation currency (4.0%), acquisitions +4.2%.

Consumer Foods reported revenue decreased by **2.4%** to **€1.31 billion** (2018: €1.34 billion), reflecting volume decline of **2.2%**, pricing decrease of **0.5%** related to raw material pricing pass-through and market pricing, and positive translation currency impact of **0.3%**. The volume decrease reflects the exit of a ready meals contract during the year - excluding the impact of this contract exit, volume would have increased by **0.9%**.

2018: Consumer Foods reported revenue +0.6%, volume growth +1.1%, pricing (0.4%), transaction currency (0.3%), translation currency (0.6%), acquisitions of +0.8%.

Trading Profit & Margin

Group trading profit increased by **12.1%** to **€902.7m** (2018: €805.6m). Group trading margin increased by **30bps** to **12.5%** driven by portfolio enhancement, operating leverage, efficiencies and the impact of acquisitions, partially offset by investments for growth, Brexit risk management costs and increased Kerryconnect investment due to the commencement of the rollout across our sites in North America.

Trading margin in Taste & Nutrition increased by **20bps** to **15.3%** (2018: 15.1%), driven by portfolio enhancement, operating leverage and efficiencies, partially offset by investments for growth, the impact of acquisitions and Brexit risk management costs.

Trading margin in Consumer Foods increased by **10bps** to **7.6%** (2018: 7.5%), driven by efficiencies from the Realignment Programme which delivered to plan, partially offset by a decrease in operating leverage as a result of the contract exit, Brexit risk management costs and net price in a challenging market.

The trading profit reflects an EBITDA of **€1.1 billion** (2018: €0.9 billion) and an EBITDA margin of **15.1%** (2018: 14.2%).

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 42-48.

Computer Software Amortisation

Computer software amortisation increased by **€1.5m** to **€26.5m** (2018: €25.0m) 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 **€37.8m** (2018: €28.8m) which is reflective of recent acquisition activity.

Finance Costs (net)

Finance costs (net) for the year increased by **€14.6m** to **€81.6m** (2018: €67.0m) primarily due to acquisition activity and the impact of IFRS 16 'Leases'. The Group's average interest rate for the year was **3.7%** (2018: 3.8%).

Impact of IFRS 16 'Leases'

In January 2019, the Group adopted the new accounting standard IFRS 16 'Leases', which resulted in a **€3.4m** reduction in operating expenses and an increase of **€4.6m** in finance costs on transition.

Taxation

The tax charge for the year before non-trading items was **€98.6m** (2018: €89.2m) representing an effective tax rate of **13.0%** (2018: 13.0%) and is reflective of the geographical mix of earnings.

Acquisitions

During the year, the Group completed eleven acquisitions at a total consideration of **€561.7m**. These investments were aligned to the Group's strategic priorities for growth, bringing additional taste and nutritional technologies, expanding its presence in developing markets and adding to its foodservice offering.

Non-Trading Items

During the year, the Group incurred a non-trading item charge of **€91.7m** (2018: €55.1m) net of tax. The charge in the year related to costs associated with the integration of recent acquisitions, a material transaction process in our sector that we participated in, and the Consumer Foods Realignment Programme. The prior year non-trading charge related primarily to costs associated with the integration of acquisitions and the completion of the Brexit Currency Mitigation Programme.

Adjusted EPS in Constant Currency

Adjusted EPS in constant currency increased by **8.3%** in the year (2018: +8.6%). This was achieved through volume growth ahead of our markets, good margin progression, together with the contribution from the acquired businesses.

Basic EPS

Basic EPS increased by **4.7%** to **320.4 cent** (2018: 305.9 cent). Basic EPS is calculated after accounting for brand related intangible asset amortisation of **21.4 cent** (2018: 16.3 cent) and a non-trading item charge of **51.9 cent** net of related tax (2018: 31.2 cent).

Return on Average Capital Employed

The Group achieved ROACE of **11.8%** (2018: 12.0%) reflective of strategic acquisitions completed and investments made 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	
	2019	2018	**2019**	2018
Australian Dollar	**1.61**	1.58	**1.60**	1.62
Brazilian Real	**4.44**	4.34	**4.53**	4.44
British Pound Sterling	**0.88**	0.89	**0.85**	0.90
Chinese Yuan Renminbi	**7.73**	7.82	**7.82**	7.85
Malaysian Ringgit	**4.65**	4.77	**4.60**	4.74
Mexican Peso	**21.59**	22.72	**21.19**	22.50
Russian Ruble	**72.28**	74.05	**69.34**	79.46
South African Rand	**16.20**	15.89	**15.77**	16.47
US Dollar	**1.12**	1.18	**1.12**	1.14

Dividends

The Board has proposed a final dividend of 55.1 cent per A ordinary share, payable on 15 May 2020 to shareholders registered on the record date of 17 April 2020. When combined with the interim dividend of 23.5 cent per share, the total dividend for the year amounts to 78.6 cent per share (2018: 70.2 cent per share), which is an increase of 12.0% over last year's dividend. The Group's aim is to have double digit dividend growth each year. Over 33 years as a listed company, the Group has grown its dividend at a compound rate of 16.7%.

Balance Sheet

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

	2019 €'m	2018 €'m
Property, plant & equipment	**2,062.9**	1,767.0
Intangible assets	**4,589.7**	4,095.6
Other non-current assets	**179.5**	189.7
Current assets	**2,672.2**	2,271.4
Total assets	**9,504.3**	8,323.7
Current liabilities	**2,014.0**	1,650.8
Non-current liabilities	**2,928.1**	2,638.5
Total liabilities	**4,942.1**	4,289.3
Net assets	**4,562.2**	4,034.4
Shareholders' equity	**4,562.2**	4,034.4

Property, Plant & Equipment

Property, plant and equipment increased by **€295.9m** to **€2,062.9m** (2018: €1,767.0m) primarily due to capital expenditure in the year and the impact of the change in the lease accounting policy, partially offset by the annual depreciation charge. Net capital expenditure in the year amounted to **€315.3m** (2018: €285.5m). The level of capital investment supports the Group's growth initiatives and included upgrading the recently acquired SIAS facility in the Greater Beijing region, continuing the expansion programme at the Nantong facility in China, opening a new facility in Tumkur, India to serve the rapidly expanding South West Asia market and expanding the Group's capabilities in the Middle East region.

Intangible Assets & Acquisitions

Intangible assets increased by **€494.1m** to **€4,589.7m** (2018: €4,095.6m) due to the additions of **€437.7m** relating to the eleven acquisitions completed during the year, the increased investment in Kerryconnect related software and positive foreign exchange movements, partially offset by the annual amortisation charge.

Current Assets

Current assets increased by **€400.8m** to **€2,672.2m** (2018: €2,271.4m), primarily due to an increase in cash on hand at 31 December 2019 and trade receivables, other receivables and inventories from the businesses acquired during the year.

Retirement Benefits

At the balance sheet date, the total net deficit for all defined benefit schemes (after deferred tax) was **€8.6m** (2018: €44.0m). The decrease in the net deficit is primarily driven by strong return on assets and a reduction in the deficit from the liability management programme offsetting unfavourable movements in discount rates. The net deficit expressed as a percentage of market capitalisation at 31 December 2019 was **0.04%** (2018: 0.3%).

Shareholders' Equity

Shareholders' equity increased by **€527.8m** to **€4,562.2m** (2018: €4,034.4m), 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 150.

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

Free cash flow is an important indicator of the strength and quality of the business and of the availability of funds to the Group for reinvestment or for return to the shareholder. In 2019, the Group achieved free cash flow of **€514.6m** (2018: €446.5m).

Free Cash Flow	**2019 €'m**	2018 €'m
Trading profit	**902.7**	805.6
Depreciation (net)	**191.4**	134.1
Movement in average working capital	**(89.5)**	(57.1)
Pension contributions paid less pension expense	**(26.7)**	(40.0)
Cash flow from operations	**977.9**	842.6
Finance costs paid (net)	**(80.8)**	(64.5)
Income taxes paid	**(67.2)**	(46.1)
Purchase of non-current assets	**(315.3)**	(285.5)
Free cash flow	**514.6**	446.5
Cash conversion[1]	**74%**	72%

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

Net Debt

Net debt at the end of the year was **€1,862.8m** (2018: €1,623.5m). The increase during the year is analysed in the table below:

Movement in Net Debt	**2019 €'m**	2018 €'m
Free cash flow	**514.6**	446.5
Acquisitions (net of disposals) including payments relating to previous acquisitions	**(568.0)**	(503.2)
Difference between average working capital and year end working capital	**25.6**	(21.7)
Non-trading items	**(89.1)**	(59.8)
Equity dividends paid	**(128.3)**	(114.4)
Shares issued during the financial year	**0.1**	-
Exchange translation adjustment	**(2.5)**	0.5
Increase in net debt resulting from cash flows	**(247.6)**	(252.1)
Fair value movement on interest rate swaps	**12.5**	(2.6)
Exchange translation adjustment on net debt	**(4.2)**	(27.1)
Increase in net debt in the year	**(239.3)**	(281.8)
Net debt at beginning of year	(1,623.5)	(1,341.7)
Net debt at end of year	**(1,862.8)**	(1,623.5)

Exchange Impact on Net Debt

The exchange translation adjustment of **€4.2m** results primarily from borrowings denominated in US dollar translated at a year end rate of $1.12 versus a rate of $1.14 in 2018.

Maturity Profile of Net Debt	**2019 €'m**	2018 €'m
Within 1 year	**409.8**	400.0
Between 1 and 2 years	**(1.2)**	(142.2)
Between 2 and 5 years	**(732.6)**	(1,082.8)
Over 5 years	**(1,538.8)**	(798.5)
Net debt at end of year	**(1,862.8)**	(1,623.5)
Weighted average maturity (years)	**5.9**	4.8

Credit Facilities

Undrawn committed facilities at the end of the year were **€1.1 billion** (2018: €750.0m) while undrawn standby facilities were **€330.0m** (2018: €320.0m).

In June 2019, the Group renewed its **€1.1 billion** revolving credit facility, extending the maturity date to June 2024. The facility contains two 1-year extension options, exercisable on the 1st and 2nd anniversaries of the facility and which, if exercised, would extend the maturity date of the facility to June 2026. In line with the Group's commitment to environmental and social matters, the revolving credit facility carries a price adjustment mechanism, which is linked to the Group meeting or exceeding certain carbon, water and waste efficiency metrics. This facility is not subject to a financial covenant.

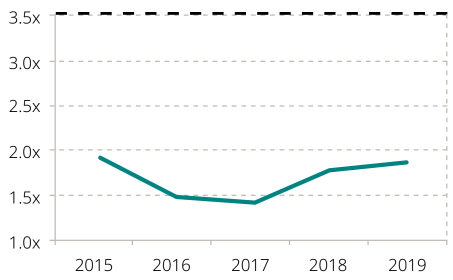
In September 2019, the Group issued 10 year **€750m** euro bond notes. The bonds are listed on Euronext Dublin and are rated by S&P and Moody's. Full details of the Group's financial liabilities, cash at bank and in hand and credit facilities are disclosed in notes 23 and 24 to the Consolidated Financial Statements.

Key Financial Covenants

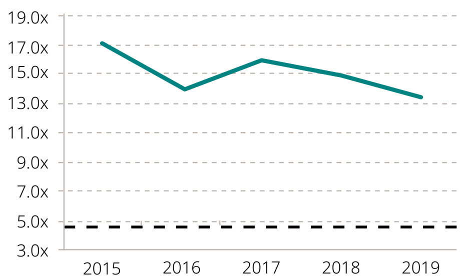
The Group's balance sheet is in a strong position with a Net debt to EBITDA* ratio of 1.8 times. At this ratio the Group has significant liquidity headroom to support future growth plans. A small element of the Group's finance facilities is subject to financial covenants. Group Treasury monitors compliance with all financial convenants and at 31 December the key convenants are as follows:

	Covenant	**2019 Times**	2018 Times
Net debt: EBITDA*	Maximum 3.5	**1.8**	1.7
EBITDA: Net interest	Minimum 4.75	**13.2**	14.7

Net debt: EBITDA*



EBITDA: Net interest*



* Calculated in accordance with lenders' facility agreements which take account of adjustments outlined on page 218.

Share Price and Market Capitalisation

The Company's shares traded in the range **€86.50** to **€117.90** during the year. The share price at 31 December 2019 was **€111.10** (2018: €86.50) giving a market capitalisation of **€19.6 billion** (2018: €15.2 billion). Total Shareholder Return for 2019 was **29.3%** (2018: (6.8%)).

Financial Risk Management

Within the Group risk management framework as described in the Risk Report on page 73, 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 Report on pages 73-88 and in note 24 to the Consolidated Financial Statements.

Summary and Financial Outlook

The Group delivered another strong performance in 2019, generating revenue of **€7.2 billion**, trading profit of **€903m** and free cash flow of **€515m** in a dynamic consumer marketplace that is leading to a rapidly evolving industry landscape. At year end the balance sheet is also in a good position and with a Net debt: EBITDA ratio of **1.8 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

	2010 €'m	2011 €'m	**2012 €'m	2013 €'m	2014 €'m	2015 €'m	2016 €'m	2017 €'m	2018 €'m	**2019 €'m**
Revenue	4,960.0	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**
Trading profit	470.2	500.5	559.0	611.4	636.4	700.1	749.6	781.3	805.6	**902.7**
Computer software amortisation	(4.3)	(5.4)	(8.7)	(11.5)	(13.6)	(18.7)	(23.4)	(24.3)	(25.0)	**(26.5)**
Finance costs (net)	(60.5)	(46.0)	(62.1)	(67.6)	(52.9)	(69.3)	(70.4)	(65.6)	(67.0)	**(81.6)**
Adjusted earnings before taxation*	405.4	449.1	488.2	532.3	569.9	612.1	655.8	691.4	713.6	**794.6**
Income taxes (excluding non-trading items)	(68.7)	(74.6)	(77.3)	(79.1)	(79.6)	(81.1)	(86.7)	(89.5)	(89.2)	**(98.6)**
Adjusted earnings after taxation*	336.7	374.5	410.9	453.2	490.3	531.0	569.1	601.9	624.4	**696.0**
Brand related intangible asset amortisation	(11.8)	(13.9)	(14.7)	(16.6)	(14.4)	(18.7)	(23.0)	(23.6)	(28.8)	**(37.8)**
Non-trading items (net of related tax)	(0.7)	0.1	(135.5)	(352.2)	4.0	13.1	(13.0)	10.2	(55.1)	**(91.7)**
Profit after taxation attributable to owners of the parent	324.2	360.7	260.7	84.4	479.9	525.4	533.1	588.5	540.5	**566.5**
Adjusted EPS (cent)*	192.1	213.4	234.0	257.9	278.9	301.9	323.4	341.2	353.4	**393.7**

* 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. Growth in Adjusted EPS on a constant currency basis is disclosed on page 217.

** 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.