Kerry Group: Interim Management Statement

4 November 2010 - Kerry, the global ingredients & flavours and consumer foods group, issues the following Interim Management Statement for the nine months to 30 September 2010.

BUSINESS PERFORMANCE

Building on the Group’s strong first half performance, Kerry continued to achieve solid organic growth in the three month period to 30 September 2010. Over the nine month period, Group sales revenue increased by 8.7% reflecting like-for-like (LFL) growth of 3.5%. Continuing business volumes grew by 5.3% allowing for restructuring volume loss of 0.7%, 0.9% lower pricing/mix and 0.2% adverse trading currency impact.

Ingredients & flavours continuing business volumes were 6% ahead relative to the same nine months of 2009 and consumer foods continuing business volumes grew by 3.5%.

The Group trading profit margin increased by 30 basis points - allowing for unallocated development costs relating to the Group’s global IT project. The positive momentum in business margin growth reflects a 50 basis points improvement in ingredients & flavours and a 40 basis points increase in consumer foods.

INGREDIENTS & FLAVOURS

Performance throughout Kerry Ingredients & Flavours’ end-use-markets remained strong in all regions. Despite raw material input costs (including dairy, sugar, cereal and edible oils) trending upwards, business volumes and trading profits continued to grow solidly – benefiting from the Group’s key customer alliances and innovation programmes.

The Americas Region again achieved excellent progress across its core technology platforms and end-use-markets delivering 5.2% growth in continuing business volumes. Savoury & dairy culinary systems achieved a strong performance particularly in the premium meals category. IPM Foods’ shelf stable systems, acquired in March 2010, contributed good growth in soups, broths and sauces market segments. Kerry continued to achieve solid growth through global processors in the meat sector. Dairy applications were weaker due to sectoral input cost inflation. New product development in the cereal category provided strong growth opportunities for Kerry’s expanded cereal technology offering. Sweet applications were slightly lower due to an early end to the ice cream season. Beverage systems performed very well through new delivery formats and strong uptake of flavour modulation. In the pharmaceutical sector, Kerry continued to successfully expand its global market positioning.

Since the end of the period, Kerry acquired California based Agilex Flavors – a leading developer and marketer of sweet, fruit and brown flavours for health and wellness applications in nutritional, beverage, bakery and confectionery end-use-markets.

EMEA Region business development progressed well in the third quarter – benefiting from Kerry’s ‘go-to-market’ focus. Continuing business volumes reflect 4.3% regional growth in the nine months to end of September. Savoury & dairy systems grew through development of reduced fat, reduced sodium and clean label applications. Increased raw material costs impacted European meat markets but Kerry maintained good growth in the sector. Sweet technologies benefited from a good ice cream season in...
EMEA markets up to the end of the period under review. The cereal category was weaker due to the continuation of heavy promotional activity. Beverage systems & flavours benefited from strong demand for natural products and sweetness modulation. Conditions in EMEA brewing markets improved in the period. Demand conditions in international primary dairy markets remained firm since the half-year stage – absorbing the increased output from supplying countries and release of stocks from global inventories. In October the Group completed the acquisition of Newmarket Creameries – a leading manufacturer of cheese from a state-of-the-art cheese production facility located in Co. Cork, Ireland and a major supplier of cheese to Kerry Group’s branded cheese business.

Asia-Pacific markets continued to provide a strong platform for business growth. Continuing business volumes in the region increased by 15.8% relative to the first nine months of 2009. Foodservice applications continued to grow strongly particularly into the QSR segment. Progressive roll-out of beverage systems and branded flavoured beverage products achieved strong market uptake. Nutritional applications also grew satisfactorily benefiting from the additional manufacturing capacity in Malaysia. Regional growth through savoury & dairy systems and functional ingredients again proved satisfactory. Lifestyle bakery products in Australia grew strongly through leading supermarket chains and QSR’s.

CONSUMER FOODS
Kerry Foods’ brand investment programme and successful innovation in its selected customer branded market segments continued to achieve good results since the first half of the year – contributing a 3.5% continuing business volume increase over the nine month period.

In the UK market Richmond maintained double digit growth in the sausage sector. Wall’s made good progress in savoury pastry products and Mattessons continued to grow the meat snacking segment. Cheestrings Spaghetti was successfully launched in the cheese snack sector.

Despite a continuing high level of promotional activity across all grocery categories in the Irish market, the Group’s leading Irish brands returned to growth following repositioning of the brands to meet market value requirements.

Development of innovative chilled ready meals offerings continued to grow Kerry’s market share in the UK chilled ready meals sector. The frozen ready meals category remains challenging but Kerry Foods’ performance in the category was assisted by on-going business efficiency programmes.

FINANCIAL REVIEW
Cash flows remain strong and net debt at the end of the period at €1.04 billion was €160m below that reported at the half year (€60m of which was due to weaker currencies).

FUTURE PROSPECTS
Despite adverse currency movement and raw material cost increases, the Group remains on track to deliver mid-teem growth in adjusted earnings per share for the full year (as guided at the half-year stage).

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