



2 November 2016

## Kerry Group Interim Management Statement

2 November 2016 – Kerry, the global taste & nutrition and consumer foods group, issues the following Interim Management Statement for the nine months ended 30 September 2016.

### KEY HIGHLIGHTS

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- 3.2% growth in business volumes
  - Taste & Nutrition +3.4%
  - Consumer Foods +2.2%
- Group trading margin up 70 basis points
  - Taste & Nutrition +70bps
  - Consumer Foods +30bps
- 2015 acquisitions performing well
- Strong cash flow generation
- Earnings guidance for full year reaffirmed

### Business Performance

The Group maintained the business momentum reported at the half-year stage in the third quarter delivering sustained volume growth and business margin enhancement. Overall, global market conditions remained weak – impacted by currency volatility, the changing marketplace and continuing geopolitical issues in some developing regions. Consumer trends reflect widening preference for health & wellness offerings, clean-label solutions, organic lines and convenient products available through more fragmented retail and foodservice channels. In turn, this has led to significant product ‘churn’ as food and beverage providers seek growth through innovative, differentiated product developments.

Taste & Nutrition Technologies and Systems continued to record good growth in North America, an improved performance in Latin America and excellent growth in Asia. EMEA market conditions remained subdued due to the deflationary environment, rapidly changing marketplace and instability in developing markets in the region. However snacking and wellness trends drove a strong innovation pipeline in the dairy and meat retail / convenience sectors - in particular throughout global foodservice channels which provided strong growth opportunities for Kerry’s Taste & Nutrition Technologies and Systems. Businesses acquired in 2015 continued to perform well providing a strong platform for international market development.

Despite the uncertainty and sterling devaluation resulting from the UK electorate voting to leave the European Union, Kerry Foods continued to perform well in the UK and Irish markets. The consumer foods division also maintained good growth in its selected mainland European markets and in the fast growing e-tail channel.

In the nine months to 30 September 2016, business volumes on a Group-wide basis increased by 3.2%. Pricing declined by 2.2% against a background of 4.5% lower raw material costs. Reported revenues increased by 0.4% reflecting the business volume growth, lower pricing, adverse currency translation impact of 4.5%, adverse currency transaction impact of 0.3%, and the effect of acquisitions net of disposals of 4.2%.

The Group trading profit margin increased by 70 basis points. This reflects a 70 basis points improvement in trading margin in Taste & Nutrition, a 30 basis points improvement in Kerry Foods’ margin and reduced spend on the Kerryconnect Programme.

## Business Reviews

### Taste & Nutrition

The Group's global Taste & Nutrition businesses achieved 3.4% volume growth in the nine months to the end of September. Net pricing was 2.2% lower. Divisional trading profit margin increased by 70 basis points due to innovation, improved product mix and operational leverage.

#### Americas Region

Americas Region delivered 3.6% volume growth responding to health & wellness trends in North American markets and achieving solid growth in Latin America. Strong market development was achieved in the bakery and meat sectors through clean label applications driven by Kerry fermentation technologies. *Red Arrow Products*, acquired in December 2015, also assisted growth in the meat and savoury product sectors through its market leading smoke and grill Taste technologies. Development in Latin American markets was strengthened by the Costa Rican based *Baltimore Spice* business acquired in July 2015. Clean label trends also assisted growth through dairy and culinary applications in the school meals sector throughout the Americas region. Good growth was maintained through snack applications in Mexico and Central American markets. Development in the overall cereal and sweet sectors remained subdued but launches of snacking and health offerings provided a good innovation pipeline. Strong momentum was again recorded in the beverage sector through Kerry's Beverage Taste & Systems. The 2015 acquisitions of *Island Oasis* and *Insight Beverages* boosted Kerry's market positioning, broadening penetration into the c-store and hotel and catering channels. Kerry's branded beverage products also continued to broaden market reach, in particular throughout Latin American markets. In the pharmaceutical sector, further progress was achieved through cell nutrition applications. *Wellmune*® acquired in September 2015, delivered strong growth in broader nutritional applications.

#### EMEA Region

EMEA markets remained challenging, impacted by price deflation in many markets and continued geopolitical instability in some regional developing markets. Business volumes increased by 0.3% relative to the first nine months of 2015. Kerry's Taste & Nutrition technologies were well positioned to respond to the significant product churn in the marketplace and to demand for clean label and health offerings. Solid market growth continued in the foodservice sector in particular through beverage applications and chain accounts. *Vendin S.L.* based in Madrid was acquired in June, broadening Kerry's distribution of beverage solutions to the vending and foodservice sectors in Europe. Development in the meat sector remained constrained but solid progress was achieved in the Russian meat and snacks market segments.

Market conditions in Sub-Saharan Africa remained highly competitive adversely impacting development in the sweet sector. Enzymes performed well, delivering good growth in the beverage sector. Hydrolysed proteins achieved good growth in clinical nutrition. Nutritional technologies maintained solid momentum through life-stage nutritional applications. Growth in the dairy sector was impacted by international dairy market conditions. Q3 saw a reduction in primary dairy production in some major exporting countries which contributed to improved trading across most dairy markets by the end of the period.

#### Asia-Pacific Region

Growth was generated across all geographic markets in Asia which contributed an excellent Kerry business performance in the period. Market conditions in Australia and New Zealand also stabilised. Business volumes across the Asia-Pacific region grew by 9.6%. Regional trends favouring dairy, health & wellness lines and snacking applications provided strong growth for Kerry's portfolio of Taste & Nutrition Technologies and Systems. Development through foodservice applications in particular was strong throughout the region. Dairy Taste maintained good growth in Indonesia, Vietnam, the Philippines and China. Snacking applications provided a strong growth platform in Malaysia, Thailand, and the Philippines. South Korea based *Jungjin Foods* acquired in March 2016 performed well. Proteins grew in the nutritional and confectionery sectors in China and India. In the infant nutrition sector, Kerry's Europe-based nutritional technologies continued to achieve good market development in China, benefiting from recent regulatory changes. Kerry's beverage technologies and brands continued to successfully extend market positioning in the foodservice and c-store channels.

## Consumer Foods

Kerry Foods maintained a solid business performance despite the prevailing competitive market situation and uncertainty caused by the Brexit vote in the UK. Consumer demand for dairy and meat snack offerings and prepared meals continued to provide good growth opportunities for the division. In the nine months to end of September business volumes grew by 2.2%. Pricing was 2% lower. Divisional trading profit margin increased by 30 basis points, benefiting from improved product mix and business efficiencies.

Chilled ready meals maintained solid growth and the launch of novel premium lines assisted development in the frozen category. 'Mattessons' achieved sustained growth in the meat snacking sector. The UK sausage category remained highly competitive but repositioning of the 'Wall's' brand assisted brand growth. 'Cheestrings' continued to perform well, boosted by encouraging brand growth in mainland Europe and the launch of 'Cheestrings Scoffies' – a new '3-in-1' cheese snack solution for after school snacking occasions. The 'Yollies' childrens yoghurt snack range continued to grow benefiting from new listings in the UK market. The UK private label spreads category remained highly competitive.

In Ireland 'Dairygold' maintained a solid brand performance, assisted by new product launches. 'Charleville' performed well in the cheese sector. 'Fire and Smoke' branded meat products achieved good growth with the successful launch of a 'food-to-go' snacking pots range and new retail listings in the UK market.

## Financial Review

Benefiting from the Group's strong cash flow generation, net debt at the end of the period stood at €1.4 billion compared to €1.7 billion at year-end 2015. The Group's consolidated balance sheet remains strong which will facilitate the continued organic and acquisitive growth of Group businesses.

## Future Prospects

We remain confident of delivering an underlying trading performance in the full year as previously guided; taking into account the currency headwinds of 5% at current exchange rates, growth in adjusted earnings per share in 2016 is expected to be towards the middle to lower end of the 6% to 10% range of 320 to 332 cent per share.

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