BULK INGREDIENTS

Performance overview

Stable long-term cash flows to fuel our growth

Bulk Ingredients manufactures and markets a range of products including sweeteners, industrial starches, ethanol, acidulants and animal feed, for food and beverage, industrial and agricultural customers around the world.

Bulk Ingredients also partners with a number of bio-based materials companies seeking expertise in the commercialisation of green chemistry fermentation. One such partnership is our joint venture with DuPont which manufactures Bio-PDO®, a bio-based ingredient used in the textile and plastics industries.

Sales

£2,164m

2013 – £2,309m

Adjusted operating profit

£172m

2013 – £182m

	Year ended 31 March		Change	
	2014 £m	2013 £m	Reported	Constant currency
Sales	**2 164**	2 309	-6%	-6%
Adjusted operating profit	**172**	182	-5%	-4%
Adjusted operating margin	**7.9%**	7.9%	0 bps	+10 bps

"We coped well with a number of challenges during the year as we continue to provide a steady source of cash to support growth in Speciality Food Ingredients. Looking ahead, our focus remains on optimising margins, maintaining efficient assets and seeking to further dampen the risk profile of the division."

Matt Wineinger

Market conditions

A good corn harvest in the US with production increasing by around 30% compared with the previous year and a recovery in the stocks-to-use ratio to more normal levels, resulted in a significant reduction in corn prices in the summer. However, during the last quarter of the financial year, corn prices increased steadily, driven by rising demand from US ethanol and exports. The latest production estimate from the USDA[1] for the 2014/15 harvest is broadly in line with the prior year at 13.9 billion bushels.

The unusually cold spring in the US in 2013, constrained demand for carbonated soft drinks, a key end market for bulk liquid corn sweeteners. In the three-month period to the end of June 2013, US carbonated soft drinks sales volume declined by 6.3%[2] against the comparative period, with sales volume over the whole year 3% lower. In addition to softer domestic demand, lower Mexican sugar prices resulted in a 24%[3] reduction in exports of US HFCS to Mexico. The protracted severe cold winter weather in the US also created operational and supply chain challenges across the industry, particularly during the quarter ended 31 March 2014.

1 USDA is the US Department of Agriculture.

2 Source: IRI Infoscan Reviews, Total US Multi-Outlet and Convenience (FDM, WMT, Dollar, Club, Convenience Stores).

3 Source: US Census Bureau, HTS Export data.

World sugar prices, which provide a reference price for some of our products, continued to decline steadily during 2013 as supply was increased following consecutive years of surplus. However, towards the end of the financial year, prices stabilised reflecting ongoing weather risks and the potential impact of these on the Brazilian crop. In Europe, sugar prices started to decline in the second half of the financial year, reflecting an increase in stock levels following the steps taken by the European Union in the 2012/13 sugar year to increase imports, and lower consumer demand due to the cold spring.

The paper industry, which provides a major source of demand for industrial starches in the US, saw a reduction in operating rates during the 2013 calendar year as a result of lower demand. In Europe, additional starch capacity reduced industrial starch prices, putting pressure on margins.

Conditions in the US ethanol industry improved steadily during the year, following a boost from the large corn crop which drove production costs down and made US ethanol a more cost competitive fuel. Increased demand, which tightened ethanol inventories, combined with logistical difficulties impacting the supply side in the second half of the financial year caused by the severe cold weather, also helped improve ethanol pricing fundamentals.

A combination of tight supplies, reflecting the limited availability of good quality corn in the lead up to the new harvest last year and increased demand, kept prices high for corn gluten feed particularly during the second half of the financial year. Conversely, corn oil prices were lower as a result of the increased supply of corn distillers' oil from the dry mill ethanol industry.

Financial performance

Bulk Ingredients volumes decreased by 1% and sales were 6% lower (6% lower in constant currency) at £2,164 million (2013 – £2,309 million) largely due to the pass through of lower corn prices. Adjusted operating profit was 5% lower (4% lower in constant currency) at £172 million (2013 – £182 million) as a result of the soft US beverage season, which reduced demand for liquid corn sweeteners, lower returns from co-products and, in the final quarter, the impact of the protracted severe cold winter in the US. This result includes a one-off gain of £3.5 million in the first half from the on-sale of Orsan China (a monosodium glutamate producer in which Tate & Lyle previously held a stake and which was sold in 2009). The effect of currency translation was to decrease adjusted operating profit by £2 million.

This division comprises three broad product categories: sweeteners; industrial starches, acidulants and ethanol; and co-products.

Sweeteners

In the Americas, bulk corn sweetener volumes decreased by 2% largely as a result of lower HFCS volumes caused by the cold spring which reduced demand for carbonated soft drinks during the second quarter. Sales decreased by 6% (down 6% in constant currency) to £889 million (2013 – £942 million) as a result of the lower volumes and the reduction in corn prices following the large corn crop. Despite lower volumes, profits were ahead of the comparative period as a result of the modest increase in HFCS unit margins secured in the 2013 calendar year contracting round.

Operating profits from Almex, our Mexican joint venture, were lower than the comparative period reflecting reduced volumes and lower margins as a result of greater competition from Mexican sugar.

In Europe, sales of bulk corn sweeteners increased by 1% (flat in constant currency) to £148 million (2013 – £146 million), with volumes 1% higher than the prior year. We saw the benefit of higher unit margins throughout the year, driven in the first half by sugar prices (which provide the reference price for isoglucose (HFCS) in the EU) staying high for longer than expected and, in the second half, lower raw material costs following a good corn crop. As a result, overall profits for the full year were ahead of the comparative period.

Industrial starches, acidulants and ethanol

Sales decreased by 5% (3% in constant currency) to £635 million (2013 – £667 million).

In industrial starches, volumes were 2% higher. In the US, where we contract for longer periods than in Europe, profit was ahead of the prior year as a result of firmer pricing and slightly higher volumes. In Europe, lower prices, reflecting the pass through of lower corn costs and increased competition, put pressure on margins and reduced profits compared with last year. This part of the business remains particularly sensitive to changes in the macroeconomic environment.

In US ethanol, which represents a small part of our business, the improvement in market conditions, particularly during the second half, resulted in a better performance and a reduction in operating losses.

Profit in our citric acid business was lower than the prior year, with reduced volumes more than offsetting lower raw material costs. Our Bio-PDO® joint venture delivered an improved performance during the period as a result of slightly higher volumes and lower corn costs.

Co-products

Sales of co-products decreased by 11% (down 11% in constant currency) to £492 million (2013 – £554 million). Overall returns from co-products were £7 million lower than our expectations at the start of the year, driven by corn gluten feed and corn oil which more than offset higher returns from corn gluten meal. Since over 80% of our US corn grind is utilised to produce Bulk Ingredients, the majority of this impact is recorded within this product category.

Security of supply

Investment in grain elevators

Our network of 14 grain elevators (silos), located in the US corn belt, makes an essential contribution to ensuring we have a reliable, high-quality source of corn for our US plants. Corn can deteriorate if not stored well, so there is an advantage to keeping the storage in our own hands; moreover many of our elevators have forged long-term relationships with producers who provide a consistent supply of locally-produced corn each year. Over the last few years we have been adding capacity at existing elevators as well as acquiring new ones, and with that, increasing the number of farmers we buy corn from each year.

Grain elevator at Francesville, Indiana, USA