

SPECIALITY FOOD INGREDIENTS

Performance overview

Growth in Speciality Food Ingredients through focus and depth

Speciality Food Ingredients develops, produces and markets distinctive, high-quality ingredients for food and beverage customers across the world. By leveraging our manufacturing facilities, innovative technology and formulation expertise, we help them create more cost-effective, better tasting products for consumers.

Speciality Food Ingredients works closely with our Innovation and Commercial Development group to develop a pipeline of new products.

Sales

£983m
2013 – £947m

Adjusted operating profit

£213m
2013 – £213m

	Year ended 31 March			Change
	2014 £m	2013 £m	Reported	Constant currency
Sales	983	947	+4%	+4%
Adjusted operating profit	213	213	0%	+1%
Adjusted operating margin	21.7%	22.5%	-80bps	-70bps

“We delivered another strong performance in emerging markets which are becoming a more meaningful part of the division. While we face a headwind from lower SLENDA® Sucralose prices, we are well placed to capitalise on strong consumer trends as we leverage the investment we have made to diversify the business both geographically and through innovation.”



Olivier Rigaud

Market conditions and trends

The global market for speciality food ingredients, and particularly those areas of the market where we operate, continues to benefit from a number of strong underlying consumer trends: health and wellness, convenience and ‘clean label’.

Consumers are increasingly aware of the link between diet and health. The rising incidence of diabetes and obesity in both developed and developing markets is driving consumers, manufacturers and governments to focus on ‘healthier’ products. In addition to products which address calorie and weight management, consumers are also increasingly seeking solutions for heart health, including lower sodium products, and digestive health, including fibre-enhanced products. The number of global product launches containing fibres or making a low sodium claim increased by 47%¹ and 37%¹ respectively in calendar year 2013, with growth across both developed and developing markets.

Changes in consumer lifestyles continue to increase the demand for packaged and convenience foods, for consumption both at home and ‘on the go’. Product launches with a ‘convenient’ claim increased globally by 25%¹ in calendar year 2013 and, whilst demand continues to grow in developed markets, increasing levels of urbanisation are driving demand for convenience products in developing markets as well. Demand for convenience is a key driver for speciality ingredients that provide added functionality such as stability, texture and extended shelf-life.

Food and beverage manufacturers are launching more ‘clean label’ products in response to increasing consumer demand for more natural products across a broad range of categories. Global ‘clean label’ product launches increased by 27%¹ in calendar year 2013, responding to increasing consumer awareness of food processing, origination of finished and unfinished goods, and ingredient labelling.

Against the backdrop of continuing tough macroeconomic conditions in many countries and tighter household budgets, coupled with high raw materials prices, cost-optimisation continues to be a theme with food and beverage customers looking at ways to reduce costs and provide more value-based alternatives for consumers without compromising on taste.

Financial performance

Within Speciality Food Ingredients, volumes grew by 4% and sales increased by 4% (also up 4% in constant currency) to £983 million (2013 – £947 million) with good volume growth in Asia, Europe and Latin America, held back by a softer performance in the US where volumes were slightly lower than the comparative period. Adjusted operating profit was in line with the prior year (up 1% in constant currency) at £213 million (2013 – £213 million) as a result of lower selling prices for SLENDA® Sucralose and a lower contribution from the US. This result includes the majority of the £6 million one-off gain from the purchase, sale and leaseback of our building in Hoffman Estates, US, and £7 million representing

¹ Source: Innova Market Insights.

the final annual payment received from McNeil Nutritionals as part of the realignment of the sucralose business back in 2004. Operating margins reduced by 80 basis points to 21.7% (2013 – 22.5%). The effect of currency translation was to decrease adjusted operating profit by £2 million.

This division comprises three broad product categories: starch-based speciality ingredients, high intensity sweeteners and Food Systems.

Starch-based speciality ingredients

Sales increased by 7% (7% in constant currency) to £595 million (2013 – £559 million) with volume growth of 5%. While percentage operating margins were slightly lower, operating profit was ahead of the prior year. While we expect to deliver another year of good volume growth in financial year 2015, the level of sales value growth is expected to be lower as a result of the significant reduction in corn prices.

In food starches, we saw volume growth across all regions with particularly strong growth in Latin America and Europe. In Europe, our strong innovation capability and new products, such as CREAMIZ™ and PULPIZ® Pulp Extender, helped us maintain a healthy leadership position in speciality starches in the region, particularly within the convenience food and dairy categories.

In speciality corn sweeteners, we saw growth across all regions outside the US including very strong growth as in the previous year in Latin America, where we continued to expand our business in the beverage and dairy categories. Our success in this region over the past few years is a good example of how we are steadily broadening the geographic mix of the business and reducing our reliance on developed markets.

Our fibres range continues to benefit from the strong consumer interest in health and wellness, and we saw volume growth across all regions during the period, with particularly strong growth once again in Asia. The planned acquisition of Winway Biotechnology will provide us with an excellent platform from which to accelerate the growth of our specialty fibres business not only in China but across Asia as a whole.

High intensity sweeteners

Sales in this category, which comprises SPLENDA® Sucralose and our no-calorie, natural sweeteners, were in line with the comparative period (up 1% in constant currency) at £198 million (2013 – £198 million), with volumes 5% higher.



Engaging with customers

Launch of TASTEVA® Stevia Sweetener in Latin America

TASTEVA® Stevia Sweetener is our new, natural-source, stevia-based sweetener. Launched in 25 countries in just 18 months, it is making excellent progress in the market, in particular in Latin America where it has already exceeded its sales targets for the first year. TASTEVA® Stevia Sweetener is tapping into consumer demand for natural, low-calorie ingredients, particularly sweeteners – and is being recognised by customers for its superior taste compared with other stevia-based sweeteners. TASTEVA® Stevia Sweetener allows customers to replace more sugar than they could with other competing stevia products (which retain a bitter taste if used in high quantities), without using masking or modifying agents, thus improving the nutritional profile and consumer appeal of their brands.



Fruit juice containing TASTEVA® Stevia Sweetener with stevia leaf

In SPLENDA® Sucralose, the renewal of a number of large customer contracts during the final quarter, including some on a multi-year basis, against the backdrop of an intensely competitive market environment, resulted in an increase in the rate of price decline in SPLENDA® Sucralose during the final quarter with the reduction in price for the full year outweighing volume growth.

Demand for no-calorie natural sweeteners continues to grow with 2,860 product launches during calendar year 2013 incorporating stevia, an increase of 56% on the prior year. Against this backdrop, we continued to see good volume growth in our natural no-calorie sweeteners, particularly our stevia-based, natural-source sweetener TASTEVA® Stevia Sweetener, with a number of customer product launches during the year. While we continue to see good opportunities for further growth and a strong pipeline for our natural no-calorie sweeteners, the overall contribution to this product category remains relatively small.

Food Systems

Sales were in line with last year (down 1% in constant currency) at £190 million (2013 – £190 million), with volumes 6% lower, reflecting our decision to focus on higher margin blends, which more than offset good volume growth in developing markets. Despite the lower volumes,

we delivered good operating profit growth driven by improved product mix, tight cost control and lower prices for some raw materials.

Our recently opened technical and commercial facility in Roggenhorst, Germany is helping us work more closely with customers and strengthen our pipeline of new products.

The creation of Tate & Lyle Howbetter provides us with a solid platform from which to expand our Food Systems business in China and more broadly across the region. As well as bringing new customers, its high quality local blending capabilities are helping to strengthen our offering to existing customers. It also enables us to leverage additional know-how and expertise across our network of Food Systems businesses globally.