



Dairy Crest – Interim results 2014

Proposed disposal of Dairies

Q: You've made a significant announcement today. Take us through it.

A: I'm delighted to say that we made announcement that I think is great for Dairy Crest, but not just for Dairy Crest, for the whole U.K. dairy industry. We are selling our liquid milk business, our Dairies business, to Müller Wiseman for £80m. What that does is enable Dairy Crest to focus on the things that we've historically been very successful with – that's our Cheese business and our Butters and Spreads business. But it also allows the new business that we're selling to have a sustainable liquid milk business going forward.

It's great news for the U.K. dairy industry and the farmer, because it creates a company of scale that allows you to compete globally. It's great news for the consumer, because the U.K. consumer wants to buy British milk at competitive prices. The efficiency that this transaction creates - in distribution and production - will enable that to happen.

Q: So does this proposed transaction mark a strategy change for Dairy Crest?

A: Our strategy's been clear for many years, and that's to focus on our brands, Cathedral City, Clover, Country Life, just to name but a few. And also to concentrate on our added-value elements of our business, and recently we've announced a £65m investment down in Cornwall, where we're making demineralised whey powder and galacto-oligosaccharide (GOS) for the important growing market in infant formula.

Q: But explain how this deal will be a positive one for the U.K. dairy industry, and indeed, for farmers.

A: Increasingly in the dairy industry, liquid milk in particular, scale is really important. What this does is creates a business of scale. Traditionally here in the U.K. we've been very good at innovating around cheese, around spreads, around butters and around products like yogurts.

But we've probably lagged a little bit behind the rest of the world in terms of liquid milk, white milk innovation. What this does is creates the scale and the efficiencies to allow the new company to invest back in innovation and growth.

Q: What about customers and consumers? How does the consolidation benefit them?

A: Well I believe it's equally good news for them. Customers in the U.K. like to buy locally produced, great British milk. But they also like to buy to very competitive prices. What this transaction does is create a business that has the opportunity to drive efficiencies and production and distribution that will underpin those great products and low prices going forward.

Q: Realistically, doesn't this signal the beginning of the end for doorstep deliveries?

A: Absolutely not. The doorstep business is an integral part of the business that we're selling. The milkman is going to be around for a very long time. It's important to Müller Wiseman going forwards. Coincidentally they have a business in Scotland and the north of England doing exactly the same thing; delivering milk to doorsteps.

Q: The proposed deal will leave you with a much smaller business. Why should shareholders be excited about his?

A: The real answer there is actually it is smaller but it's profitable. It's a good, solid British business that we're very proud of. It also is a business that has been successful in its own right. We've been very successful in developing our Cheese business, and particularly Cathedral City. We'll be more successful in that area going forward with the introduction of our demineralised whey powder and galacto-oligosaccharide products that go into the rapidly growing world infant formula market. And we've got a Spreads business that is efficient, with good brands.

Q: But doesn't a smaller Dairy Crest leave you open to a takeover?

A: It doesn't, no absolutely not. It is a focused, highly profitable, highly innovative business that has a good, solid future.

Q: So what's the timeline now for the proposed deal?

A: We'll go out to shareholders in the next month. Approval there should be by the end of this year. We'll also need to get approval from the competition authorities; that will take several months.

Results

Q: What's your overall take on these first-half results?

A: I'm very pleased. It's well-publicised the economic environment at the moment, and against that background, our brands have performed particularly well. There's probably three things that I would like to draw out.

Firstly is that brand performance, we're up 2 per cent year-on-year, and all of our brands have grown market share in the categories in which they operate. Great news.

The second thing is we've been very successful in our cost-saving programmes. We will achieve, in the full year, the £20m target that we set ourselves.

And then the third thing, which is a new venture, we're well on track with our investment in demineralised whey powder and galacto-oligosaccharide. They will get us into a new market - infant formula - which is a global market. Great news for the company going forward.

Q: So what's the story in Dairies?

A: You know, that's a little disappointed, because we've been very active in this area, and in particular, in three areas. Firstly, FRijj, which had a tough year last year, has shown strong growth this year. It's up 27 per cent. FRijj is a profitable brand. Second, we've been very active in cost savings, particularly in the areas of distribution and lighter weighting of poly bottles. And then thirdly, our property sales are on track.

Having said all of that, we've been in a very difficult marketplace. For most of the first half of this year, there has been a disconnect between the prices that we paid for milk and the market returns, particularly around cream, and that's impacted on the results.

That's getting to a more normalised situation, and in the second half I would expect to see a stronger performance from our Dairies business.

Q: What about the whey and GOS projects? How are they progressing, and are the lower whey realisations a concern for you?

A: I'm pleased with the progress we're making down at Davidstow. The build is well on the way, and we'll be in production in the new finance year in 2015-16.

As far as the markets are concerned, yes, the whey market is softer, but demineralised whey still retains the premium over sweet whey, which is the key rationale for the investment.

Galacto-oligosaccharide, on the other hand, is a new product for us, so we're moving into new markets, and that's an area that we particularly think we can add value to going forward.

Q: And you've decided to increase the dividend. Given these mixed results, what's behind that?

A: Well, the Board is absolutely committed to a progressive dividend policy. It's well within our financial capabilities to pay it, and we think it's an important part of the investment case for shareholders.

Outlook

Q: Brands are fighting even harder for share in the marketplace, especially Spreads. What's your plan to stay competitive going forward?

A: Brands have been and will be going forward a very important part of our business. And I think that they can only we'll be successful and survive by doing three things really well.

The first thing, you constantly need to innovate. I think we're very successful in that area. We've got a range of new products under the Cathedral City brand that we've launched this year. We've launched new products under the Clover brand this year.

The second thing we need to do is to keep continually making consumers aware of our brands, and advertising is really important as far as that is concerned.

And then the final thing is delivering value for consumers. Consumers are having a tough time. We shouldn't get away from that, which means we've got to either promote we have everyday low prices that makes it attractive for consumers to buy our products.

If we do those three things well, and I think there's a history that demonstrates we can do them well, the business will continue to go from strength to strength.

Q: Now, given today's news, will the goalpost move in regards to cost-cutting?

A: Absolutely not. Cost-cutting has to be part of our DNA. We have to keep continually holding the mirror up to ourselves and say; "Can we do this better, more efficiently going forward?".

Q: So what's your outlook for the second half and beyond?

A: I think the first couple of points I'd make are that there's an awful lot going on in the business at the moment, and that's at against a background of a very deep,

difficult economic environment for customers. The first thing we need to do is to concentrate on making sure that we transition our Dairies business to Müller Wiseman in the most appropriate way. We also need to finish our strategic projects at Davidstow and at Kirby.

And then really, let's concentrate on the day-to-day, and the day-to-day is really making sure that we invest behind our brands in the most appropriate way, be that promotions, be that advertising, or be that innovation.

And then finally look at our cost base and make sure that we carry on trying to be as efficient as we possibly can.

[ENDS]