Dairy Crest – interim results 2018/19

Interim results - Mark Allen, Chief Executive

Q: You've just announced your interim results, so what were the highlights?

MA: Three or four highlights. Firstly, adjusted profits, up by about 13%. That's good news. Our brands continue to perform well, particularly Cathedral City, which is up about 7% in revenue terms and Clover, which is up 9% in revenue terms. We're doing very well from a demineralised whey and GOS point of view. That's starting to get momentum. I'm very pleased with that.

And finally, our pension fund is in good shape, where we've got a significant surplus.

Q: So revenues were up for Cathedral City, but volumes were down in the first half. What can we expect in the second half?

MA: Well, you're correct, revenue was up and volumes down, and that's mainly because we promoted a little bit less in the first half. That was a conscious decision. You'll see that change as we go through the second half, and then certainly if I bring you right up to date, our performance in period seven is excellent.

Q: Now, innovation has always been a key driver of Dairy Crest, and you're in the process of launching a few new products, so can you talk us through those?

MA: Innovation is something that we take really seriously, and that can be evidenced by our investment at the university at Harper Adams. Last year, we had 14% of our sales that were developed in the previous three years, and we don't expect something similar this year.

We're really excited about the launches we've got on the second half, and there are a range of things. In Cheese, we've got a range of snack bars that are less than 100 calories, meeting the consumer trend that's around at the moment. We've got lacto-free Cathedral City. A fantastic, great-tasting product that we're launching. And of course, from a Clover point of view, we've taken the artificial ingredients out of the lighter product, a tricky thing to do, but we've done it very successfully, and we'd expect to see some benefits from that in the second half.

Q: Turning to Spreads, can you take us through the performance of the brands there?

MA: Spreads have had a stellar first half, up 10% against a category that's up 3%, and I think I'm correct in saying that if it wasn't for our Spreads portfolio, the category would have been in decline, so we're really pleased. And actually it vindicates a strategy that we've been working on for a number of years, and that is creating products that meet consumers' needs; so making them more natural, a range of free-from products and in particular Vitalite is performing fantastically well. I think in the first six months, it's grown by about 50%. We're really, really pleased that the strategy that we developed three or four years ago is really paying dividends and delivering an outperformance compared to the category.

Q: Now back in May, your raised money to expand the facility at Davidstow, so how's the project progressing?

MA: Yeah, it's very early days. We'll only spend about £6 million in this year, and that's really about upgrading existing assets rather than new assets, but actually, just as importantly, it's worthwhile looking at how we're going to sell the product when we make it. And yeah, we're very confident that here in the UK, that the sliced, the grated, the convenience cheese markets are going to give us some very good growth going forward. And then overseas, we've been looking at China, the US and Germany in particular, and we've got trials or discussions going on in all of those places at the moment.

Q: How's the customer base developing for demineralised whey?

MA: This is a good-news area. Our sales are strengthening by the day. We're developing a range of customers that really seem to like our product. The historical for this was high-quality cheese equals high-quality whey. A very finely traceable supply chain is good news for the end consumers, and that's materialising.

So for next year, the next financial year, it looks like we're in a position where we've got more demand than we have got manufacturing. That's a really good position to be in, augurs well for pricing.

Q: What's the story with GOS?

MA: GOS is a very similar story to demineralised whey. Last year, we sold about 3000 tonnes. This year, we'd expect to double that. That's good progress and in line with what we expected when we launched the product. Behind that are some very good trend. Our organic product is growing very rapidly, and that's a profitable product, and we're also carrying on our tests in the animal world, both with chickens, pigs, fish and companion animals, cats and dogs.

But importantly, we're about to launch our first consumer product, Promovita GOS shots, which will launch in the very near future. We're excited about the prospect for that in the medium term. It'll be a slow build, but in the medium term, it should be very interesting.

Financial Performance – Tom Atherton, Deputy CEO and Finance Director

Q: Adjusted profit's up 13% at the half year, so how's that been achieved?

TA: It's been achieved through good underlying business performance. Revenue is up 2% and is accelerating in the second half of the year, as volumes improve markedly. Certainly, we've started with a strong Q3. Operating profit was up 3%, underlying. Actually, we didn't get help from property profits this year. Without that, it would have been up 5%.

You then add in £2 million of interest savings, as our balance sheet has improved, debt has come down, pensions have come down. That helps. On a post-interest, profit-before-tax basis, we delivered a 13% increase to £22.7 million.

Q: And net debt's down considerably from this time last year, so how have you achieved that?

TA: Net debt's down 21%, £221 million. We did raise money through a placing in May earlier this year, but actually underlying cash generation is improving. Cash from operations was up 71% in the half versus a year ago. If you take a broader outlook, both debt and pensions added together, two years ago, that was touching £400 million. Today, it's under £100 million net liability. That's a huge burden taken off our balance sheet and will improve interest costs going forward.

Q: You mentioned the pension scheme there, but what are your expectations for it looking ahead?

TA: This year, we'll pay between £14 million and £15 million into the scheme, but importantly, next March is the new valuation date, and after that, we'll have a new set of contributions to put in. If I look at it today, the deficit used for that measurement is very small and the scheme is getting closer and closer to self-sufficiency, so I'm hopeful that looking ahead, we'll get significantly reduced pension contributions.

Outlook – Mark Allen, Chief Executive

Q: Looking ahead now to the remainder of the year, what do you see as the outlook?

MA: The outlook is positive. We're committed to delivering the profitability in line with our expectations, but behind that is a very strong performance from our brands in the second half. We'll work hard to deliver that. You've already heard me say that demineralised whey and GOS are increasingly becoming relevant to the business and that will continue, and we need to maintain our focus on cost to making sure that we're as efficient as we've always been. Deliver those things and the future looks rosy. *[ends]*