TREATT

ANNUAL REPORT & ACCOUNTS 2021

Contents

Record performance on all key metrics

Treatt plc, the manufacturer and supplier of innovative ingredient solutions for the flavour, fragrance, beverage and consumer product industries, announces today its results for the year ended 30 September 2021.

FINANCIAL HIGHLIGHTS[1]:

	Financial year ended 30 September 2021	Financial year ended 30 September 2020	Change
Revenue	**£124.3m**	£109.0m	+14.0%
Gross profit	**£42.2m**	£31.9m	+32.5%
Gross profit margin	**34.0%**	29.2%	+480 bps
Profit before tax and exceptional items	**£20.9m**	£14.8m	+41.3%
Profit before tax	**£19.6m**	£13.7m	+42.8%
Adjusted basic earnings per share	**27.05p**	19.72p	+37.2%
Basic earnings per share	**25.19p**	18.12p	+39.0%
Final dividend per share	**5.50p**	4.16p	+32.2%
Total dividend per share	**7.50p**	6.00p	+25.0%
Adjusted return on average capital employed[2]	**20.9%**	18.6%	+230 bps

OPERATIONAL HIGHLIGHTS[1]:

- Increased revenue driven by growth across multiple addressable markets.
- Gross profit margin grew by 480bps, led by growth in healthier living categories.
- Profit before tax and exceptional items up 41.3% to £20.9m – substantially exceeding Board's initial expectations.
- Diversification of portfolio continues: almost 80% of Group revenue from higher margin natural and clean-label products.
- Successfully navigated COVID-19 challenges, and no material impact from global supply chain issues.
- Ongoing capital investment for future growth:
    - Phase one installation and commissioning of plant and machinery is due to be complete mid-2022.
    - Phase two transfer of manufacturing equipment from old facility due to be completed by mid-2023.
- Embedding sustainability strategy across Group.
- Confident in the outlook – continued strong growth in revenue expected, with reversion to normal H1 / H2 split.

Commenting on the results, CEO Daemmon Reeve said:

"We are very proud to be reporting record full year results for Treatt against all of our key metrics. It has been a remarkable performance in a year when we have been dealing with the continued impact of the COVID-19 pandemic and volatility in market conditions. We have managed to deliver really strong profit growth across multiple categories, particularly through aligning with consumer beverage trends and the wide demand for healthier, natural products. This has all happened while continuing to invest in the future growth potential of the business.

This strong performance is testament to the efforts of everyone at Treatt, who I would like to thank.

We are making the right investments at the right time on our growth journey. I have no doubt that the combined effect of increasing our investment in R&D, realising the multitude of benefits from the new UK headquarters and strengthening our team will elevate Treatt to a new level with further sustained benefits to all of our stakeholders."

Analyst and investor conference call
A conference call for analysts and investors will be held at 10.00 a.m. today, 30 November 2021. For dial-in details, please contact MHP Communications at treatt@mhpc.com.

[1] All measures based on continuing operations.
[2] Adjusted return on average capital employed is calculated by dividing operating profit before exceptional items (as shown in the Group income statement) by the average capital employed in the business, which is calculated as total equity (as shown in the Group balance sheet) plus net debt or minus net cash (as shown in the Group reconciliation of net cash flow to movement in net cash), averaged over the opening, interim and closing amounts.

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About the Group

Treatt is a global, independent manufacturer and supplier of a diverse and sustainable portfolio of natural extracts and ingredients for the flavour, fragrance and multinational consumer product industries, particularly in the beverage sector. Renowned for its technical expertise and knowledge of ingredients, their origins and market conditions, Treatt is recognised as a leader in its field.

The Group employs over 300 staff in Europe, North America and Asia and has manufacturing facilities in the UK and US. Its international footprint enables the Group to deliver powerful and integrated solutions for the food, beverage and fragrance industries across the globe.

For further information about the Group, visit www.treatt.com.

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS
This announcement contains forward-looking statements that are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in the countries, sectors and markets in which the Group operates. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated. No assurances can be given that the forward-looking statements in this announcement will be realised. The forward-looking statements reflect the knowledge and information available at the date of preparation of this announcement and the Group undertakes no obligation to update these forward-looking statements. Nothing in this announcement should be construed as a profit forecast.

Chairman's statement

In this highly unusual and challenging year, it's my pleasure to report that Treatt has continued to thrive

We have delivered another year of exceptional results, continuing to grow the business strongly. This is particularly impressive given that many of our markets remained severely impacted by the COVID-19 pandemic, with the results demonstrating the resilience and adaptability of the Treatt business. We have delivered a strong performance across all of our key financial metrics, including profit before tax and exceptional items increasing by 41.3% to £20.9m.

To achieve this without taking any government support nor putting any staff on furlough, whilst continuing to prioritise the health, safety and wellness of our employees is, in a word, remarkable.

The Board and I are incredibly proud of the dedication and commitment shown by all our staff during the year. Whether working from home or in our manufacturing facilities, our teams have met a variety of challenges and lived up to our Company values time and time again. My heartfelt thanks go to each and every one of them.

Performance

Our performance this year has substantially exceeded our original expectations, not just in overcoming the challenges of COVID-19, but also in outperforming against our original, pre-pandemic projections. With a number of our customers' key markets and on-trade channels severely disrupted or closed, a notable achievement over the year has been our success in serving our customers' retail channels. Revenue growth across almost all categories has been strong, with our healthier living categories thriving in particular.

As we continue to solidify our position as a key supplier to a number of the largest beverage operators, a key win for Treatt has been the swift evolution of the ready-to-drink canned cocktail market, where we have a strong position with multiple leading brands. The rapid innovation of new flavours in that space is testament both to our impressive ability to respond to new consumer trends, and to our strong supply chain relationships.

Capital investments for growth

Building on investment in our US facilities over recent years, further long-term investment plans are coming to fruition through the transition to our new UK Headquarters. We are delighted with the new facility, which will give us substantial extra capacity to grow with much greater efficiency and an emphasis on sustainability. The feedback from customers who have visited the new site has been extremely positive. We are also laying strong foundations in China to position us well for growth across Asia.

ESG and our culture

Sustainability has always been at the core of the Treatt business. With new infrastructure investments in place, one of our key areas of focus is to formalise our ESG (environmental, social and governance) agenda to ensure it is both robust and is setting relevant and ambitious targets. We have been working with external sustainability consultants to improve how we measure our impacts across a range of environmental and social areas. This has led to a new sustainability strategy, which includes a number of refreshed priorities for the business.

We have also been taking a closer look at our purpose as a business, led by our employees, which is becoming ever more relevant in a world increasingly seeking high quality, and sustainable, natural extracts and ingredients as the growing focus on health and well-being continues.

I am proud of our supportive culture and the many initiatives carried out across the Group supporting good mental health. Colleagues came together to support one another throughout, and hopefully soon, out of the other side of the pandemic.

Board changes during the period

We have built a diverse and skilled Board. Vijay Thakrar will take over as the new Chair of our Audit Committee when Jeff Iliffe steps down from the Board on 25 February 2022. I would like to express my thanks to Jeff for his dedication to Treatt since 2013, for his wisdom, support, and the superb contribution he has made. Richard Illek steps down from the Board on 31 December 2021. Again, I would like to express thanks to Richard for his contribution since 2016, having shared with us his reservoir of knowledge and experience.

Richard Hope, our longstanding Chief Financial Officer, is set to retire from the business on 30 June 2022. Richard's role in our transformation and growth cannot be overstated and we wish him all the best for his well-deserved retirement when it comes. Our search for each of their replacements is underway.

Dividend

The Directors are pleased to propose a final dividend of 5.50p per share (2020: 4.16p), which represents an increase in the total dividend for the year of 25.0% to 7.50p (2020: 6.00p). If approved by shareholders at the Annual General Meeting, the final dividend will be payable on 17 March 2022 to all shareholders on the register at the close of business on 4 February 2022.

Outlook

The Group continues to go from strength to strength. We have a solid business model, a clear strategy and exciting opportunities as markets reopen, new trends emerge, and we enter new territories. As we begin saying goodbye to Northern Way, the home that has served us well for nearly half a century in the UK, we are excited about the continued transition into our new UK Headquarters in Skyliner Way, which has been designed to be both environmentally efficient and to support the wellbeing of our employees. I'm confident that we have all the right elements in place to build on our remarkable track record of growth. The resilience we have shown in achieving such positive results demonstrates that we are well positioned to deliver on our ambitions.

Tim Jones

Chairman

29 November 2021

Chief Executive's review

Delivering a remarkable performance

We have delivered a remarkable performance in a year when we have been managing both the continued impact of the COVID-19 pandemic and volatility in market conditions. We have outperformed expectations to deliver strong growth across multiple categories, all the while making progress with a number of strategic investments.

Looking back on the year, I want to pay tribute to my colleagues across the Group for their perseverance and endeavour during difficult times. The safety measures we have had in place haven't always made the working environment easy, but I'm proud that we have delivered on our primary goal of keeping our colleagues safe and well. Our strong performance is testament to the efforts of everyone at Treatt, our agility and our supportive culture.

Building on the momentum of last year, the results reflect the resilience of the Group and also our ability to respond to changing market conditions and adapt accordingly. The strategic focus we have placed on higher value solutions, and on driving a strong performance serving our customers' retail channels, has been truly exceptional. Through this we have delivered revenue of £124.3m (2020: £109.0m) and a profit before tax and exceptional items for the year of £20.9m (2020: £14.8m), representing increases of 14.0% and 41.3% compared with last year.

This outstanding performance has been achieved in spite of COVID-19. Due to the sporadic closing and reopening of the hospitality industry around the world, we've experienced a year of fluctuating consumer demand. Even in open economies, beverage consumption is yet to return to pre-pandemic levels, although retail channels have seen notable success. That makes our growth all the more gratifying and gives us reason to be optimistic about the future. Long-term macro trends in the marketplace are closely aligned with Treatt's strengths, and are focused around premiumisation, authenticity and natural ingredients. The strategic positioning of our portfolio means we are well positioned to benefit through our various natural, healthier living product categories.

Aligned with growing consumer trends

We are more in tune than ever with evolving consumer tastes. The key beverage trend which has supported our growth during the year has been the ready-to-drink canned cocktail market, including hard seltzers. We have also experienced success across a wide range of existing and new market beverages, showcasing our diverse portfolio of solutions. Hard seltzers have proven to be a high growth opportunity for the beverage market and a sweet spot for us as a Group. High-quality natural extracts are the key ingredient in delivering low-calorie, premium alcoholic beverages, and our technical expertise in this space has led many of the world's leading brands to partner with Treatt.

More widely, consumer demand for a variety of healthier, premium beverages continues apace, with revenue growth of 64.1% across our healthier living categories (tea, health & wellness and fruit & vegetables) driven not just by hard seltzers, but beverages such as energy drinks and flavoured waters too. The strength of these numbers demonstrates that there is still plenty of momentum in these trends even after several years of growth.

We have also had multiple wins across our other categories, both from existing and new customers. Citrus remains a key category, and one that we are evolving as we move towards a more sophisticated, premium customer offering with higher margins. It now represents 43.6% of our revenues (2020: 50.3%) as we continue to reduce our dependency on lower margin traded and minimally-processed citrus, to higher value, higher margin solutions. We also continue to make good progress with our coffee platform, with some significant client wins during the year and we have a promising pipeline of opportunities for the year ahead.

Away from beverage, we have recently signed a significant new five-year contract with Robinson Brothers within our synthetic aroma business, which continues to see strong levels of growth through our flavour house partner channels and feeds into important, growing markets such as flavours for alternative proteins and snack foods.

Continuing to invest for future growth

To build the business and support our future growth, we have made a number of strategic investments in both physical infrastructure and people this year.

We are making good progress with the transition to our new, state-of-the-art UK Headquarters, despite occasional COVID-19 interruptions. From September 2021, we saw office-based colleagues move to the new site, with some laboratory functions following and manufacturing equipment currently being commissioned. We have exchanged contracts on the sale of the Northern Way site which has served us well for 50 years, for a net consideration of £5.6m, having outgrown it visually and strategically. Early customer feedback from visits to our new facility at Skyliner Way has been positively effusive and it is a joy to see some of the brilliant team we have across the Treatt business in the UK working from an environment which they truly deserve. To have grown the business to what it is today from our rather humble Northern Way site is a huge achievement and as I look forward to having a UK environment which reflects the business we have become, I am eagerly looking forward to our future.

We're excited about the opportunities presented by the completion of the new facility. It signifies the next chapter in the Treatt story and provides the ideal platform for us to deliver on our growth ambitions, enabling us to increase capacity, margins and productivity, as well as continuing to enhance our customers' experiences as we embed ourselves as a leading natural extracts business. The superb state-of-the-art technical centre in our Skyliner Way facility will enable more co-creation opportunities with our customers which are so powerful in building long-term relationships.

Alongside our recent US and UK infrastructure investments, we continue to focus on China. We established a wholly-owned foreign enterprise in China during the year, and are optimistic about our potential in the region as we continue to unlock further meaningful opportunities. We are confident that the proportion of our revenue generated in China will increase going forwards. In order to fully leverage the potential of our world class facilities we are continuing to invest in our people, including making a number of key senior appointments during the year. We've appointed a Chief People Officer to set out a global, multi-year plan to ensure we have the people infrastructure needed to realise our growth plans over the next five years. Our new Chief Innovation Officer will similarly be taking our global R&D efforts to the next level, sharpening our offering and relevance for all customers. Furthermore, our new Global Sustainability Manager will be delivering our first sustainability strategy, which will be integrated with the great work already underway in the business and aligned with new product development.

Richard Hope is set to retire on 30 June 2022. Richard has worked for the business for almost 20 years as CFO where his input has been central to Treatt's track record of growth. His experience and guidance have been invaluable to me during our journey of successful strategic change and cultural transformation. His retirement is well-deserved; he will leave a legacy to be proud of at Treatt and I wish him and his family all the very best for the future.

Evolving our approach to sustainability

Sustainability remains fundamental to our approach and a key part of our DNA. At the end of last year we engaged a specialist independent consultancy to review our position and undertake a thorough materiality assessment. These findings provided the foundation for our new sustainability strategy, which includes nine evolved priorities for the business.

To highlight progress to date, additional indirect Scope 3 emissions will be collected and recorded from FY2022 onwards; this will aid in shaping our GHG emissions reduction strategy moving forward. We are using the Taskforce for Climate-related Financial Disclosures methodology (TCFD) to assess climate change risk and the mapping of our supply chain risks has evolved into a sustainable supply chain strategy, focusing on key areas to bring positive change. We expect to have more meaningful metrics to report on next year.

I'd like to highlight the key role our HR and Group Leadership Team have played in helping our staff through the challenges of the year. We take the mental wellbeing of our people very seriously, and I'm proud that our supportive culture has come to the fore this year.

Looking forward

We have had a great year, notwithstanding challenges including the ongoing pandemic, global freight availability and impacts to our global logistics.

Forecasting within the beverage market remains increasingly difficult as consumer habits and product lifecycles evolve more rapidly than ever. That said, we are perfectly aligned with the market's long-term macro trends, driven by healthier living, and are hugely encouraged by the opportunities we are currently working on with both new and existing customers. The outlook for the coming year is positive; we expect strong growth in revenue with the business reverting to a more normal H2 profit weighting as on trade channels return to pre-pandemic levels.

As we continue our journey to evolve our sustainability policies, we are fully focused on continuing to execute our strategy while operating safely, reliably and ethically. We will keep listening to our staff about their needs as we move into a more permanent hybrid working model. We're a diverse team and we take pride in celebrating each other's differences, ultimately recognising that a diverse and inclusive workforce is key for our success.

We are making the right investments at the right time on our growth journey. I have no doubt that in due time the combined effect of increasing our investment in R&D, realising the multitude of benefits from the new UK Headquarters and strengthening our global team will elevate Treatt to a new level and contribute to further sustained benefits for all of our stakeholders.

Daemmon Reeve

Chief Executive Officer

29 November 2021

Financial review

Strong growth in profits with adjusted[1] EPS up 37%

Overview

The Group delivered a very strong set of financial results for the year ended 30 September 2021. 64.1% revenue growth in the higher margin healthier living categories coupled with improved margins in the citrus category drove a 41.3% increase in profit before tax and exceptional items[1] to a record £20.9m.

The year also saw continued significant investment of £14.4m in capital projects, including £9.5m on the new UK Headquarters. Despite these high levels of investment, we ended the year with net debt of only £9.1m (2020: net cash of £0.4m).

Income statement[1]

Revenue and profit

Revenue for the year from continuing operations increased by 14.0% to £124.3m (2020: £109.0m). In constant currency terms, revenue increased by 17.7% as the Pound Sterling was stronger against the US Dollar in 2021 as compared to 2020. Across non-citrus categories, revenue grew by 29.4% driven by the impressive growth of 64.1% in our healthier living categories of tea, health & wellness and fruit & vegetables.

Tea led the way with growth of 113.1% as a result of some significant new business wins across a range of alcoholic and non-alcoholic beverages, in particular new wins in the ready-to-drink canned cocktail market. The tea category was impacted in the prior year by the effective closure, due to COVID-19, of some significant on-trade channels and therefore a proportion of the growth in this year related to the return of business which had been temporarily paused due to the pandemic. Health & wellness (which includes sugar reduction) had another very strong year with revenue growth of 28.7%. This was driven by increased demand from brand owners to reduce the sugar content in their beverages and from flavour companies using our products as part of their formulations. This reflects the important IP, know-how and technical expertise which Treatt possesses in this field. The fruit & vegetables category had one of its strongest years to date, with our passion fruit, watermelon, cucumber and mango natural extracts the leading contributors to growth of 59.6%. Citrus remained the Group's largest product category representing 43.6% (2020: 50.3%) of Group sales, with revenue falling by 1.2% due to the timing of deliveries and contract mix with some large customers.

Whilst approximately 80% of the Group's revenue now comes from our natural and clean-label product ranges, our synthetic aroma sales into the flavour and fragrance market grew by 8.9% compared with the prior year as demand for sustainable synthetic products continues to increase. The Group's traditional range of herbs, spices & florals, many of which are traded, only grew by 0.5% in large part as a consequence of reduced on-trade consumption due to the pandemic.

Geographical analysis of revenues shows that the UK, mainland Europe and The Americas performed strongly with no discernible impact from Brexit or the well-documented global supply chain issues. However, both of these created significant logistical challenges which our very experienced supply chain teams across the Group did a remarkable job in overcoming in order to maintain excellent levels of service.

Product category % share of sales – 2021 v 2020:

% of revenue	Citrus	Tea	Health & wellness	Fruit & vegetables	Herbs, spices & florals	Synthetic aroma
2021	44%	11%	8%	10%	9%	18%
2020	50%	6%	7%	7%	11%	19%

Geographical % share of sales – 2021 v 2020:

% of revenue	UK	Germany	Ireland	Rest of Europe	USA	Rest of the Americas	China	Rest of the world
2021	8%	5%	6%	11%	43%	8%	6%	13%
2020	7%	4%	6%	11%	40%	8%	6%	18%

The Group continued to focus on opportunities in China and the US. Reported revenue to China increased by 7.6% to £7.4m (2020: £6.9m); excluding the impact of FX translation, revenue to China in USD, the principal invoicing currency, grew by 15.5%. Revenue in the Group's largest market, the US, grew by 22.1% to £53.4m (2020: £43.7m) representing 42.9% of the Group total (2020: 40.1%). Within the US, the Group benefitted from particularly strong growth in the ready-to-drink canned cocktail market with a number of material new product launches as well as growth with existing brands, both direct and indirect via flavour houses. Sales to mainland Europe, which represented 21.9% of Group revenue (2020: 21.2%), performed well following a relatively weaker pandemic-impacted year in 2020. This resulted in a 17.9% increase in revenue to £27.2m (2020: £23.1m) driven by a strong performance from, most notably, citrus and fruit & vegetables. In the UK, revenues performed well in both synthetic aroma and citrus, with revenue ending the year up by a very pleasing 27.8% at £9.5m. The Rest of the World (excluding China) fell by 11.4% to £17.2m (2020: £19.4m) as the effects of COVID-19 continued in many parts of the world.

Gross profit grew by 32.5% with gross profit margins increasing from 29.2% to 34.0%. The increase in margins resulted from the combined effect of growth in higher margin healthier living categories, coupled with improved citrus margins as the increased sophistication within our citrus category begins to show through. The focus on higher margin, added-value solutions supports our strategy of diversifying the product portfolio away from traded and minimally processed citrus products, thereby building additional resilience into the business.

The Group's R&D investment in water soluble citrus for use in some of the fastest growing areas of beverage innovation is enabling the citrus category to move further up the value chain. As the impact of COVID-19 has begun to ease, the level of customer innovation and new product development has increased, enabling science-led collaboration with new and existing clients, in turn bringing further margin progression.

Administrative expenses grew by 24.4% in the year to £20.9m (2020: £16.8m). The £4.1m net increase primarily relates to increased costs at our US subsidiary, Treatt USA. Overhead costs in the US rose by £1.1m which, together with increased depreciation of £0.8m, reflected the full year effect of the recently expanded US facility. Average headcount numbers across the Group have increased by 15%, with the Group's recruitment and induction processes having navigated the restrictions imposed in response to COVID-19. However, recruitment generally has proven a challenge in the US where there remains a significant backlog of open vacancies which will lead to a material increase in headcount numbers and payroll costs over the next 12 months.

As we near the end of the capital investment programme originally announced in 2017, our focus is very much on developing our people infrastructure to support further growth.

Adjusted net operating margin[2] increased in the year to 17.2% (2020: 13.8%). This compares with 10.8% five years ago and delivers on our medium-term objective of achieving our target net operating margin of 15%-20% which is more aligned to some of our larger industry peers. Consequently, operating profit[1] increased by 41.4% to £21.3m (2020: £15.1m).

Adjusted return on average capital employed (ROACE)[3] increased to 20.9% (2020: 18.6%) as a consequence of the substantial increase in profits during the year. As well as growth in adjusted basic earnings per share, ROACE will, going forward, be included as a performance metric for LTIPs. Our target is to deliver ROACE of 20-25%.

As phase one of the relocation to the Group's new UK Headquarters in Bury St. Edmunds got underway, one-off non-capital costs relating to the relocation were incurred during the year totalling £1.3m (2020: £1.1m) and are included in exceptional items (see note 7). These included legal fees, project consultants, and manufacturing plant and machinery design and installation specialists.

Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA)[4] for the year increased by 36.3% to £23.1m (2020: £17.0m). Profit before tax and exceptional items from continuing operations rose by 41.3% to £20.9m (2020: £14.8m). Reported profit after tax for the year of £15.1m represents an increase of 55.1% on the prior year.

Foreign exchange gains and losses

Whilst the Group's functional currency is the British Pound (Sterling), the amount of business which is transacted in other currencies creates foreign exchange exposure, particularly the US Dollar and, to a lesser extent, the Euro. During the year Sterling strengthened against the US Dollar ending the year 4% stronger at £1=$1.35 (2020: £1=$1.29); the average Sterling/US Dollar exchange rate for the year was 7% stronger as compared with the prior year. The Group hedges its foreign exchange risk at our UK business by holding and managing US Dollar borrowings and taking out forward currency contracts and options. This can result in timing differences in the short-term, giving rise to re-translation gains or losses in the income statement. The impact in 2021 was a net break-even position on foreign exchange contracts and re-translation gains and losses in aggregate (2020: £0.3m gain).

There was a foreign exchange loss of £1.8m (2020: £2.1m loss) in the 'Statement of Comprehensive Income' in relation to the Group's investment in Treatt USA.

Finance costs

The Group's net finance costs increased to £0.4m (2020: £0.3m) as (after total capital expenditure and related exceptional costs of £15.7m) the Group moved from a £0.4m net cash positive position at the start of the year, to close with a net debt position of £9.1m. As well as interest costs there were a number of fixed costs for maintaining facilities for future use which were funded from operating cash flows. Following the increase in profits, interest cover for the year before exceptional items increased to a very healthy 50.0 times (2020: 44.9 times).

Group tax charge

After providing for deferred tax, the Group tax charge increased by £1.6m to £4.5m (2020: £2.9m); an effective tax rate (after exceptional items) of 22.8% (2020: 21.1%). This included adjustments reducing this year's tax charge by £0.6m (2020: £0.4m reduction) relating to revisions to the previous year's tax estimates. Following the UK government's announcement that corporation tax will increase to 25% from April 2023, the deferred tax rate applicable in the UK has increased from 19% to 25% resulting in an additional tax charge of £0.2m. In the US the rate of corporation tax remains at 21%.

Discontinued activities

Following the disposal of our Kenyan operations to local management in the prior year, there were no discontinued operations in the year.

Earnings per share

Basic earnings per share from continuing operations (as set out in note 10) increased by 39.0% to 25.19p (2020: 18.12p). Adjusted basic earnings per share excluding exceptional items and discontinued operations for the year increased by 37.2% to 27.05p (2020: 19.72p). The calculation of adjusted earnings per share excludes those shares which are held by the Treatt Employee Benefit Trust (EBT) and Treatt SIP Trust (SIP), which are not beneficially owned by employees since they do not rank for dividend, and is based upon adjusted profit after tax.

Dividends

The proposed final dividend of 5.50p per share (2020: 4.16p) increases the total dividend per share for the year to 7.50p, a 25.0% increase on the prior year (2020: 6.00p), representing dividend cover of 3.6 times pre-exceptional earnings for the year and a rolling three-year cover after exceptional items of 3.2 times. The Board considers this to be appropriate at this stage of the Group's development.

Balance sheet

Shareholders' funds grew in the year by £15.2m to £106.3m (2020: £91.1m), with net assets per share increasing by 16.4% to £1.76 (2020: £1.51). Over the last five years net assets per share have grown by 148%. The Board has chosen not to avail itself of the option under IFRS to revalue land and buildings annually and, therefore, all the Group's land and buildings are held at historical cost, net of depreciation, on the balance sheet.

Cash flow

During the year the Group invested £14.4m (2020: £24.8m) on capital projects, of which £9.5m was incurred on the UK relocation project (more details of which are set out below). The balance of the capital expenditure included the purchase of a further six-acre adjacent piece of land in the US which was acquired in anticipation of future expansion. Plant and machinery investment in the US of £2.3m included on-going investment in our coffee platform as well as new technologies for our citrus category. Excluding the impact of the expenditure on the UK relocation, free cash flow[5] was £5.0m for the year.

There was an overall working capital outflow in the year of £10.0m (2020: outflow £0.2m), principally as a result of an outflow of £11.9m in relation to a management decision to build inventory levels as discussed herein. There was a net increase in receivables of £2.7m compensated by an increase of £4.5m in payables.

Inventory held at the year-end was £47.3m (2020: £36.1m), an increase of £11.2m. This increase was driven by three main factors; first and foremost the overall growth in the business and the strength of the order book; secondly by the higher average cost of orange oil (being consistently the largest volume material held in inventory), and thirdly proactive purchasing by our global procurement team to protect our customers from the effect of global supply chain issues. Treatt services many annual, and in some cases longer-term, contracts with customers as well as meeting the immediate spot needs of its diverse customer base. The success of the business has been built upon managing geographic, political and climatic risk of supply for our customers by judicious purchasing and inventory management to ensure continuity of supply and availability. Consequently, the overall level of inventory held by the Group is highly significant in cash terms.

Net debt

During the year, and as expected due to the investment in infrastructure to support future growth, the Group moved from net positive cash to close in a net debt position of £9.1m. In order to support the Group's growth plans for the foreseeable future, the Group retains a mix of secured and unsecured borrowing facilities totalling £25.8m, of which £2.2m expires in one year or less. During the year, the Group secured an additional £7.0m three-year revolving credit facility (which can be extended ultimately to five years) with HSBC Bank together with a £6.5m accordion (a pre-approved facility). This change to the structure of the Group's UK banking facilities has been undertaken to both match some of the Group's borrowings to the assets which they have been used to finance, as well as to reduce the cost of facilities.

All the Group's borrowing facilities are held with HSBC and Bank of America with the majority held on three to five-year terms with expiry dates staggered to fall in different years. The Group continues to enjoy positive relationships with its banks and expects all facilities to be renewed when they fall due.

Capital investment programme

In 2017 the Group announced a capital investment programme to expand the US facility (a $15.0m capacity-driven project) and the relocation of our UK facility. This programme of investment is now approximately 80% complete as follows:

US site expansion

In 2019 we completed the expansion of our facility in Lakeland, Florida, at a total cost of $15.3m, doubling the total footprint to 130,500 square feet. By moving from one to two large manufacturing units we have doubled our capacity for our healthier living categories and are now able to increase further by adding manufacturing units in a modular way at a significantly reduced cost, with the third such unit likely to come on stream over the next 48 months, and a fourth could follow thereafter.

UK relocation

In a significant milestone for the Group, during the year we began to relocate our UK business from its current site in Bury St. Edmunds, to a brand-new purpose-built facility nearby. The Group acquired a ten-acre greenfield site on the new Suffolk Park in Bury St. Edmunds in mid-2017. The principal contractors began work on site in September 2019 and, whilst COVID-19 impacted the original timescales for completing the project, construction of the new facility was completed during the financial year.

In September 2021 we were delighted to open the offices to our colleagues, and all office-based staff now work in the innovative surroundings of the new facility. Some science and technical colleagues have also transitioned to the new site where new state-of-the-art laboratories provide a truly exceptional customer collaboration environment. The project involves transformation from manual to digital manufacturing incorporating significant investment in new and upgraded plant and machinery, including the implementation of a number of new technologies for the UK business such as automated warehousing, clean-in-place and computer-controlled stills.

The first phase of installation and commissioning of plant and machinery is currently underway, and we expect this to be completed by mid-2022. Thereafter, we will commence phase two which involves the gradual transfer and upgrade of highly complex manufacturing equipment from our old site.

We expect phase two to be completed by mid-2023. Consequently, we will continue to manufacture some products at the old site over the next 18 months whilst most of manufacturing and technical will operate from the new site in 2022.

Following the delays caused by COVID-19, increases in raw material costs such as steel, and learnings from the phase one implementation, the total capital project costs are expected to be approximately £36.9m as compared to the £33.2m budget originally set out in 2019. In addition, exceptional costs totalling £6.9m are expected to be incurred as set out in the table below. We have now exchanged contracts on the sale of all our buildings on our old site for a net consideration of £5.6m.

Completion has been set for February 2022 with an agreed leaseback for a further 18 months of our main manufacturing building at the old site as the final stages of the transition are due to complete by mid-2023. Therefore, we expect a further net cash outflow over the next two years of £4.2m in relation to the UK relocation project.

The latest estimated costs of the UK relocation are set out below:

			Spend to date (£'000)		
	Note	Revised budget £'000	To 30/9/20	Year to 30/9/21	Total spend to date
Capital expenditure:					
Land		3,823	3,823	–	3,823
Buildings		18,030	15,891	1,676	17,567
Plant & machinery		20,666	6,294	7,785	14,079
Capital expenditure		42,519	26,008	9,461	35,469
Existing site disposal		(5,590)	–	–	–
Net capital expenditure		36,929	26,008	9,461	35,469
Exceptional items:					
Procurement, installation & commissioning	1	2,209	1,370	317	1,687
Accelerated depreciation (non-cash)	2	434	434	–	434
Relocation costs	3	4,285	1,116	985	2,101
		6,928	2,920	1,302	4,222

Note 1: These costs relate to project expenditure which does not fall to be capitalised and will be expensed as exceptional items with the remaining costs expected to be incurred in the years ending 30 September 2022 and 2023.

Note 2: Accelerated depreciation related to the reduction in the estimated useful lives of assets which will not transition to the new site and was accounted for in the years ended 30 September 2018 and 2019.

Note 3: Other exceptional items include initial design costs, parallel running costs, additional staffing resources and costs associated with the physical transfer of the business to the new site. The remaining costs are expected to be incurred in the years ending 30 September 2022 and 2023.

It should be noted that in accordance with IAS 23 'Borrowing costs', and in addition to the above, the interest charges incurred on funds utilised on the relocation project prior to its completion fall to be capitalised. In the year ended 30 September 2021 £23,000 was capitalised and a further £14,000 is expected to be capitalised in the year ending 30 September 2022.

As previously explained, phase one of the project is expected to complete in early 2022 and phase two in early 2023 with the respective total costs breaking down as follows:

£'000	Phase one	Phase two	Total
Capital expenditure	38,999	3,520	42,519
Existing site disposal	(5,590)	–	(5,590)
Exceptional items	5,090	1,838	6,928
Total costs	38,499	5,358	43,857

Consequently, the cash outflows for the project are expected to result in rolling Group net debt to EBITDA[1] peaking at less than 0.5x EBITDA[1].

Although phase one is nearing completion the most complex part of phase one, being the installation and commissioning of almost £20m of plant and machinery, remains underway. In addition, phase two involves the complex transfer and upgrading of manufacturing facilities from our old site. Whilst there is a risk of cost overruns, we have programmed a gradual transfer from our old site to our new facility and included approximately £1.3m of contingency (approximately 18% of the remaining spend) in order to mitigate that risk as far as practicable.

Treatt Employee Benefit Trust and Treatt SIP Trust

The Group has an HMRC-approved Share Incentive Plan (SIP) for its UK employees, and as far as practicable, also offers a similar scheme to its US staff. All UK staff with a year's service were awarded £650 (2020: £625) of 'Free Shares' during the year as part of the Group's employee incentive and engagement programme as the Board is firmly of the view that increased employee share ownership is an important tool for driving positive employee engagement in the business. A similar scheme exists for US staff who were awarded $950 (2020: $925) of Restricted Stock Units during the year. These shares are forfeited by employees who leave within three years from the date of grant.

Under the SIP, UK employees are offered the opportunity each year to purchase up to £1,800 (or 10% of salary, whichever is lower) of Treatt shares out of gross income, which the Company continues to match on a one and a half for one basis. In the year, a total of 30,000 (2020: 48,000) matching shares were granted.

The SIP currently holds 477,000 shares (2020: 444,000) and is administered by Link Asset Services Trustees. All shares are allocated to participants under the SIP. It is anticipated that going forward the obligations under the SIP will continue to be satisfied through the issue of new shares.

In addition, the Group continued its annual programme of offering share option saving schemes to staff in the UK and US. Under US tax legislation, staff at Treatt USA are able to exercise options annually, whilst the UK schemes provide for three-year saving plans.

Under the Long Term Incentive Plan, which was approved by shareholders at the 2019 Annual General Meeting, Executive Directors and certain key employees were granted 127,000 (2020: 245,000) nil cost share options during the year which will vest after three years on a sliding scale, subject to performance conditions. In total, options were granted over 197,000 (2020: 389,000) shares during the year, whilst 117,000 (2020: 348,000) were exercised from options awarded in prior years which have now vested. During the year, 100,000 (2020: 100,000) shares were issued to the Employee Benefit Trust (EBT) at par (2 pence per share). The EBT currently holds 166,000 shares (2020: 219,000) in order to satisfy future option schemes. It is anticipated that going forward, all-employee savings-related share schemes will continue to be satisfied by shares held within the EBT, to which further shares will be issued as necessary.

Final salary pension scheme

The R C Treatt final salary pension scheme (the 'scheme') has not been subject to any further accruals since 31 December 2012 and instead members of the scheme were offered membership of the UK defined contribution pension plan with effect from 1 January 2013. This means that the defined benefit scheme has been de-risked as far as it is practicable and reasonable to do so.

The last three-year actuarial review of the scheme was carried out as at 1 January 2018, the result of which was that the scheme had an actuarial surplus of £473,000 (1 January 2015: £314,000). This represented a funding level of 102%. Consequently, the Group was able to agree with the trustees that with effect from 1 October 2018 it would continue not to make any further contributions to the scheme.

It was further agreed that if the annual actuarial funding updates, before the next full actuarial review, revealed that the funding level had fallen to 95% or less of the scheme liabilities, then the Company would voluntarily resume contributions.

The next full triennial valuation is being carried out as at 1 January 2021 the results of which are expected to be agreed between the Company and trustees in early 2022. Consequently, the Company has agreed with the trustees to make contributions of £0.5m (2020: £0.5m) per annum until the full actuarial review is concluded.

The IAS 19, 'Employee Benefits' pension liability on the balance sheet, net of deferred tax, decreased in the year from £8.1m to £5.1m. The decrease in the deficit was largely the result of investment returns outperforming the assumed discount rate by £2.6m.

Financial risk management

The Group operates conservative treasury policies to avoid or minimise unnecessary risks that may otherwise be incurred.

No investments other than cash and other short-term deposits are permitted. Where appropriate a proportion of these balances are held in foreign currencies, but only as part of the Group's overall hedging activity as explained herein.

The nature of Treatt's activities is such that the Group could be affected by movements in certain exchange rates, principally between Sterling and the US Dollar, but other currencies such as the Euro can also have a material effect. This risk manifests itself in a number of ways.

Firstly, the value of the foreign currency net assets of Treatt USA (the Group's main overseas subsidiary) can fluctuate with Sterling.

Secondly, with R C Treatt (the Group's main UK subsidiary) exporting throughout the world, fluctuations in the value of Sterling can affect both the gross margin and operating costs. Sales are principally made in two currencies in addition to Sterling, with the US Dollar being the most significant.

Even if a sale is made in Sterling, its price may be set by reference to its US Dollar denominated raw material price which therefore can have an impact on the Sterling gross margin. Raw materials are also mainly purchased in US Dollars and bank accounts are operated through which US Dollar denominated sales and purchases flow. Hence it is the relative strength of Sterling against the US Dollar that is of prime importance. As well as affecting the cash value of sales, US Dollar exchange movements can also have a significant effect on the replacement cost of stocks, which affects future profitability and competitive advantage. When in a net debt position, the Group has a policy of maintaining the majority of its trading cash balances and overdrafts (excluding facilities specifically available for financing the UK capital investment programme), in US Dollars and, to a lesser extent in Euros, as this is the most cost-effective means of providing a natural hedge against movements in exchange rates.

Where it is more cost effective to do so, the Group will also enter into forward currency contracts and options. Consequently, during the year forward currency contracts have been entered into which hedge part of R C Treatt's foreign exchange risk. These contracts (and options if applicable) have been designated as formal hedge arrangements, with movements in mark-to-market valuations initially taken to equity and re-cycled to the income statement to match with the appropriately hedged currency receipts. Under the technical provisions of IFRS, if any options or forward contracts are deemed to be ineffective hedges then the related foreign exchange gain or loss is included within 'other gains and losses' in the income statement. The foreign exchange gains or losses charged to 'other gains and losses' in the year were £nil (2020: £0.05m). Currency accounts are also run for the other main currencies to which R C Treatt is exposed. This policy helps manage against short-term fluctuations in currencies.

Summary

The financial performance of the Group over the last year has been very strong and follows an unbroken run of eight years of growth in profit before tax and exceptional items.

Whilst COVID-19 continued to impact our on-trade channels and the consequential demand for some of our products, the underlying strength and resilience of our business has been encouraging. The growth in our healthier living categories of tea, health & wellness and fruit & vegetables continues apace, and with these being our higher margin categories, the Group is well positioned for further margin progression over the coming years.

As we near the end of our capital investment programme, capacity across the Group (especially specialist people resource) is being put in place to support further material organic growth over the next few years, with the capability now to add further capacity in a more modular and cost-efficient way. The full impact of these investments will begin to show through from 2023 when it is expected to result in multiple operational and manufacturing efficiencies across the Group, but particularly in the UK where the business has performed very well despite the constraints of its outdated physical environment.

Finally, as I write my 19th and last Financial Review as Chief Financial Officer of Treatt, may I say how proud I am of the business Treatt has become. I am particularly proud of the culture which exists across the business, and I believe it is this which has formed the bedrock of the success we have all achieved together, particularly over the last decade.

In the nearly twenty years that I have been at Treatt, the business has grown from having around 170 employees, to now employing more than 400, and our market capitalisation has grown from approximately £20m to £700m. This growth has been delivered by colleagues both past and present and it has been the privilege of my life to have been CFO during this time.

As we often say, however, this is just the beginning as the next chapter awaits, and as we open our brilliant new facility in the UK, go from strength to strength in the US and embark on our new journey in China, I am very excited about the years which lie ahead.

Richard Hope

Chief Financial Officer

29 November 2021

1 Unless indicated otherwise all measures are based on continuing operations.

2 Adjusted net operating margin is calculated as operating profit before exceptional items divided by revenue from continuing operations, both of which are shown in the Group income statement.

3 Adjusted ROACE is calculated by dividing operating profit before exceptional items (as shown in the Group income statement) by the average capital employed in the business, which we calculate as total equity (as shown in the Group balance sheet) plus net debt or minus net cash (as shown in the Group reconciliation of net cash flow to movement in net cash/(debt)), averaged over the opening, interim and closing amounts.

4 Adjusted EBITDA is calculated as profit before interest, tax, depreciation and amortisation from continuing operations. This is calculated as operating profit (as shown in the Group income statement) plus depreciation and amortisation from continuing operations.

5 Free cash flow is calculated as net cash from operating activities minus the purchase of property, plant, equipment and intangible assets, adjusted to exclude the UK relocation costs (both capital and exceptional items).

GROUP INCOME STATEMENT

for the year ended 30 September 2021

	Notes	2021 Before exceptional items £'000	2021 Exceptional items £'000	2021 Total £'000	2020 Before exceptional items £'000	2020 Exceptional items £'000	2020 Total £'000
CONTINUING OPERATIONS							
Revenue	6	**124,326**	**–**	**124,326**	109,016	–	109,016
Cost of sales		**(82,103)**	**–**	**(82,103)**	(77,140)	–	(77,140)
Gross profit		**42,223**	**–**	**42,223**	31,876	–	31,876
Administrative expenses		**(20,877)**	**–**	**(20,877)**	(16,784)	–	(16,784)
Exceptional items	7	**–**	**(1,302)**	**(1,302)**	–	(1,060)	(1,060)
Operating profit[1]		**21,346**	**(1,302)**	**20,044**	15,092	(1,060)	14,032
Other gains – hedge ineffectiveness		**–**	**–**	**–**	45	–	45
Finance income		**12**	**–**	**12**	67	–	67
Finance costs		**(439)**	**–**	**(439)**	(403)	–	(403)
Profit before taxation		**20,919**	**(1,302)**	**19,617**	14,801	(1,060)	13,741
Taxation	8	**(4,655)**	**186**	**(4,469)**	(3,000)	104	(2,896)
Profit for the year from continuing operations		**16,264**	**(1,116)**	**15,148**	11,801	(956)	10,845
DISCONTINUED OPERATIONS							
Loss for the year from discontinued operations		**–**	**–**	**–**	(1,080)	–	(1,080)
Profit for the year attributable to owners of the Parent Company		**16,264**	**(1,116)**	**15,148**	10,721	(956)	9,765
Earnings per share							
From continuing and discontinued operations:		**Adjusted**[2]		**Statutory**	**Adjusted**[2]		**Statutory**
Basic[2,3]	10	**27.05p**		**25.19p**	19.42p		16.32p
Diluted[2,3]	10	**26.74p**		**24.91p**	19.24p		16.16p
From continuing operations:							
Basic[2]	10	**27.05p**		**25.19p**	19.72p		18.12p
Diluted[2]	10	**26.74p**		**24.91p**	19.53p		17.95p

1 Operating profit is calculated as profit before other gains, net finance costs and taxation.

2 All adjusted earnings per share measures exclude exceptional items and the related tax effect, details of which are given in note 7.

3 Excludes the impairment of discontinued operations in the prior year.

Notes 1 to 12 form part of these financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2021

	Notes	2021 £'000	2020 £'000
Profit for the year attributable to owners of the Parent Company		15,148	9,765
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences on foreign currency net investments		(1,752)	(2,094)
Current tax on foreign currency translation differences	8	18	82
Fair value movement on cash flow hedges		(508)	(6)
Deferred tax on fair value movement	8	93	2
		(2,149)	(2,016)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain/(loss) on defined benefit pension scheme		2,952	(2,418)
Current tax on defined benefit pension scheme liability	8	–	(29)
Deferred tax on actuarial (gain)/loss	8	(135)	586
		2,817	(1,861)
Other comprehensive income/(expense) for the year		668	(3,877)
Total comprehensive income for the year attributable to owners of the Parent Company		15,816	5,888

Notes 1 to 12 form part of these financial statements.

GROUP STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 September 2021

	Share capital £'000	Share premium account £'000	Own shares in share trusts £'000	Hedging reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
1 October 2019	1,203	23,484	(15)	127	5,566	56,705	87,070
Profit for the year	–	–	–	–	–	9,765	9,765
Other comprehensive income:							
Exchange differences	–	–	–	–	(2,094)	–	(2,094)
Fair value movement on cash flow hedges	–	–	–	(6)	–	–	(6)
Actuarial loss on defined benefit pension scheme	–	–	–	–	–	(2,418)	(2,418)
Taxation relating to items above	–	–	–	2	82	557	641
Total comprehensive (expense) / income	–	–	–	(4)	(2,012)	7,904	5,888
Transactions with owners:							
Dividends	–	–	–	–	–	(3,378)	(3,378)
Share-based payments	–	–	–	–	–	875	875
Movement in own shares in share trusts	–	–	12	–	–	–	12
Gain on release of shares in share trusts	–	–	–	–	–	537	537
Issue of share capital	2	–	(2)	–	–	–	–
Taxation relating to items recognised directly in equity	–	–	–	–	–	116	116
Total transactions with owners	2	–	10	–	–	(1,850)	(1,838)
30 September 2020	**1,205**	**23,484**	**(5)**	**123**	**3,554**	**62,759**	**91,120**
Profit for the year	–	–	–	–	–	15,148	**15,148**
Other comprehensive income:							
Exchange differences	–	–	–	–	(1,752)	–	**(1,752)**
Fair value movement on cash flow hedges	–	–	–	(508)	–	–	**(508)**
Actuarial gain on defined benefit pension scheme	–	–	–	–	–	2,952	**2,952**
Taxation relating to items above	–	–	–	93	18	(135)	**(24)**
Total comprehensive (expense) / income	**–**	**–**	**–**	**(415)**	**(1,734)**	**17,965**	**15,816**
Transactions with owners:							
Dividends	–	–	–	–	–	(3,704)	**(3,704)**
Share-based payments	–	–	–	–	–	1,732	**1,732**
Movement in own shares in share trusts	–	–	4	–	–	–	**4**
Gain on release of shares in share trusts	–	–	–	–	–	629	**629**
Issue of share capital	3	–	(3)	–	–	–	**–**
Taxation relating to items recognised directly in equity	–	–	–	–	–	702	**702**
Total transactions with owners	**3**	**–**	**1**	**–**	**–**	**(641)**	**(637)**
30 September 2021	**1,208**	**23,484**	**(4)**	**(292)**	**1,820**	**80,083**	**106,299**

Notes 1 to 12 form part of these financial statements.

GROUP BALANCE SHEET

as at 30 September 2021

Registered Number: 01568937

	2021 £'000	2020 £'000
ASSETS		
Non-current assets		
Intangible assets	**2,424**	1,358
Property, plant and equipment	**61,039**	50,159
Right-of-use assets	**1,556**	1,173
Deferred tax assets	**792**	1,358
	65,811	54,048
Current assets		
Inventories	**47,263**	36,050
Trade and other receivables	**26,371**	24,167
Current tax assets	**2,701**	1,057
Derivative financial instruments	**11**	459
Cash and bank balances	**7,260**	7,739
	83,606	69,472
Total assets	**149,417**	123,520
LIABILITIES		
Current liabilities		
Borrowings	**(12,697)**	(3,203)
Provisions	**(143)**	(146)
Trade and other payables	**(17,027)**	(12,441)
Lease liabilities	**(96)**	(31)
Derivative financial instruments	**(593)**	(168)
	(30,556)	(15,989)
Net current assets	**53,050**	53,483
Non-current liabilities		
Borrowings	**(2,624)**	(3,450)
Lease liabilities	**(957)**	(628)
Post-employment benefits	**(6,806)**	(10,051)
Deferred tax liabilities	**(2,175)**	(2,282)
	(12,562)	(16,411)
Total liabilities	**(43,118)**	(32,400)
Net assets	**106,299**	91,120

GROUP BALANCE SHEET (continued)

	Notes	2021 £'000	2020 £'000
EQUITY			
Share capital	11	**1,208**	1,205
Share premium account		**23,484**	23,484
Own shares in share trusts		**(4)**	(5)
Hedging reserve		**(292)**	123
Foreign exchange reserve		**1,820**	3,554
Retained earnings		**80,083**	62,759
Total equity attributable to owners of the Parent Company		**106,299**	91,120

Notes 1 to 12 form part of these financial statements.

GROUP STATEMENT OF CASH FLOWS

for the year ended 30 September 2021

	Notes	2021 £'000	2020 £'000
Cash flow from operating activities			
Profit before taxation including discontinued activities		**19,617**	12,584
Adjusted for:			
Depreciation of property, plant and equipment		**1,705**	1,809
Amortisation of intangible assets		**93**	75
Impairment of discontinued operations		**–**	638
Loss on disposal of subsidiary		**–**	185
Net finance costs excluding pensions		**270**	191
Share-based payments		**1,733**	886
Increase/(decrease) in fair value of derivatives		**365**	(611)
Increase in post-employment benefit obligations		**157**	145
Operating cash flow before movements in working capital		**23,940**	15,902
Movements in working capital:			
Increase in inventories		**(11,851)**	(458)
Increase in receivables		**(2,680)**	(1,278)
Increase in payables		**4,483**	1,511
Cash generated from operations		**13,892**	15,677
Employer contributions to defined benefit scheme		**(450)**	(300)
Taxation paid		**(4,874)**	(2,191)
Net cash from operating activities		**8,568**	13,186
Cash flow from investing activities			
Disposal of subsidiaries		**–**	(136)
Purchase of property, plant and equipment		**(13,195)**	(23,909)
Purchase of intangible assets		**(1,178)**	(905)
Interest received		**12**	67
Net cash flow used in investing activities		**(14,361)**	(24,883)

GROUP STATEMENT OF CASH FLOWS (continued)

	Notes	2021 £'000	2020 £'000
Cash flow from financing activities			
Repayment of bank loans		**(674)**	(724)
Increase of bank loans		**5,000**	
Repayment of lease liabilities		**(10)**	-
Interest paid		**(282)**	(258)
Dividends paid	9	**(3,704)**	(3,378)
Proceeds on issue of shares	11	**3**	2
Net sale of own shares by share trusts		**630**	547
Net cash flow from/(used in) financing activities		**963**	(3,811)
Net decrease in cash and cash equivalents		**(4,830)**	(15,508)
Effect of foreign exchange rates		**(173)**	(318)
Movement in cash and cash equivalents in the year		**(5,003)**	(15,826)
Cash and cash equivalents at beginning of year		**5,250**	21,076
Cash and cash equivalents at end of year		**247**	5,250
Cash and cash equivalents comprise:			
Cash and bank balances		**7,260**	7,739
Bank borrowings		**(7,013)**	(2,489)
		247	5,250

Notes 1 to 12 form part of these financial statements.

GROUP RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET CASH/(DEBT)

for the year ended 30 September 2021

	2021 £'000	2020 £'000
Movement in cash and cash equivalents in the year	**(5,003)**	(15,826)
Repayment of bank loans	**674**	724
Increase of bank loans	**(5,000)**	–
Increase of lease liabilities	**(394)**	–
Cash outflow from changes in net (debt)/cash in the year	**(9,723)**	(15,102)
Effect of foreign exchange rates	**182**	230
Movement in net debt in the year	**(9,541)**	(14,872)
Net cash at beginning of year	**427**	15,958
Lease liability recognised as debt	**–**	(659)
Net (debt)/cash at end of year	**(9,114)**	427

Analysis of movement in net cash/(debt) during the year:

	At 1 October 2020 £'000	Cash flow £'000	Foreign exchange movements £'000	At 30 September 2021 £'000
Cash and bank balances	7,739	(306)	(173)	**7,260**
Bank borrowings	(2,489)	(4,524)	–	**(7,013)**
Cash and cash equivalents	5,250	(4,830)	(173)	**247**
Bank loans	(4,164)	(4,326)	182	**(8,308)**
Lease liabilities	(659)	(396)	2	**(1,053)**
Net cash/(debt) at end of year	427	(9,552)	11	**(9,114)**

	At 1 October 2019 £'000	Cash flow £'000	Foreign exchange movements £'000	At 30 September 2020 £'000
Cash and bank balances	37,187	(29,130)	(318)	7,739
Bank borrowings	(16,111)	13,622	–	(2,489)
Cash and cash equivalents	21,076	(15,508)	(318)	5,250
Bank loans	(5,118)	724	230	(4,164)
Lease liabilities	(660)	(1)	2	(659)
Net cash at end of year	15,298	(14,785)	(86)	427

This statement of reconciliation of net cash flow to movement in net cash/(debt) above does not form part of the primary statements. Notes 1 to 12 form part of these financial statements.

NOTES TO THE FULL YEAR RESULTS

1. BASIS OF PREPARATION

In accordance with Section 435 of the Companies Act 2006, the Group confirms that the financial information for the years ended 30 September 2021 and 2020 are derived from the Group's audited financial statements and that these are not statutory accounts and, as such, do not contain all information required to be disclosed in the financial statements prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The statutory accounts for the year ended 30 September 2020 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 30 September 2021 have been audited and approved but have not yet been filed.

The Group's audited financial statements for the year ended 30 September 2021 received an unqualified audit opinion and the auditor's report contained no statement under section 498(2) or 498(3) of the Companies Act 2006.

The financial information contained within this full year results statement was approved and authorised for issue by the Board on 30 November 2021.

2. ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the accounting policies set out in the audited Group financial statements as at, and for the year ended 30 September 2020.

There were no new standards and amendments to standards which are mandatory and relevant to the Group for the first time for the financial year ended 30 September 2021 which had a material effect on this full year results announcement.

3. ACCOUNTING ESTIMATES

The preparation of this statement requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. In preparing this preliminary statement, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited Group financial statements as at, and for the year ended 30 September 2020 except for the items disclosed below which were no longer considered to be critical sources of estimation uncertainty on the basis that the estimations did not present a significant risk of causing a material adjustment to assets and liabilities:

- Useful economic life and residual values – The Group does not use residual value estimates on fixed assets and its useful economic life estimates of newly capitalised and existing assets are applied consistently. The actual useful lives of assets are not expected to materially differ from expected.
- Provisions for onerous contracts – The Group has determined that the value of this provision in recent years has decreased significantly and hence the range of possible outcomes resulting from the estimations of management are now not considered material.
- Taxation – Although some tax treatments in the Group are judgmental, in particular the allowability of certain expenses classed as exceptional and related to the construction of the new UK headquarters, it is not now believed that any of these judgments could give rise to a material adjustment.
- Deferred tax assets – The Group has determined that the recoverability and timings of the realisation of deferred tax assets no longer give rise to estimates that could be considered material.

4. GOING CONCERN

The Directors have concluded that it is reasonable to adopt the going concern basis in preparing these financial statements based on the expectation that the Group have adequate resources to continue as a going concern for a period of twelve months from the date of these financial statements.

The process adopted to assess the viability of the Group involved the modelling of a series of theoretical 'stress test' scenarios linked to the Group’s principal risks, keeping in mind the ongoing domestic and global uncertainties caused by the COVID-19 pandemic. In assessing the Group’s prospects and resilience, the Directors have done so with reference to its current financial position and prospects, its credit facilities, its recent and historical financial performance, and forecasts.

The global pandemic still creates uncertainties in both domestic and international markets, including the well documented potential supply side shortages in materials and labour, and so estimating the speed of economic recovery makes forecasting and scenario planning challenging. Considering this, the Directors have modelled scenarios representing varying degrees of severity. All scenarios assume that the chief factor to consider is lost sales volume potentially arising from the aforementioned uncertainties, which would adversely impact cash generation and profitability, and that this loss of sales volume will be felt over the first twenty-four months of the viability period, before the Group returns to growth at a rate commensurate with un-stressed forecasts. Using these assumptions, headroom and covenant compliance have been assessed throughout the going concern (twelve-month) and viability (five-year) periods. These scenarios have then been stress-tested further by overlaying the adverse impact of a decline in profit margins.

An initial set of scenarios were tested that were based around the Board’s approved five-year budget, but with adjustments made for adverse movements in exchange rates, margins and working capital and under these assumptions there were no covenant breaches or breaches of headroom on existing facilities.

A plausible worst-case scenario was modelled whereby we factored in a decline in expected sales volumes in FY2022, such that revenue in FY2022 and FY2023 was equal to that of FY2021, before the Group returned to growth at budgeted levels from FY2024 onwards. Under this plausible scenario, no headroom or covenant breaches were experienced over the viability period and the Group was assumed to continue its capital investment programme, dividend growth policy and its investment in people within the business. Under this stress-test, the Directors consider that the business would remain a going concern and viable under these circumstances over the period.

Under another test, a particularly severe scenario was determined in which banking covenant requirements would be breached during the next twenty-four months, the so-called ‘reverse stress testing scenario’. In this test, it was determined that a decline in sales of greater than 38.0% per annum, or 31.0% per annum alongside a 5% decline in margins compared to our internal projections, over the first 24 months of the viability period, with no mitigating measures put in place, would result in a breach of financial covenants.

Based on the Group’s experience over the eighteen months since the pandemic impacted its main markets, the possibility of these severe scenarios materialising is considered extremely remote. In addition, it is implausible that the Group would not act swiftly and decisively to activate mitigations such as operating cost savings, reduction in capital expenditure, and delaying or cancelling future dividend payments to avoid a breach of its banking covenants.

Having considered the current cash and liquidity position of the Group, the range of scenarios discussed above and the Group’s proven ability to adapt to and manage adversity, the Directors have not identified any material uncertainties which would affect the Group’s ability to continue as a going concern for a period of twelve months from the date of this announcement. Accordingly, this statement has been prepared on the going concern basis.

5. RISKS AND UNCERTAINTIES

The operation of a public company involves a series of risks and uncertainties across a range of strategic, commercial, operational and financial areas. The principal risks and uncertainties, notwithstanding climate change, that could have a material impact on the Group's performance over the next twelve months (for example, causing actual results to differ materially from expected results or from those experienced previously) are the same in all material respects as those detailed on pages 57 to 63 of the audited 2020 Annual Report and Financial Statements.

COVID-19, which was introduced as a new principal risk last year, has fortunately not had a profound impact on the performance of our business but we are continuing to monitor potential disruption as the world continues to deal with the virus, and we have recognised the potential risk of other pandemics in the future.

During the year, climate change was identified as a principal risk factor given the increasing global attention as the world seeks to reduce longer-term greenhouse gas emissions. Having a significant portfolio of natural products, climate change is likely to impact agriculture and the sourcing of natural raw materials in the longer-term, although there are broader risks associated with climate change than just raw material sourcing. The sourcing of natural products has been removed from the principal risks as it is incorporated in climate change.

6. SEGMENTAL INFORMATION

Group

Business segments

IFRS 8 requires operating segments to be identified on the basis of internal financial information reported to the Chief Operating Decision Maker ('CODM'). The Group's CODM has been identified as the Board of Directors who are primarily responsible for the allocation of resources to the segments and for assessing their performance. The disclosure in the Group accounts of segmental information is consistent with the information used by the CODM in order to assess profit performance from the Group's operations.

The Group operates one global business segment engaging in the manufacture and supply of innovative ingredient solutions for the beverage, flavour, fragrance and consumer product industries with manufacturing sites in the UK and the US. Many of the Group's activities, including sales, manufacturing, technical, IT and finance, are managed globally on a Group basis.

Geographical segments

The following table provides an analysis of the Group's revenue by geographical market:

Revenue by destination		2021 Total £'000	2020 £'000 Continuing	2020 £'000 Discontinued	2020 £'000 Total
United Kingdom		**9,502**	7,434	649	8,083
Rest of Europe	– Germany	**5,970**	4,383	–	4,383
	– Ireland	**7,313**	6,782	–	6,782
	– Other	**13,931**	11,914	–	11,914
The Americas	– USA	**53,356**	43,701	–	43,701
	– Other	**9,595**	8,457	–	8,457
Rest of the World	– China	**7,440**	6,915	–	6,915
	– Other	**17,219**	19,430	89	19,519
		124,326	109,016	738	109,754

All Group revenue is in respect of the sale of goods, other than property rental income of £18,000 (2020: £18,000). No country included within 'Other' contributes more than 5% of the Group's total revenue. The largest customer represented 8.4% of Group revenue (2020: 10.1%).

6. SEGMENTAL INFORMATION (continued)

Non-current assets by geographical location, excluding deferred tax assets, were as follows:

Continuing operations	2021 £'000	2020 £'000
United Kingdom	**41,622**	30,357
United States	**23,397**	22,333
	65,019	52,690

7. EXCEPTIONAL ITEMS

The exceptional items referred to in the income statement can be categorised as follows:

	2021 £'000	2020 £'000
UK relocation expenses	**1,302**	1,060
Less: tax effect of exceptional items	**(186)**	(104)
	1,116	956

The exceptional items all relate to non-recurring items and are now presented in the Group Income statement as a separate column in order to aid the understanding of users of the financial statements. Relocation expenses relate to one-off costs incurred in connection with the relocation of the Group's entire UK operations to Skyliner Way, which officially opened on 1 September 2021, and which in management's view do not fall to be capitalised.

Although a manufacturing presence continues to remain there, from 1 September 2021, any expenses associated with the running of the Northern Way office spaces or expenses related to unutilised manufacturing space at Skyliner Way were also classified as exceptional costs.

8. TAXATION

Analysis of tax charge in income statement:

	2021 £'000 Total	2020 £'000 Continuing	2020 £'000 Discontinued	2020 £'000 Total
Current tax:				
UK corporation tax on profits for the year	**157**	249	–	249
Adjustments to UK tax in respect of previous periods	**(131)**	(251)	–	(251)
Overseas corporation tax on profits for the year	**3,882**	1,957	–	1,957
Adjustments to overseas tax in respect of previous periods	**(534)**	(368)	–	(368)
Total current tax	**3,374**	1,587	–	1,587
Deferred tax:				
Origination and reversal of temporary differences	**945**	1,120	(47)	1,073
Effect of increasing/(decreasing) tax rate on opening deferred tax	**183**	(43)	–	(43)
Adjustments in respect of previous periods	**(33)**	232	(30)	202
Total deferred tax	**1,095**	1,309	(77)	1,232
Tax on profit on ordinary activities	**4,469**	2,896	(77)	2,819

8. TAXATION (continued)

Analysis of tax charge/(credit) in other comprehensive income:

	2021 £'000	2020 £'000
Current tax:		
Foreign currency translation differences	**(18)**	(82)
Actuarial loss on defined benefit pension scheme	**–**	29
Total current tax	**(18)**	(53)
Deferred tax:		
Cash flow hedges	**(93)**	(2)
Defined benefit pension scheme	**135**	(586)
Total deferred tax	**42**	(588)
Total tax charge/(credit) recognised in other comprehensive income	**24**	(641)

Analysis of tax credit in equity:

	2021 £'000	2020 £'000
Current tax:		
Share-based payments	**(116)**	(88)
Deferred tax:		
Share-based payments	**(586)**	(28)
Total tax credit recognised in equity	**(702)**	(116)

8. TAXATION (continued)

Factors affecting tax charge for the year:

The tax assessed for the year is different from that calculated at the standard rate of corporation tax in the UK of 19.0% (2020: 19.0%). The differences are explained below:

	2021 £'000 Total	2020 £'000 Continuing	2020 £'000 Discontinued	2020 £'000 Total
Profit before tax multiplied by standard rate of UK corporation tax at 19% (2020: 19%)	**3,727**	2,611	(220)	2,391
Effects of:				
Expenses not deductible in determining taxable profit and other items	**660**	421	47	468
Research and development tax credits	**(52)**	(39)	–	(39)
Difference in tax rates on overseas earnings	**479**	332	4	336
Adjustments to tax charge in respect of prior years	**(699)**	(386)	(30)	(416)
Effect of increased rate on opening deferred tax	**354**	(43)	–	(43)
Impairment of discontinued operations not tax allowable	**–**	–	122	122
Total tax charge for the year	**4,469**	2,896	(77)	2,819

The Group's effective UK corporation tax rate for the year was 22.8% (2020: 22.5%). The effective tax rate of US-based earnings is 21.9% (2020: 21.7%). The adjustments in respect of prior years relate to the finalisation of previous year's tax computations.

9. DIVIDENDS

Equity dividends on ordinary shares:

	Dividend per share for years ended 30 September				
	2021 Pence	2020 Pence	2019 Pence	2021 £'000	2020 £'000
Interim dividend	**2.00p[3]**	1.84p[2]	1.70p[1]	**1,203**	1,103
Final dividend	**5.50p[4]**	4.16p[3]	3.80p[2]	**2,501**	2,275
	7.50p	6.00p	5.50p	**3,704**	3,378

1 Accounted for in the year ended 30 September 2019.

2 Accounted for in the year ended 30 September 2020.

3 Accounted for in the year ended 30 September 2021.

4 The proposed final dividend for the year ended 30 September 2021 of 5.50p pence will be voted on at the Annual General Meeting on 28 January 2022 and will therefore be accounted for in the financial statements for the year ending 30 September 2022.

10. EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is based on the weighted average number of ordinary shares in issue and ranking for dividend during the year. The weighted average number of shares excludes shares held by the Treatt Employee Benefit Trust, together with shares held by the SIP Trust, which do not rank for dividend.

	2021	2020
Profit after taxation attributable to owners of the Parent Company (£'000)	**15,148**	9,765
Loss from discontinued operations (£'000)	**–**	1,080
Profit from continuing operations attributable to owners of the Parent Company (£'000)	**15,148**	10,845
Weighted average number of ordinary shares in issue (No: '000)	**60,125**	59,841
Basic earnings per share – continuing and discontinued (pence)	**25.19p**	16.32p
Basic earnings per share – continuing (pence)	**25.19p**	18.12p

Diluted earnings per share

Diluted earnings per share is based on the weighted average number of ordinary shares in issue and ranking for dividend during the year, adjusted for the effect of all dilutive potential ordinary shares.

The number of shares used to calculate earnings per share ('EPS') have been derived as follows:

	2021 No ('000)	2020 No ('000)
Weighted average number of shares	**60,310**	60,188
Weighted average number of shares held in the EBT and SIP	**(185)**	(347)
Weighted average number of shares used for calculating basic EPS	**60,125**	59,841
Executive share option schemes	**486**	499
All-employee share options	**210**	72
Weighted average number of shares used for calculating diluted EPS	**60,821**	60,412
Diluted earnings per share – continuing and discontinued (pence)	**24.91p**	16.16p
Diluted earnings per share – continuing (pence)	**24.91p**	17.95p

10. EARNINGS PER SHARE (continued)

Adjusted earnings per share

Adjusted earnings per share measures are calculated based on profits for the year attributable to owners of the Parent Company before exceptional items as follows:

	2021 £'000	2020 £'000
Profit after taxation attributable to owners of the Parent Company	**15,148**	9,765
Adjusted for:		
Exceptional items (see note 7)	**1,302**	1,060
Taxation thereon	**(186)**	(104)
Impairment of discontinued operations	**–**	638
Loss on disposal of subsidiary including disposal costs	**–**	263
Earnings for calculating adjusted earnings per share:		
From continuing and discontinued operations	**16,264**	11,622
Less: Loss from discontinued operations	**–**	179
Adjusted earnings from continuing operations	**16,264**	11,801
Adjusted basic earnings per share (pence)		
– Continuing and discontinued operations	**27.05p**	19.42p
– Continuing operations	**27.05p**	19.72p
Adjusted diluted earnings per share (pence)		
– Continuing and discontinued operations	**26.74p**	19.24p
– Continuing operations	**26.74p**	19.53p

11. SHARE CAPITAL

Called up, allotted and fully paid	2021 £'000	2021 Number	2020 £'000	2020 Number
At start of year	**1,205**	**60,270,670**	1,203	60,170,670
Issued in year	**3**	**141,263**	2	100,000
At end of year	**1,208**	**60,411,933**	1,205	60,270,670

The Parent Company has one class of ordinary shares with a nominal value of 2p each, which carry no right to fixed income.

During the year the Parent Company issued 100,000 (2020: 100,000) ordinary shares to the Employee Benefit Trust and 41,263 (2020: nil) shares to the SIP Trust for the purpose of meeting obligations under employee share schemes.

12. ALTERNATIVE PERFORMANCE MEASURES

The Group has defined certain measures that it uses to understand and manage performance. These non-GAAP measures are not defined under IFRS and are not intended to be a substitute for any IFRS measures of performance. They have been included to provide stakeholders with additional helpful information on the performance of the business.