TREATT

**QUESTIONS RAISED BY SHAREHOLDERS AHEAD OF THE 2021 ANNUAL GENERAL MEETING ON 29 JANUARY 2021**

**Question 1**

Why is the Investment Return on Pension Fund assets so abysmal? Fund assets are over £20M, but the cumulative investment return over the past three years is negative £55K. In 2017 it was positive £1,026K and in 2016 positive £1,639K. There is not a lot we can do about the liabilities, as the underlying assumptions change, but with just under half the Fund in Equities I would have expected much better returns, particularly given the strength of the USA market.

**Answer 1**

The £55k investment return is the investment return <u>net</u> of the IAS19 "interest on scheme assets" item which forms part of the pension accounting disclosures. The implied actual return on the assets over each accounting period in question is obtained from adding these two elements together. We have summarised this below for the last three accounting periods for the R C Treatt & Co Limited Pension & Assurance Scheme:

|  | Year ended 30 September 2018 | Year ended 30 September 2019 | Year ended 30 September 2020 |
|---|---|---|---|
| IAS19 (loss)/gain on scheme assets in excess of interest | (£804,000) | £500,000 | (£249,000) |
| IAS19 Interest on scheme assets | £412,000 | £609,000 | £590,000 |
| **IAS19 implied actual return on assets** | **(£392,000)** | **£1,109,000** | **£341,000** |

In particular, investment performance for the RC Treatt & Co Limited Pension & Assurance Scheme has been positive over the last 3 years. The 3 year return on the Scheme Assets to 31 December 2020 was c12.2% over the period (c3.9%pa when annualised). Additionally, the 3 years to 31 December 2019 showed net returns on Scheme assets of: +£2,804k (2019), -£1,201k (2018) and +£1,801k (2017).

Some general points we noted in terms of the last 3 years' Scheme asset returns to 31 December 2020 were:

- 2018 was a difficult year for investors with negative returns being experienced by most assets. The US trade war with China, slowdown in global economic growth and concerns over the impact of Brexit were contributing factors.

- The R C Treatt Scheme's equity holding with Legal & General is 50% in UK equities and 50% in overseas equities (only c17.5% of the equity holding in US equities). In 2020, UK markets lagged behind global markets in terms of return. So the bias to UK equity has contributed to the equity performance being behind that of global equity markets in 2020 (as has the limited exposure to US equity which makes up a large proportion of global market cap).
- The Scheme's investment in the Barings Dynamic Asset Allocation Fund had a difficult start to 2020. This will have affected the overall Scheme investment return during 2020.

## Question 2

Has there been any post Brexit delays in the throughput of raw materials and finished product to and from Bury? One reads in the press of problems particularly with groupage shipments.

## Answer 2

We have been seeing delays, which we expect to continue through Q1 of the calendar year. In the second week of January many carriers temporarily suspended their operations to and from the EU because of border delays and warehouse constraints caused by poorly classified goods, missing documentation, COVID-19 testing and staff shortages in ports due to COVID-19. The knock on effect is that there are insufficient vehicles in the UK to perform UK to EU movements. This has started to ease gradually with improving vehicle availability. However, there remain border delays, and we are seeing increased transit time when we are moving goods. Additionally, some hauliers have started to impose a surcharge on all European markets to and from the UK due to additional costs they are incurring.

It is important to note that the delays are a haulage industry issue rather than something within Treatt's control. Whilst the situation should improve there will remain a customs border between the UK and the EU and therefore transit times are unlikely to ever return to pre Brexit levels. We are maintaining close contact with our European customers during this period.

Whilst we are seeing these issues, they are not material.

## Question 3

Regarding the ROCE target that appears on page 11 in the November 2020 presentation to major investors:

1. Can you please clarify the metrics and numbers used for R and CE in your ROCE calculation, e.g. using your reported 16.7% as an example?
2. What commentary do you give investors when this page / metric is presented and discussed in meetings?
3. Treatt's CE is substantial and must be expected to grow, given the capex projects and outlook; what is a ballpark estimate/range for CE in e.g. 2023?
4. Does the strong 22 January trading update have any impact on the likelihood of the top end target (25%) eventually being reached (or exceeded)?

## Answer 3

1. The Return on Capital Employed for 2020 was calculated as follows:

   A: Return = Operating Profit (£15,092,000) plus Other gains and losses (£45,000) = £15,137,000

B: Capital employed = Total equity/Net assets £91,120,000 plus net debt (or minus net cash (-£427,000) = £90,693,000

ROCE = A/B = £15,137,000/£90,693,000 = 16.7%

2. This was a new slide which we had not presented previously. We are now more than 75% of the way through our capital investment programme and, once complete, these investments provide us with significant additional capacity which we expect will generate good returns for the business. We therefore felt it was important to signpost our future ambitions and targets in terms of the returns we hope to generate.

3. On our website, you will find a link to Edison's latest research note on Treatt. **Please note that Treatt does not endorse or express any opinion on the reports Edison publishes.**

   Using the calculation in question 1, Edison have made their own estimates for operating profit and net assets for 2023 as follows:

   Operating profit - £22,345 Capital employed - £110,046

   This would imply an ROCE of 20.3%

4. The trading update reported on 22 January referred to the positive momentum in the business. It did not, however, make reference to future expectations for ROCE.