TREATT

FULL YEAR RESULTS

for the year ended 30 September 2022

Contents

TREATT PLC
FULL YEAR RESULTS
YEAR ENDED 30 SEPTEMBER 2022

Strong platform for growth

Treatt, the manufacturer and supplier of a diverse and sustainable portfolio of natural extracts and ingredients for the beverage, flavour and fragrance industries, announces today its results for the year ended 30 September 2022.

FINANCIAL HIGHLIGHTS[1]:

	Financial year ended 30 September 2022	**Financial year ended 30 September 2021**	**Change**
Revenue	**£140.2m**	£124.3m	+12.8%
Gross profit	**£39.1m**	£42.2m	-7.4%
Gross profit margin	**27.9%**	34.0%	-610 bps
Profit before tax and exceptional items	**£15.3m**	£20.9m	-27.1%
Profit before tax	**£16.2m**	£19.6m	-17.5%
Adjusted basic earnings per share[2]	**19.80p**	27.05p	-26.8%
Basic earnings per share	**22.04p**	25.19p	-12.5%
Final dividend per share	**5.35p**	5.50p	-2.7%
Total dividend per share	**7.85p**	7.50p	+4.7%
Net debt	**£22.4m**	£9.1m	+146.2%
Net debt to adjusted EBITDA[3] ratio	**1.21x**	0.39x	-208.3%
Net debt to EBITDA ratio	**1.16x**	0.42x	-177.1%
Adjusted return on average capital employed4	**11.6%**	20.9%	-930 bps
Return on average capital employed	**11.9%**	19.2%	-730 bps

[1] All measures based on continuing operations.
[2] Adjusted earnings per share measures exclude exceptional items and the related tax effect, details of which are given in note 7.
[3] EBITDA is calculated as operating profit plus depreciation and amortisation. The adjusted measure excludes exceptional items
[4] 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 debt), averaged over the opening, interim and closing amounts. The adjusted measure excludes exceptional items.

HIGHLIGHTS[1]:

- Strong revenue growth of 13% (9% in constant currency) with sales growth across all product categories, except hard tea
- Coffee now reported as a separate category with sales of £1.1m and encouraging pipeline
- Profit before tax and exceptional items of £15.3m in line with revised Board expectations
- Progressive dividend policy maintained, with proposed total dividend for the year of 7.85p per share, an increase of 4.7%
- Year-end net debt of £22.4m (1.21x closing net debt to adjusted EBITDA[3]) reflects capital investment in the UK relocation and investment in prudent inventory levels to mitigate supply chain risks (statutory measure: 1.16x closing net debt to EBITDA)
- Vast majority of UK production has transitioned to the new UK facility and UK production capacity will at least double once process is fully completed (anticipated in FY23)
- Improved processes around sales pricing and cost recovery, with new FX management systems implemented

Commenting on the results, CEO Daemmon Reeve said:

"It's been a mixed year for the business, with a very encouraging sales performance across all product categories, except hard tea, and significant progress building our infrastructure for future growth. We announced some short-term profitability headwinds in August, particularly in hard tea, but have finished the year in line with revised guidance. We have learnt from the disappointments and my belief in our growth potential and determination to succeed is undimmed, driven by the teamwork and commitment to our customers that lies at the heart of Treatt's culture.

We remain as excited as ever about the pipeline of opportunities for Treatt, with the business now well-invested to fulfil our medium term ambitions. Coffee is an emerging category in its own right, for which we now have a dedicated team in place and high hopes for growth.

In the face of macro challenges, there is a wave of positive change across the business. On the back of a resilient market in natural and healthy products, which plays to our expertise, we are looking forward to the future with optimism."

Analyst and investor conference call
A conference call for analysts and investors will be held at 10.00 a.m. today, 29 November 2022. For dial-in details, please contact MHP at treatt@mhpc.com.

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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 approximately 400 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

A year of progress

As I step down as Chair after 11 years, I believe the Company has made significant progress this year, notwithstanding some disappointment around profitability. We have completed a period of substantial transition and consolidation, which enables us to expand our production capacity, launch new products, attract new customers and develop new markets and territories for years to come.

Many years of planning have come to fruition this year as we transferred operations to our new UK premises, grew our revenues, enhanced our Board and finalised our new global executive leadership team. The new UK site offers many benefits, from increased capacity and efficiency to more advanced systems, technology and sustainability benefits. Moving operations into Skyliner Way was a challenge, but our teams rallied to keep our customers on board and came together to get goods out of the door. The strength of our culture was evident as we overcame the teething issues and ensured we delivered on our substantial order book, with a record month in August.

To make the most of our investments in both the UK and US sites, we knew that we needed to enhance and expand our people infrastructure. We needed to build a global leadership team of senior people to work with Daemmon and I am delighted with the talent we have brought in.

These infrastructure updates and changes to the team are undoubtedly vital to our ability to deliver on the exciting market opportunities we have long perceived and are the reason I have remained as Chair to see them through.

Performance

In many ways, the performance of the Group has been strong. We have seen good growth across all categories, aside from hard tea. That such growth has not been fully reflected in the bottom line is frustrating, and caused by a number of factors including the margin impact in hard tea, the impact of foreign exchange, input cost increases and lockdowns in Shanghai – the home of our China facility. I am confident that learnings are being taken forward in all of these areas.

The new executive leadership team is firmly focused on optimising our increased capacity and sales through to the bottom line over coming years. With sales volumes going up, strong existing customer relationships, new customer wins, expanded market presences and vibrant new categories like coffee, there are, in my view, many reasons to be optimistic about Treatt's performance and potential.

Board Changes

We have enhanced the Board over the year, with the addition of Christine Sisler and Philip O'Connor.

Christine brings direct beverage experience from one of our key clients. She understands the business and our markets, particularly in the US, and brings key skills in development and commercialisation amongst many others.

Philip brings substantial experience, having been a CEO and Finance Director within the food industry. He founded two successful start-up businesses and has expertise in high growth businesses and in M&A.

I am also delighted that Vijay Thakrar will be my successor. Vijay has developed an extensive knowledge of Treatt which will complement his significant experience from a broad business and non-executive career covering a number of large international organisations.

Dividend

The Directors are pleased to propose a final dividend of 5.35p per share (2021: 5.50p), which represents an increase in the total dividend for the year of 4.7% to 7.85p (2021: 7.50p). If approved by shareholders at the Annual General Meeting, the final dividend will be payable on 16 March 2023 to all shareholders on the register at the close of business on 3 February 2023.

Outlook

The foundations of the Group are stronger than ever. Following the significant work completed over the last couple of years, Treatt is well placed to maximise the opportunities presented by its new premises in Skyliner Way, and take the business to the next level in terms of customer attraction, innovation and growth across our markets.

On a personal level, to see the business grow and develop into what it is today over the 11 years I have spent with Treatt has been a career highlight. The difference in premises, infrastructure, capacity, people, culture and strategy from then to now is extraordinary. Treatt has made huge leaps in so many aspects of what we do and is now perfectly poised for bigger things. I am enormously proud of what the business has accomplished across the last decade and wish Daemmon, Vijay, everyone at Treatt and all my fellow shareholders good fortune for the future.

Tim Jones

Chairman

29 November 2022

Chief Executive's review

It's been a mixed year for the business, with very encouraging performance across many categories and significant infrastructure progress, dampened by short-term profitability headwinds.

There have been many positives this year, including strong top line growth and the successful transition of almost all UK operations to our new site at Skyliner Way. However, we have also faced a number of challenges that have affected our profitability; we are, however, determined to take learnings from these challenges and ensure we have greater resilience moving forwards.

Fundamentally, we remain optimistic and encouraged by the performance of the Group, our enhanced capabilities and the significant opportunities across our markets. We feel that the business is strategically sound and we're determined to reinvigorate the growth path we've been on for the past nine years.

Performance

As reported in August 2022, we saw a disappointing performance from our higher margin tea category this year. In the first half of 2021, we were involved in a large and very profitable hard tea product launch that did not repeat to anywhere near the level we had anticipated. It was a niche product and an unusually sized win for the category, meaning its subsequent lack of success had a disproportionate effect on our margins. The vast majority of our tea business remains stable and reliable, reflecting the diversified nature of our wider portfolio, which sells a multitude of ingredients that go into a wide variety of brands, meaning we're typically not highly exposed to such volatility in margins.

We have also reported on the adverse impact of increasing volatility in FX movements during the second half of the year. In response to this situation, we have taken measures to improve controls and ensure this is not an issue we face again. For more information on measures taken around FX, see the Financial review below.

Finally, our China subsidiary has been heavily impacted by extended Covid-19 related restrictions which have led to the loss of some higher margin revenue in the year. Though it's unfortunate to still be faced with such restrictions, we have built high quality relationships with a number of significantly sized customers in China and remain very optimistic about the potential of the region.

These challenges have been in stark contrast to much of our performance. We've seen a strong top line performance across the portfolio, with double digit growth in almost every category apart from hard tea, with a particularly good performance across citrus, synthetic aroma and health & wellness. Some of that growth has come from new product and customer wins across multiple categories and geographies, and some of it has come from growing existing customers whilst passing on selected input cost increases. Coffee is a particularly exciting category for us at the moment, and one we have high hopes for with our new team now in place.

Skyliner Way

Undoubtedly, the highlight of the year is that manufacturing is up and running at Skyliner Way. As a result, within several months of the move, we achieved record levels of sales from the UK in August 2022. It is very gratifying that we are already seeing the potential for efficiencies from the site and this speaks well to our ambition for the future.

On top of the obvious short and long-term efficiency and capacity benefits of the new site, it's also a game changer for us when it comes to customer attraction. We've been able to onboard a number of significant target customers already and are confident we are changing the way the market sees the business. Initial customer feedback is positive on the new modern site, facilitating greater collaboration on developing flavours and fragrance solutions for end consumers.

We're proud of how everyone at Treatt came together to make the transition a success. During a time of great change for the business, including the biggest move for the business in 50 years, I'm hugely grateful to the team for their flexibility and dedication. It's been a real testament to the strength of our culture of collaboration and agility.

Strategy

As presented at our Capital Markets Day in May 2022, we have finessed how we communicate our strategy though, as before, we remain very much focused on delivering long-term sustainable growth.

People

Following substantial investment in our people in the past two years, we believe we now have the right team in place to seize the multiple growth opportunities available. We have created a new executive leadership team to help us reach the next level, and I'm very pleased with the strength of the individuals we have brought in. Our new CFO Ryan Govender has also brought a lot of relevant experience to the role and has very quickly bedded into the business.

Board changes are often bittersweet as we lose trusted voices but gain fresh thinking and challenge. As Tim Jones retires, it feels like another sign that we're at the end of a chapter for Treatt. He has been a great mentor to me for the last 11 years and he will be greatly missed by all as an enthusiastic and passionate supporter of the business. I would like to personally thank him for the immense role he has played in Treatt's development over the past decade. We have an excellent replacement for our next chapter in Vijay Thakrar, who has already built a great understanding of the business and will bring new entrepreneurial thinking to the role of Chair.

Sustainability

We are seeing significant benefits of having appointed a dedicated in-house Global Sustainability Manager who is driving and embedding our sustainability strategy throughout our business and collaborating closely with our customers.

During 2022, we have conducted energy audits at our facilities in the US and the UK and have committed investment to ensure we optimise energy efficiency and reduce our emissions; we have collected our Scope 3 emissions for the first time in order to gain better visibility of our total carbon footprint and we have considered the possible physical and transitional impacts of climate change on our business. We have also launched our responsible sourcing policy and are working with our suppliers to ensure that our supply chain is resilient. I am proud of how the business is adapting in support of both people and planet.

Outlook

Looking ahead, we are greatly encouraged by the growth opportunities from new and existing customers, particularly in the US and China, and our ongoing progress in coffee.

The key challenges for the year will be macroeconomic driven. We are very cognisant that there are pressures from multiple angles, whether it's interest rates, inflation or the cost of living crisis. However, as demonstrated most recently during the pandemic, beverages are seen as affordable luxuries and provide great resilience in difficult economic times, and the market trends towards healthier, natural products continue to support our strategy.

Having taken learnings from the challenges which impacted the business over the past 12 months, we feel we can look forward with optimism. We know our markets well and the premium quality and authenticity we bring to the table are still in high demand by consumers. As such, I'm confident we have the right people and infrastructure in place to reach more customers and consumers than ever before.

Daemmon Reeve

Chief Executive Officer

29 November 2022

Financial review

Strong sales growth, with margin decline impacting profitability

Overview

The Group performance reflects a difficult set of financial results for the year ended 30 September 2022. Revenue grew 12.8% to £140.2m (9.1% in constant currency) with growth across all categories except tea, however gross margins declined to 27.9% mainly due to lower hard tea sales and FX losses. As a result, profit before tax and exceptional items reduced by 27.1% to £15.3m.

The Group has reviewed how it can better limit FX exposure in light of increasing volatility. This resulted in the correction of previously over-hedged FX contracts during the financial year and the implementation of new FX management systems which will provide greater controls for the Group in this area.

The year saw continued investment of £12.8m in capital projects, including £5.0m on the new UK facility with the majority of production now transitioned and operational from the new site. Due to the ongoing high levels of investment in capital projects and strategic inventory holding, we ended the year with net debt of £22.4m (2021: £9.1m) and net debt to adjusted EBITDA[1] of 1.21x which is well within our target leverage range (statutory measure: 1.16x net debt to EBITDA).

Income statement

Revenue

Revenue for the year increased by 12.8% to £140.2m (2021: £124.3m). In constant currency terms, revenue increased by 9.1% as the Pound Sterling was weaker against the US Dollar in 2022, as compared to 2021.

Revenue growth was broad-based, across all of our categories, with the exception of tea where sales declined on the back of an exceptional 2021 performance and lower than expected demand in hard tea (ready-to-drink canned cocktail market) in the US, which also materially impacted margins for the year. Our overall revenue performance was driven in particular by our citrus, synthetic aroma and health & wellness categories, reporting combined growth of 19.8%.

Citrus, which contributed 47.6% of Group revenue (2021: 43.6%), grew by 23.2%, while margins remained broadly in line. During the year we implemented selected price increases to mostly offset higher commodity prices, with our expertise in citrus procurement and our robust supply chain ensuring we mitigated our exposure as much as possible to the rising market.

Whilst approximately 80.0% of the Group's revenue now comes from our natural and clean-label product ranges, our synthetic aroma sales increased by 13.6% (2021: 8.9%) with growth in products used to flavour alternative proteins and savoury snack foods.

Product category % share of sales – 2022 v 2021:

% of revenue	Citrus	Tea	Health & wellness	Fruit & vegetables	Herbs, spices & florals	Synthetic aroma	Coffee
2022	48%	6%	8%	10%	9%	18%	1%
2021	44%	11%	8%	10%	9%	18%	-

Health & wellness, including sugar reduction, had another strong year, growing by 15.3% (2021: 28.7%) with sustained consumer demand for 'better for you' products driving sales in our specialist solutions, such as the reduction of calorific content in beverages. This reflects the important IP, know-how and technical expertise which Treatt possesses in this field.

Despite a very strong prior year, fruit & vegetables continued to grow by 8.3% (2021: 59.6%) with mango, pineapple, strawberry and kiwi natural extracts leading contributors to growth.

The Group's traditional range of herbs, spices & florals, many of which are traded, grew by 10.4% (2021: 0.5%) in large part because of improved on-trade consumption post-pandemic.

Coffee sales of £1.1m are reported separately for the first time in our full year results as we continued our investment in coffee innovation resources in the fiscal year.

Geographical % share of sales – 2022 v 2021:

% of revenue	UK	Germany	Ireland	Rest of Europe	USA	Rest of the Americas	China	Rest of the world
2022	7%	6%	8%	10%	38%	9%	6%	16%
2021	8%	5%	6%	11%	43%	8%	6%	13%

Geographical analysis of revenues shows that the UK, mainland Europe and The Americas maintained performance despite a number of challenges. The well-documented global supply chain issues and site relocation created logistical challenges which our very experienced supply chain teams across the Group did a remarkable job in overcoming in order to maintain customer service levels.

In the UK, revenues performed well in both citrus and coffee, with revenue ending the year up by 2.9% at £9.8m.

Sales to mainland Europe, which represented 24.3% of Group revenue (2021: 21.9%), performed well reporting a 25.0% increase in revenue to £34.0m (2021: £27.2m) driven by particularly strong performance from both citrus and synthetic aroma.

Revenue in the Group's largest market, the US, grew by a more modest 0.7% to £53.7m (2021: £53.4m) representing 38.3% of the Group total (2021: 42.9%). Within the US, the Group benefitted from particularly strong growth in orange products where successful navigation of supply chain challenges during the year enabled the business to compete against those not so well positioned, however this market also endured the significant downturn in tea demand.

The Group continued to focus on opportunities in China, with our local subsidiary completing its first full year of trading in 2022. Despite the well documented extended Covid-19 related restrictions in large parts of China, reported revenue to the country increased by 6.2% to £7.9m (2021: £7.4m). We remain optimistic about the opportunities in this market with a large proportion of growth representing new business for Treatt.

The Rest of the World (excluding China) grew by 26.8% to £21.8m (2021: £17.2m) with a number of customers and markets now recovering from the prolonged effects of COVID-19 that continued to impact 2021.

Profit

Gross profit declined by 7.4% with gross profit margins reducing from 34.0% to 27.9%. The decrease in margins resulted from three factors; firstly the change in mix as a result of the growth in lower margin citrus sales and the decline in higher margin hard tea sales; secondly the Group experienced significant input cost inflation and whilst, in a number of cases, the business has been able to pass this onto its customers, some longer-term contracts have not yet allowed this to be achieved across the full portfolio. Lastly, margins were adversely affected by increasing FX losses on over-hedged FX contracts, following the rapid devaluation of Sterling against the US Dollar during the second half of the year.

Administrative expenses (excluding exceptional items) grew by 11.7% in the year to £23.3m (2021: £20.9m), driven by an increase in administrative headcount, including investment in our new coffee team, overhead inflation and increased travel post pandemic. Average headcount numbers across the Group have increased by 12.5%. A significant number of open vacancies in 2021 were filled in the current year leading to the increase in headcount in 2022. After substantial investment in our people and production facilities to support the Group's next phase of expansion, we do not anticipate any significant increase in administrative expenses in the short to medium-term, above the normal rate of inflation.

Adjusted net operating margin[2] decreased in the year to 11.3% (2021: 17.2%), whilst net operating margin decreased in the year to 11.9% (2021: 16.1%), both impacted by the decline in gross profit, with administrative expenses (excluding exceptional items) remaining consistent as a proportion of revenue. Consequently, operating profit excluding exceptional items decreased 26.1% to £15.8m (2021: £21.3m) whilst statutory operating profit decreased 16.7% to £16.7m (2021: £20.0m). Over the last five years average adjusted net operating margins have been 13.3%, whilst our medium-term target range is 15-20%.

Adjusted return on average capital employed[3] (ROACE) decreased to 11.6% (2021: 20.9%) as a consequence of the decrease in operating profits during the year whilst capital employed increased (return on average capital employed decreased from 19.2% (2021) to 11.9% over the year). As well as growth in adjusted basic earnings per share, ROACE has been included as a performance metric for LTIPs. Our medium-term target for ROACE is to deliver a range of 20-25%.

Exceptional items (see note 7) include the gain on the sale of the previous UK facility of £3.3m offset by one-off non-recurring costs of £2.4m (2021: £1.3m). These comprised relocation expenses (£1.8m) including project consultants, manufacturing plant and machinery design and installation specialists and commissioning costs together with restructuring costs (£0.6m) incurred as a result of a significant change to the executive leadership structure.

Adjusted earnings before interest, tax, depreciation and amortisation (adjusted EBITDA[1]) for the year decreased by 20.2% to £18.5m (2021: £23.1m) whereas statutory EBITDA reports an 11.2% decline to £19.4m (2021: £21.8m). Profit before tax and exceptional items from continuing operations declined by 27.1% to £15.3m (2021: £20.9m). Reported profit after tax for the year of £13.3m represents a decrease of 12.1% on the prior year.

Foreign exchange gains and losses

Whilst the Group's functional currency is the British Pound (Sterling), the majority of the Group's business is transacted in other currencies which creates a foreign exchange exposure, particularly in the US Dollar and, to a lesser extent, the Euro.

During the year Sterling weakened against the US Dollar, ending the year 17.2% weaker at £1=$1.12 (2021: £1=$1.35); the average Sterling/US Dollar exchange rate for the year was 6.5% weaker as compared with the prior year.

The Group's FX risk management policy is to minimise its foreign exchange risk at our UK business through the use of forward currency contracts and options, as well as through managing its US Dollar borrowings. This can result in timing differences in the short-term, giving rise to re-translation gains or losses in the income statement. More detail on the implementation of this policy and changes made during the year can be found in the foreign exchange risk management section below.

The impact of foreign exchange gains and losses in 2022 was a total loss on foreign exchange contracts of £2.3m (2021: £1.4m gain), the net gain and loss on the re-translation of other currency denominated balances, in aggregate, was £nil (2021: £0.4m loss). During the second half of the year, the Group corrected over-hedged FX contracts and implemented new FX management systems, including an internal FX Committee and the use of third party FX advisors.

There was a foreign exchange gain of £11.5m (2021: £1.8m 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 £0.5m (2021: £0.4m) as net debt increased by £13.3m to a closing position of £22.4m. In the year investment in the UK facility was £5.0m and related capitalised interest cost of £0.2m. 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. Whilst still healthy, following the decline in profits, interest cover for the year before exceptional items decreased to 30.5 times (2021: 50.0 times).

Group tax charge

After providing for deferred tax, the Group tax charge decreased by £1.6m to £2.9m (2021: £4.5m); an effective tax rate (after exceptional items) of 17.7% (2021: 22.8%). The decrease in effective tax rate is driven largely by the tax treatment on the disposal of Northern Way premises.

The sale of the Group's former UK premises at Northern Way in February 2022 is not expected to be taxable as indexation allowances are available which fully offset the taxable gain. The deferred tax rate applicable in the UK has remained at 25.0%, in the US the rate of corporation tax remains at 21.0%.

Earnings per share

Basic earnings per share (as set out in note 10) decreased by 12.5% to 22.04p (2021: 25.19p). Adjusted basic earnings per share[4] for the year declined by 26.8% to 19.80p (2021: 27.05p). The calculation of 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 profit after tax.

Dividends

The proposed final dividend of 5.35p per share (2021: 5.50p) increases the total dividend per share for the year to 7.85p, a 4.7% increase on the prior year (2021: 7.50p), representing dividend cover of 2.5 times pre-exceptional earnings for the year and a rolling three-year cover after exceptional items of 3.0 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 £27.6m to £133.9m (2021: £106.3m), with net assets per share increasing by 25.0% to £2.20 (2021: £1.76). Over the last five years net assets per share have grown by 150.0%. 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.

Inventory held at the year-end was £68.4m (2021: £47.3m), an increase of £21.1m. This increase was driven by three main factors; firstly higher average raw material costs due to inflationary increases (notably orange oil which remains the largest volume material held in inventory); secondly the overall growth in sales and thirdly proactive purchasing by our procurement team to protect our customers from the effect of global supply chain issues.

One factor in the success of the business is our management of risks, such as geographic, political and climatic, to ensure continuity of supply for our customers. Consequently, the overall level of inventory held by the Group is highly significant in cash terms.

Net debt

At the year-end date the Group's net debt position was £22.4m (2021: £9.1m) including leases of £0.4m (2021: £1.1m), with available unused facilities of £8.4m.

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 £30.8m, of which £13.4m expires in one year or less.

During the year the Group increased its UK overdraft limit by £2.7m and increased its US line of credit by $2.0m in order to provide further headroom on its existing facilities. Furthermore, the Group still retains with HSBC a £6.5m accordion (pre-approved facility) and has access to an uncommitted asset-backed credit facility of up to $7.0m with Bank of America. Borrowing facilities are undertaken to match some of the Group's borrowings to the assets which they have been used to finance and working capital.

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

Cash flow

Net cash outflow for the year was £4.1m (2021: £5.0m outflow) reflecting the ongoing investment in production and technical capabilities together with a strategic build of specific inventory to maintain supply and protect margins. During the year the Group invested £12.8m (2021: £14.4m) on capital projects, of which £5.0m was incurred on the UK relocation project (more details of which are set out on page 13). Total investments in the Group's US operations were £5.8m, this includes £2.4m on a significant new still and £2.2m on other new processing equipment and technologies to further support the Group's growth plans and ambition to increase the proportion of value-added products. Capital spend was partially offset by the sale of the Group's former premises at Northern Way for £5.8m in February 2022.

There was an overall working capital outflow in the year of £18.5m (2021: outflow £10.0m), principally as a result of an outflow of £14.4m in relation to a tactical decision to build inventory levels in response to increasing lead times and inflationary pricing pressures. There was a net increase in receivables of £8.5m as a result of the strong sales performance in the final two months of the year, partially compensated by an increase of £4.4m in payables.

Capital investment programme

UK relocation

The Group acquired a ten-acre greenfield site on the new Suffolk Park in Bury St. Edmunds in mid-2017 to relocate our UK business from its previous site in Bury St. Edmunds, to a brand-new purpose-built facility. Construction of the new facility was completed during 2021. In addition to delivering operational efficiencies and advanced capabilities, the aim of the new facility was to bring together all our UK-based staff into a single premises.

During 2022 the first phase of installation and commissioning of plant and machinery was completed, inventory was physically transferred to be managed by the new warehouse management system and production began from the new facility as equipment was successfully brought online. All science and technical colleagues have now transitioned to the new site where state-of-the-art laboratories both support and promote product innovation whilst also providing a truly exceptional customer collaboration environment.

Following the sale of Northern Way premises in February 2022, the Group agreed a leaseback of our main manufacturing building for a period of 19 months, with a break-clause at 12 months, to maintain the continuity of its manufacturing capability during the transition. In 2023 we will commence phase two, which involves the transfer and upgrade of highly complex manufacturing equipment from our old site. We expect phase two to be completed by the end of 2023 and we will continue to manufacture some products at the old site until the lease expires. 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 £0.5m of contingency (approximately 10.0% of the remaining spend) in order to mitigate that risk as far as practicable.

The respective total costs of each phase of the relocation are broken down as follows:

£'000	Phase one	Phase two	Total
Capital expenditure	41,277	3,070	44,347
Previous site disposal	(5,592)	–	(5,592)
Exceptional items	4,820	2,290	7,110
Total costs	40,505	5,360	45,865

The total capital project costs, including proceeds from the sale of the previous site, are expected to be approximately £38.8m with exceptional costs totalling £7.1m expected to be incurred. As the relocation project moves into the final phase, we expect a further net cash outflow of £5.0m over the next year. The cash outflows for the project are expected to result in the rolling Group net debt to EBITDA ratio remaining below 1.0x during FY23.

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 2022 £187,000 was capitalised and a further £230,000 is expected to be capitalised in the year ending 30 September 2023.

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 £700 (2021: £650) 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 $1,000 (2021: $950) 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 10.0% of salary, whichever is lower) of Treatt shares out of gross income, which the Group continues to match on a one and a half for one basis. In the year, a total of 24,000 (2021: 30,000) matching shares were granted.

The SIP currently holds 438,000 shares (2021: 477,000) 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 72,000 (2021: 127,000) 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 205,000 (2021: 197,000) shares during the year, whilst 278,000 (2021: 117,000) were exercised from options awarded in prior years which have now vested. During the year 400,000 (2021: 100,000) shares were issued to the Employee Benefit Trust (EBT) at par (2 pence per share). The EBT currently holds 270,000 shares (2021: 166,000) 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 2021, the result of which was that the scheme had an actuarial deficit of £4.9m (1 January 2018: surplus £0.5m) and a funding level of 82.0%. Consequently, the Company has agreed with the trustees to make contributions of £0.5m (2021: £0.5m) per annum until the next actuarial review date of 1 January 2024.

Under IAS 19, 'Employee Benefits' a valuation of the scheme is conducted at the year-end date based on updating the valuation calculations from the most recent actuarial valuation. In accordance with this valuation, and having sought legal advice as to the appropriateness of recognising a scheme surplus, there is a pension surplus recognised on the balance sheet, net of tax, of £1.3m (2021: £5.1m liability). The decrease in the deficit is driven by an actuarial gain on changes to financial assumptions of £11.7m, due to significantly higher discount rate assumptions than prior years as a result of higher government bond yields.

Foreign exchange risk management

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. In addition to Sterling, sales are principally made in US Dollar and Euro, with the US Dollar being the most significant, typically accounting for around half of the UK business's sales.

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 or weakness 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.

The Group's FX risk management policy is to minimise its foreign exchange risk at our UK business through managing its US Dollar cash and borrowings and the use of forward currency contracts and options. Foreign exchange contracts are used to provide a hedge on the Group's margin exposure where purchases and sale are made in the same currency. The value of these contracts is determined through forward-looking forecasts of expected sales and net margins in foreign currencies.

An FX committee was formed in August 2022 in order to monitor foreign exchange risks within the business, work on refinements to the existing FX risk policy and provide a forum to challenge and approve strategic actions such as hedging. The committee meets monthly and there is an ongoing focus to manage foreign currency debt balances, ensure the ongoing effectiveness of hedges and remove avoidable foreign exchange risk from the business.

The Group now, as part of its FX risk management, actively minimises its foreign currency debt and cash balances where there is no immediate expected offset. In regard to foreign exchange contracts used for hedging, the Group regularly reforecasts its exposure and amends its positions according to any surpluses or shortfalls.

Summary

Sales grew strongly by 12.8% to £140.2m during the year, albeit the profit performance of the Group has been disappointing, following nine years of continuous growth in profit before tax and exceptional items. The strength of our sales growth across almost every category gives us the confidence to continue our focus on healthier value-added categories and we saw a recovery of our on-trade channels and the consequential demand for our products, reflecting the underlying strength and resilience of our business.

As we near the end of our capital investment programme, manufacturing capacity is in place to support organic growth over the next few years, with the capability now to add further capacity in a more modular and cost-efficient way. After substantial investment in our people to support the Group's next phase of expansion, we do not anticipate any significant increase in administrative expenses in the short to medium-term, above the normal rate of inflation.

I believe the top line growth in healthier value-added categories, whilst maintaining efficient operations and a stable cost base, will allow improvement in operating margins over the next few years.

Ryan Govender

Chief Financial Officer

29 November 2022

1. EBITDA is calculated as operating profit plus depreciation and amortisation. The adjusted measure excludes exceptional items.
2. Operating margin is calculated by dividing operating profit by revenue from continuing operations. The adjusted measure excludes exceptional items.
3. Return on average capital employed is calculated by dividing operating profit (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 debt), averaged over the opening, interim and closing amounts. The adjusted measure excludes exceptional items.
4. Adjusted earnings per share measures exclude exceptional items and the related tax effect, details of which are given in note 7.

GROUP INCOME STATEMENT

for the year ended 30 September 2022

		2022			2021		
	Notes	Before exceptional items £'000	Exceptional items £'000	Total £'000	Before exceptional items £'000	Exceptional items £'000	Total £'000
Revenue	6	**140,185**	**–**	**140,185**	124,326	–	124,326
Cost of sales		**(101,101)**	**–**	**(101,101)**	(82,103)	–	(82,103)
Gross profit		**39,084**	**–**	**39,084**	42,223	–	42,223
Administrative expenses	7	**(23,311)**	**(601)**	**(23,912)**	(20,877)	–	(20,877)
Gain on disposal of land and buildings	7	**–**	**3,324**	**3,324**	–	–	–
Relocation expenses	7	**–**	**(1,800)**	**(1,800)**	–	(1,302)	–
Operating profit[1]		**15,773**	**923**	**16,696**	21,346	(1,302)	20,044
Finance income		**8**	**–**	**8**	12	–	12
Finance costs		**(525)**	**–**	**(525)**	(439)	–	(439)
Profit before taxation		**15,256**	**923**	**16,179**	20,919	(1,302)	19,617
Taxation	8	**(3,295)**	**431**	**(2,864)**	(4,655)	186	(4,469)
Profit for the year attributable to owners of the Parent Company		**11,961**	**1,354**	**13,315**	16,264	(1,116)	15,148
Earnings per share		**Adjusted[2]**		**Statutory**	**Adjusted[2]**		**Statutory**
Basic	10	**19.80p**		**22.04p**	27.05p		25.19p
Diluted	10	**19.60p**		**21.82p**	26.74p		24.91p

1 Operating profit is calculated as profit before 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.

All financial information presented relates to continuing operations.

Notes 1 to 12 form part of these financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2022

	Notes	2022 £'000	2021 £'000
Profit for the year attributable to owners of the Parent Company		**13,315**	15,148
Items that may be reclassified subsequently to profit or loss:			
Currency translation differences on foreign currency net investments		**11,461**	(1,752)
Current tax on foreign currency translation differences	8	**102**	18
Fair value movement on cash flow hedges		**(23)**	(508)
Deferred tax on fair value movement	8	**4**	93
		11,544	(2,149)
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain on defined benefit pension scheme		**8,273**	2,952
Deferred tax on actuarial gain	8	**(2,068)**	(135)
		6,205	2,817
Other comprehensive income for the year		**17,749**	668
Total comprehensive income for the year attributable to owners of the Parent Company		**31,064**	15,816

All financial information presented relates to continuing operations.

Notes 1 to 12 form part of these financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2022

	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 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
Profit for the year	–	–	–	–	–	13,315	**13,315**
Other comprehensive income:							
Exchange differences	–	–	–	–	11,461	–	**11,461**
Fair value movement on cash flow hedges	–	–	–	(23)	–	–	**(23)**
Actuarial gain on defined benefit pension scheme	–	–	–	–	–	8,273	**8,273**
Taxation relating to items above	–	–	–	4	102	(2,068)	**(1,962)**
Total comprehensive (expense) / income	**–**	**–**	**–**	**(19)**	**11,563**	**19,520**	**31,064**
Transactions with owners:							
Dividends	–	–	–	–	–	(4,834)	**(4,834)**
Share-based payments	–	–	–	–	–	1,115	**1,115**
Movement in own shares in share trusts	–	–	8	–	–	–	**8**
Gain on release of shares in share trusts	–	–	–	–	–	622	**622**
Issue of share capital	9	–	(9)	–	–	–	**–**
Taxation relating to items recognised directly in equity	–	–	–	–	–	(424)	**(424)**
Total transactions with owners	**9**	**–**	**(1)**	**–**	**–**	**(3,521)**	**(3,513)**
30 September 2022	**1,217**	**23,484**	**(5)**	**(311)**	**13,383**	**96,082**	**133,850**

Notes 1 to 12 form part of these financial statements.

GROUP BALANCE SHEET

as at 30 September 2022

Registered Number: 01568937

	2022 £'000	2021 £'000
ASSETS		
Non-current assets		
Intangible assets	**3,206**	2,424
Property, plant and equipment	**74,281**	61,039
Right-of-use assets	**375**	1,556
Post-employment benefits	**1,782**	–
Deferred tax assets	**–**	792
	79,644	65,811
Current assets		
Inventories	**68,351**	47,263
Trade and other receivables	**37,113**	26,371
Current tax assets	**719**	2,701
Derivative financial instruments	**–**	11
Cash and bank balances	**2,354**	7,260
	108,537	83,606
Total assets	**188,181**	149,417
LIABILITIES		
Current liabilities		
Bank overdrafts	**(6,174)**	(7,013)
Borrowings	**(15,861)**	(5,684)
Provisions	**(397)**	(143)
Trade and other payables	**(22,903)**	(17,027)
Lease liabilities	**(105)**	(96)
Derivative financial instruments	**(666)**	(593)
Current tax liabilities	**(223)**	–
	(46,329)	(30,556)
Net current assets	**62,208**	53,050
Non-current liabilities		
Borrowings	**(2,342)**	(2,624)
Lease liabilities	**(291)**	(957)
Post-employment benefits	**–**	(6,806)
Deferred tax liabilities	**(5,369)**	(2,175)
	(8,002)	(12,562)
Total liabilities	**(54,331)**	(43,118)
Net assets	**133,850**	106,299

GROUP BALANCE SHEET (continued)

	Notes	2022 £'000	2021 £'000
EQUITY			
Share capital	11	**1,217**	1,208
Share premium account		**23,484**	23,484
Own shares in share trusts		**(5)**	(4)
Hedging reserve		**(311)**	(292)
Foreign exchange reserve		**13,383**	1,820
Retained earnings		**96,082**	80,083
Total equity attributable to owners of the Parent Company		**133,850**	**106,299**

Notes 1 to 12 form part of these financial statements.

GROUP STATEMENT OF CASH FLOWS

for the year ended 30 September 2022

	Notes	2022 £'000	2021 £'000
Cash flow from operating activities			
Profit before taxation		**16,179**	19,617
Adjusted for:			
Depreciation of property, plant and equipment and right-of-use assets		**2,476**	1,705
Amortisation of intangible assets		**215**	93
Gain on disposal of land and buildings		**(3,324)**	–
Net finance costs excluding post-employment benefit expense		**382**	270
Share-based payments		**1,039**	1,733
Increase in fair value of derivatives		**61**	365
Employer contributions to defined benefit pension scheme		**(450)**	(450)
Post-employment benefit expense		**135**	157
Operating cash flow before movements in working capital		**16,713**	23,490
Movements in working capital:			
Increase in inventories		**(14,396)**	(11,851)
Increase in receivables		**(8,502)**	(2,680)
Increase in payables		**4,355**	4,483
Cash (used in)/generated from operations		**(1,830)**	13,442
Taxation received/(paid)		**443**	(4,874)
Net cash (used in)/generated from operating activities		**(1,387)**	8,568
Cash flow from investing activities			
Proceeds on disposal of property, plant and equipment		**5,597**	–
Purchase of property, plant and equipment		**(11,849)**	(13,195)
Purchase of intangible assets		**(925)**	(1,178)
Interest received		**8**	12
Net cash flow used in investing activities		**(7,169)**	(14,361)

GROUP STATEMENT OF CASH FLOWS (continued)

	Notes	2022 £'000	2021 £'000
Cash flow from financing activities			
Repayment of bank loans		**(360)**	(674)
Increase of bank loans		**9,412**	5,000
Repayment of lease liabilities		**(80)**	(10)
Interest paid		**(390)**	(282)
Dividends paid	9	**(4,834)**	(3,704)
Proceeds on issue of shares	11	**9**	3
Net sale of own shares by share trusts		**621**	630
Net cash flow from financing activities		**4,378**	963
Net decrease in cash and cash equivalents		**(4,178)**	(4,830)
Effect of foreign exchange rates		**111**	(173)
Movement in cash and cash equivalents in the year		**(4,067)**	(5,003)
Cash and cash equivalents at beginning of year		**247**	5,250
Cash and cash equivalents at end of year		**(3,820)**	247
Cash and cash equivalents comprise:			
Cash and bank balances		**2,354**	7,260
Bank overdrafts		**(6,174)**	(7,013)
		(3,820)	247

Notes 1 to 12 form part of these financial statements.

GROUP RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

for the year ended 30 September 2022

	2022 £'000	2021 £'000
Movement in cash and cash equivalents in the year	**(4,067)**	(5,003)
Repayment of bank loans	**360**	674
Increase of bank loans	**(9,412)**	(5,000)
Reduction in/(increase of) lease liabilities	**657**	(394)
Cash outflow from changes in net debt in the year	**(12,462)**	(9,723)
Effect of foreign exchange rates	**(843)**	182
Movement in net debt in the year	**(13,305)**	(9,541)
Net (debt)/cash at beginning of year	**(9,114)**	427
Net debt at end of year	**(22,419)**	(9,114)

Analysis of movement in net debt during the year:

	At 1 October 2021 £'000	Cash flow £'000	Foreign exchange movements £'000	At 30 September 2022 £'000
Cash and bank balances	7,260	(5,017)	111	**2,354**
Bank overdrafts	(7,013)	839	–	**(6,174)**
Cash and cash equivalents	247	(4,178)	111	**(3,820)**
Bank loans	(8,308)	(9,052)	(843)	**(18,203)**
Lease liabilities	(1,053)	666	(9)	**(396)**
Net debt	(9,114)	(12,564)	741	**(22,419)**

	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 overdrafts	(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)	427	(9,552)	11	**(9,114)**

This statement of reconciliation of net cash flow to movement in net 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 2022 and 2021 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 UK-adopted international financial reporting standards. The statutory accounts for the year ended 30 September 2021 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 30 September 2022 have been audited and approved but have not yet been filed.

The Group's audited financial statements for the year ended 30 September 2022 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 29 November 2022.

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 2021.

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 2022 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 2021.

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 has adequate resources to continue as a going concern for a period of 12 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, most significantly severe business interruption like that which was experienced during the pandemic, or that could arise through the impact of climate change.

The current Global economic environment post-pandemic is still uncertain in both domestic and international markets. We have seen supply-side challenges and economic slowdown due to China's lockdowns, together with higher-than-expected inflationary pressures, especially on raw material prices and energy from Russia's invasion of Ukraine, all alongside a challenging labour market.

Considering this, the Directors have modelled scenarios representing varying degrees of severity and have considered the impact of changes in working capital, foreign exchange rates, revenues and margins. These assumptions are those that would arise from the aforementioned uncertainties and that would adversely impact cash generation and profitability. Using these assumptions, headroom and covenant compliance have been assessed throughout the going concern (12-month) and viability (three-year) periods. The modelling indicated that the Group would comply with its covenants throughout the tested periods.

A further 'reverse stress test' scenario was modelled to find a sustained reduction in revenue that would give rise to a breach of the Group's covenant conditions within the next 24 months. This scenario was then stress-tested further by overlaying the adverse impact of a decline in profit margins.

At the year-end date, the Group had net debt of £22.4m, headroom on facilities of £8.8m and was comfortably within its net debt to EBITDA ratio covenant limit of 2.5x and interest cover limit of 4.0x. The Group has an accordion facility of £6.5m and access to an uncommitted asset-backed financing line should further funding be required. Facilities of £13.4m come for renewal in April 2023, and for the purpose of the review these were assumed not to be renewed.

Under the reverse-engineered scenario, it was determined that a continuous decline in sales of greater than 12.5% per annum, or 8.0% per annum alongside a 300bps decline in margin for two consecutive years, with no change to the forecast operating costs and no mitigating measures put in place, would lead to a breach in banking covenants around 22 months from the date of this report and a breach in headroom in May 2023 if the Group fails to refinance any of its facilities that fall for renewal, does not draw upon its uncommitted facilities and does not implement any of the cash-saving measures it has at its disposal. The Directors believe that the financial position of the Group is sufficiently robust that it could renew or extend its facilities should it wish to and consider it implausible that the Group would not act swiftly and decisively to activate the cash generative mitigations it has at its disposal should they be required.

Having considered the range of stress-test scenarios 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 at least 12 months from the date of this announcement. Accordingly, they continue to adopt the going concern basis of accounting in preparing these financial statements.

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 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 54 to 59 of the audited 2021 Annual Report and Financial Statements.

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		**2022 Total £'000**	**2021 £'000 Total**
United Kingdom		**9,777**	9,502
Rest of Europe	– Germany	**7,907**	5,970
	– Ireland	**11,527**	7,313
	– Other	**14,596**	13,931
The Americas	– USA	**53,731**	53,356
	– Other	**12,919**	9,595
Rest of the World	– China	**7,901**	7,440
	– Other	**21,827**	17,219
		140,185	124,326

All Group revenue is in respect of the sale of goods, other than property rental income of £1,000 (2021: £18,000). No country included within 'Other' contributes more than 5.0% of the Group's total revenue. The Group revenue from the largest customer was £15,226,000 (2021: £10,331,000).

Non-current assets by geographical location, excluding deferred tax and post-employment benefit surplus, were as follows:

Continuing operations	**2022 £'000**	**2021 £'000**
United Kingdom	**44,952**	41,622
United States	**32,910**	23,397
	77,862	65,019

7. EXCEPTIONAL ITEMS

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

	2022 £'000	2021 £'000
Disposal of Northern Way premises		
Gain on disposal of land and buildings	**3,324**	–
Less: tax effect of disposal	**–**	–
UK relocation project		
Relocation expenses	**(1,800)**	(1,302)
Less: tax effect of relocation expenses	**317**	186
Restructuring costs		
Restructuring costs	**(601)**	–
Less: tax effect of restructuring costs	**114**	–
	1,354	(1,116)

The exceptional items all relate to non-recurring items.

On 28 February 2022, the Group successfully disposed of its former UK premises at Northern Way, Bury St. Edmunds. The proceeds of the sale, net of selling costs, were £5,597,000 and the associated gain on disposal was £3,324,000. The gain on the sale of property is not expected to be taxable as indexation allowances are available which fully offset the taxable gain.

Relocation expenses relate to one-off costs incurred in connection with the relocation of the Group's UK operations that do not fall to be capitalised.

Restructuring costs relate to a significant change to the management and executive leadership structure of the global business, which was announced in May 2022. The restructuring costs consist of employment and termination costs for those employees impacted. Payments to employees are those which are contractually due under their existing terms and conditions and are therefore considered to be fully allowable expenses for tax purposes. During the financial year, payments totalling £387,000 had been made, with the cash flow impact of the remaining costs expected to be settled in the following financial year.

8. TAXATION

Analysis of tax charge in income statement:

	2022 £'000 Total	2021 £'000 Total
Current tax:		
UK corporation tax on profits for the year	**153**	157
Adjustments to UK tax in respect of previous periods	**(231)**	(131)
Overseas corporation tax on profits for the year	**2,069**	3,882
Adjustments to overseas tax in respect of previous periods	**(52)**	(534)
Total current tax	**1,939**	3,374
Deferred tax:		
Origination and reversal of temporary differences	**726**	945
Effect of change of tax rate on opening deferred tax	**(45)**	183
Adjustments in respect of previous periods	**244**	(33)
Total deferred tax	**925**	1,095
Tax on profit on ordinary activities	**2,864**	4,469

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

	2022 £'000	2021 £'000
Current tax:		
Foreign currency translation differences	**(102)**	(18)
Total current tax	**(102)**	(18)
Deferred tax:		
Cash flow hedges	**(4)**	(93)
Defined benefit pension scheme	**2,068**	135
Total deferred tax	**2,064**	42
Total tax charge recognised in other comprehensive income	**1,962**	24

8. TAXATION (continued)

Analysis of tax credit in equity:

	2022 £'000	2021 £'000
Current tax:		
Share-based payments	**(20)**	(116)
Deferred tax:		
Share-based payments	**444**	(586)
Total tax credit recognised in equity	**424**	(702)

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% (2021: 19.0%). The differences are explained below:

	2022 £'000 Total	2021 £'000 Total
Profit before tax multiplied by standard rate of UK corporation tax at 19.0% (2021: 19.0%)	**3,074**	3,727
Effects of:		
Expenses not deductible in determining taxable profit	**268**	660
Income not taxable in determining taxable profit	**(694)**	–
Research and development tax credits	**(243)**	(52)
Difference in tax rates on overseas earnings	**678**	479
Adjustments to tax charge in respect of prior years	**(39)**	(699)
Effect of change of tax rate on opening deferred tax	**(38)**	354
Deferred tax not recognised	**(142)**	–
Total tax charge for the year	**2,864**	4,469

The Group's effective UK corporation tax rate for the year was 17.7% (2021: 22.8%). The effective tax rate of US-based earnings is 21.5% (2021: 21.9%). 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				
	2022 Pence	**2021 Pence**	**2020 Pence**	**2022 £'000**	**2021 £'000**
Interim dividend	**2.50p[3]**	2.00p[2]	1.84p[1]	**1,512**	1,203
Final dividend	**5.35p[4]**	5.50p[3]	4.16p[2]	**3,322**	2,501
	7.85p	7.50p	6.00p	**4,834**	3,704

1 Accounted for in the year ended 30 September 2020.
2 Accounted for in the year ended 30 September 2021.
3 Accounted for in the year ended 30 September 2022.
4 The proposed final dividend for the year ended 30 September 2022 of 5.35p pence will be voted on at the Annual General Meeting on 31 January 2023 and will therefore be accounted for in the financial statements for the year ending 30 September 2023.

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.

	2022	**2021**
Profit after taxation attributable to owners of the Parent Company (£'000)	**13,315**	15,148
Weighted average number of ordinary shares in issue (No: '000)	**60,400**	60,125
Basic earnings per share (pence)	**22.04p**	25.19p

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:

	2022 No ('000)	**2021 No ('000)**
Weighted average number of shares	**60,578**	60,310
Weighted average number of shares held in the EBT and SIP	**(178)**	(185)
Weighted average number of shares used for calculating basic EPS	**60,400**	60,125
Executive share option schemes	**487**	486
All-employee share options	**148**	210
Weighted average number of shares used for calculating diluted EPS	**61,035**	60,821
Diluted earnings per share (pence)	**21.82p**	24.91p

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:

	2022 £'000	2021 £'000
Profit after taxation attributable to owners of the Parent Company	**13,315**	15,148
Adjusted for:		
Exceptional items – gain on disposal of land and buildings (see note 7)	**(3,324)**	–
Exceptional items – relocation expenses (see note 7)	**1,800**	**1,302**
Exceptional items – restructuring costs (see note 7)	**601**	–
Taxation thereon	**(431)**	(186)
Adjusted earnings	**11,961**	16,264
Adjusted basic earnings per share (pence)	**19.80p**	27.05p
Adjusted diluted earnings per share (pence)	**19.60p**	26.74p

11. SHARE CAPITAL

Called up, allotted and fully paid	2022 £'000	2022 Number	2021 £'000	2021 Number
At start of year	**1,208**	**60,411,933**	1,205	60,270,670
Issued in year	**9**	**452,631**	3	141,263
At end of year	**1,217**	**60,864,564**	1,208	60,411,933

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 400,000 (2021: 100,000) ordinary shares to the Employee Benefit Trust, and 52,631 (2021: 41,263) ordinary shares to the SIP Trust, at nominal value of 2p per share, for the purpose of meeting obligations under employee share option 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.

Return on average capital employed

Adjusted return on average capital employed (ROACE) is considered to be a key performance indicator (KPI), and is an APM which enables stakeholders to see the profitability of the business as a function of how much capital has been invested in the business.

The derivation of this measure, along with its statutory equivalent is shown below:

ROACE – APM measure

Group	2022 £'000	2021 £'000
Total Equity	**133,850**	106,299
Net debt/(cash)	**22,419**	9,114
Capital employed	**156,269**	115,413
Interim total equity[1]	**114,988**	95,369
Interim net debt/(cash)[1]	**19,787**	4,468
Interim capital employed[1]	**134,775**	99,837
Average capital employed[2]	**135,486**	101,981
Adjusted operating profit[3]	**15,773**	21,346
ROACE %	**11.6%**	20.9%

ROACE – statutory measure

Group	2022 £'000	2021 £'000
Average capital employed[2]	**135,486**	101,981
Profit before taxation	**16,179**	19,617
ROACE %	**11.9%**	19.2%

1 Interim total equity and interim net debt/(cash) for a given year are taken from the unaudited half year condensed financial statements made out to 31 March, which can be found on www.treatt.com.
2 Average capital employed for a given year is calculated as the average of the opening, interim and closing capital employed. Capital employed at 30 September 2020 was £90,693,000.
3 Adjusted operating profit for ROACE and ROCE purposes is operating profit before exceptional items as defined in the Group income statement.

12. ALTERNATIVE PERFORMANCE MEASURES (continued)

Net debt/(cash) to adjusted EBITDA

The net debt/(cash) to adjusted EBITDA ratio is useful to ensure that the level of borrowings in the business can be supported by the cashflow in the business, and as it is measured by reference to adjusted EBITDA, is considered to be an APM.

The derivation of this ratio, along with its statutory equivalent measure is shown below:

APM Measure

Group	2022 £'000	2021 £'000
Profit before taxation	**16,179**	19,617
Exceptional items	**(923)**	1,302
Profit before taxation and exceptional items	**15,256**	20,919
Interest receivable	**(8)**	(12)
Interest payable	**525**	439
Depreciation of property, plant and equipment and right-of-use assets	**2,476**	1,705
Amortisation of intangible assets	**215**	93
Adjusted EBITDA	**18,464**	23,144
Net debt	**22,419**	9,114
Net debt to adjusted EBITDA	**1.21**	0.39

Statutory measure

Group	2022 £'000	2021 £'000
Profit before taxation	**16,179**	19,617
Interest receivable	**(8)**	(12)
Interest payable	**525**	439
Depreciation of property, plant and equipment and right-of-use assets	**2,476**	1,705
Amortisation of intangible assets	**215**	93
EBITDA	**19,387**	21,842
Net debt	**22,419**	9,114
Net debt to EBITDA	**1.16**	0.42