Treatt PLC - TET Half year/Interim Report
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TREATT

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TREATT PLC
HALF YEAR RESULTS
SIX MONTHS ENDED 31 MARCH 2020

Treatt Plc (the 'Group'), the manufacturer and supplier of innovative ingredient solutions for the beverage, flavour, fragrance and consumer products industries, announces its half year results for the six months ended 31 March 2020.

FINANCIAL HIGHLIGHTS[1]:

	Half year ended 31 March 2020	Half year ended 31 March 2019[2]	Change
Revenue	**£53.6m**	£56.6m	-5.3%
Gross profit margin	**26.2%**	25.0%	+120bps
Operating profit	**£6.1m**	£6.3m	-3.9%
Profit before tax and exceptional items	**£6.1m**	£6.2m	-2.0%
Adjusted basic earnings per share	**8.08p**	8.35p	-3.2%
Dividend per share	**1.84p**	1.70p	+8.2%

OPERATIONAL HIGHLIGHTS:

- COVID-19 has had no adverse impact on trading performance to date.
- Fruit & vegetables, tea and health & wellness (including sugar reduction) categories have again performed strongly.
- Citrus core product category impacted by prior year fall in raw material prices as expected.
- Ongoing investment in the Group's capacity to deliver long-term growth
    - US expansion: doubled capacity for high growth categories – on stream for spring crops.
    - UK site relocation well underway, move delayed until 2021 due to COVID-19 lockdown.

Commenting on the results, Group CEO, Daemmon Reeve, said:

"In these exceptional and unexpected times I am pleased to report further encouraging progress for the Group. The anticipated weakness of some citrus raw material markets impacted H1 numbers as expected, but H2 is likely to witness an improvement in this category. Once again, the growth in higher margin tea, health & wellness and fruit & vegetables categories continue to make healthy progress in line with the growth in consumer demand for 'better-for-you' premium beverages.

"A particular mention of thanks to our dedicated and talented team at Treatt who have adapted admirably through the very challenging times of the last few months and to whom huge praise is due for the fantastic job they continue do for the business.

"Looking ahead it is difficult to determine the likely impact of COVID-19 on the demand for the Group's products and there may be a slowdown in some of our customers' new product development activities in the short term, reflecting

the dramatic changes in consumption habits. However, the Group has traded well since the half-year end and is encouraged by the level of its order book and the current demand for its products from beverage ingredients through to solutions for hand soaps and cleaning products. Therefore, whilst there remains much to do, the Board is pleased to report that, at this time, trading remains in line with its expectations for the financial year ending 30 September 2020."

[1] All measures are based on continuing operations.
[2] The comparative period has been restated for the adoption of IFRS 16, 'Leases' – see note 13 for further information.

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HALF YEAR RESULTS STATEMENT

Introduction

The Group has delivered a good set of results for the half year ended 31 March 2020 (the "Period"). Treatt plays a crucial role in the food, beverage and cleaning supply chains and order intake towards the end of the Period has been strong as a number of our customers respond to increased demand for beverages consumed at home and cleaning products (such as liquid hand soaps and floor cleaning products) which are of particular importance at this time.
To date, COVID-19 has not had an adverse effect on the overall trading performance of the Group. The business has taken, and will continue to take, timely action to protect the health and safety of all its employees across the Group as well as doing all it can to support the communities in which it operates. Whilst our colleagues in China have now returned to work, in both the UK and US all staff who are able to work from home are doing so, and manufacturing continues, working within government guidelines and with appropriate health protection and wellbeing measures in place.

Treatt has not furloughed any staff and has not participated in any of the COVID-19 related government assistance schemes that have been implemented globally.

During the Period, the Group continued to drive growth in its fast-growing, innovative ingredient solutions as consumer demand for premium beverage products, in particular, appeared to show little sign of slowing down. The Period saw some notable new business wins, as well as increased demand from existing customers, across a wide product range.

We have continued to make good progress in winning market share in our key markets. The pace of change in consumer tastes, and the innovation which is supporting this change, is opening up some encouraging opportunities where Treatt's agile, technical-led selling approach is reaping dividends in our higher margin categories.

Whilst it is difficult to determine the likely impact of COVID-19 on the demand for the Group's products in the coming months, our early experience has shown demand to be robust and trading currently remains on course to deliver the Board's expectations for the current financial year.

Strategic focus

As anticipated, the Group's Citrus category continued to be impacted by the very sharp fall in raw material prices experienced last year. However, the strategic diversification over recent years continues to deliver growth in fruit & vegetables, tea and health & wellness categories, which have performed favourably with non-citrus revenue growing by 7.2% overall in the Period. This progress, along with a continued concerted drive towards added-value products and working closely with our customer partners, helps decouple and further insulate the Group from the impact of commodity price movements in citrus raw material markets and helped to grow gross margin by 120bps in the Period.

Citrus

Citrus is the Group's largest category and represented 50% of Group revenue in the Period. As previously reported, the very sharp fall in raw material prices in the previous financial year continued to impact both revenue and profits in this category. Consequently, citrus revenue fell by 15.1% in the Period compared to H1 2019, whilst citrus volumes increased by more than 20% as the Group sought to reduce its inventory of commoditised citrus by-products. Raw material prices began to gradually firm during the Period and this is expected to have a positive impact in H2.

Tea

Our natural and authentic tea solutions, which represented 6% of Group revenue in the Period, continued to materially outperform with strong growth of 47.5% compared with H1 2019. This growth came predominantly from existing customers, whilst new business wins continued to come on stream. With the increased manufacturing capacity for tea extracts now available at our US plant, we are well placed to continue growing this category materially over the next few years, as the market grows and Treatt increases its market share.

Health & wellness

Our health & wellness category continues to grow strongly and now represents almost 7% of Group revenue, growing by 19.9% compared with H1 2019. The majority of this category relates to the niche and technically specialist role Treatt operates in the scientifically complex area of sugar reduction, where our products reproduce the flavour and aroma of sugar, without the carbohydrates or calories. Similar to tea, our growth in health & wellness going forward will be supported by the capital investment we have made in our facilities in the US.

Fruit & vegetables

Of our fast-growing product categories, fruit & vegetables represents the broadest portfolio, including for example passion fruit, cucumber, watermelon, mango and jalapeno products to name a few. This category now also represents 7% of Group revenue having grown by at least 20% in each of the last five financial years. In the Period, fruit & vegetables grew by 9.4% compared with H1 2019, although H2 is typically the seasonally stronger half for this category.

Other

Herbs, spices & florals which contains an extensive array of manufactured and traded natural, non-citrus, ingredients performed well in the Period with growth of 9.4% and now represents 11% of Group revenue.

Revenue from aroma and speciality high impact flavour chemicals fell by 8.6% in the Period. This category contains a high proportion of lower margin traded materials and was impacted by the timing of some repeat business and the absence of some one-off activity from the previous year.

Our customers continue to look to product innovation to differentiate their products, launch new products and categories and refresh existing products. Treatt continues to benefit from the valuable role our services play in helping meet these demands, with the Group's new product development programme progressing well and market entry points currently being explored. In particular, the Group continues to build out its coffee platform to meet the needs of the technically complex cold brew coffee market, where our trial product offerings are receiving strong interest from customers. We see coffee as being an exciting category with material growth potential in the medium term.

Geographical markets

The Group's focus on the strategically important geographical markets of the US and China continues to progress well, even though the latter was affected by the earlier onset of COVID-19. Whilst there was some volatility when comparing various territories with the same period last year, this was largely due to the differing weighting of citrus and traded products in those regions and the timing of deliveries to some large customers. The US continues to represent the Group's largest market, being 41% of Group revenue in the Period and achieved growth of 1.4% against the comparable prior period (0.5% in constant currency[2]). Revenue in China fell by 5.8% (5.8% in constant currency[2]) but is expected to return to growth in H2 as the slowdown in freight clearance due to COVID-19 returns to normal. Revenue to both the UK and the rest of Europe, where citrus revenues are the highest in percentage terms, fell by a combined 25.2% (25.4% in constant currency[2]) in the Period. This was, as explained above, largely impacted by a combination of the fall in citrus prices as well as the timing of contract deliveries to certain major customers.

Capital Investment Programme

Last year we completed the first phase of our capital investment programme, with the expansion of US operations to double our capacity in our natural extracts production facility, which supports our key growth categories of tea, health & wellness and fruit & vegetables. In addition, we have also expanded and modernised our scientific infrastructure in the US. Both of these projects were completed on time and on budget to take advantage of this year's spring crop and we are seeing early signs of success in utilising our additional capacity.

In the UK, the second phase of our investment is well under way. Significant progress has been made with the UK relocation project which remains on budget. Whilst construction progress has continued during the Period of the UK COVID-19 lockdown, certain aspects of the project have inevitably slowed and, therefore, we expect transition to the new site to now take place in 2021, although at this stage it is not possible to provide a definitive timeline. This delay is not expected to impact our ability to meet customer orders over the short to medium term.

Financial review

Continuing operations

As previously guided, revenue from continuing operations for the Period fell by 5.3% to £53.6m (2019 H1: £56.6m) resulting in profit before tax (excluding exceptional costs of £0.5m; 2019 H1: £0.2m) decreasing by 2.0% to £6.1m (2019 H1: £6.2m[1]). In constant currency terms, revenue decreased by 5.8%[2].

Gross margin increased by 120 bps to 26.2% during the Period as a result of the relative growth in higher margin product categories. Operating costs during the Period increased by a modest 1.8% to £8.0m (2019 H1: £7.8m[1]). This resulted in net operating margins improving slightly to 11.3% (2019 H1: 11.2%[1]).

The Group has a hedging strategy in place which aims to ensure that the impact of significant exchange rate movements on the income statement over the course of a full financial year is mitigated as far as possible. The effect of movements in foreign exchange rates in the Period from this strategy was a positive net FX impact on the half year results of approximately £0.6m (2019 H1: £0.4m adverse). This offsets the impact on gross margins caused by movements in foreign exchange rates between the original purchase of largely dollar-denominated inventory and the ultimate receipt of cash from sale to customers as part of a finished product.

Consistent with the prior period, the current year exceptional costs of £0.5m relate to one-off costs in respect of the UK site relocation, which do not fall to be capitalised.

Adjusted earnings after tax from continuing operations fell by £0.1m as against the comparable period last year, whilst tax rates in the UK and US remained broadly unchanged. Consequently, basic adjusted earnings per share from continuing operations fell by 3.2% to 8.08p (2019 H1: 8.35p[1]).

Whilst the UK final salary pension scheme, which has been closed to both new entrants and future accruals for many years now, experienced a sharp fall in investment returns towards the end of the Period due to the impact of COVID-19 on global stock markets, this was offset by the increase in discount rates applied to the liabilities of the scheme. As a result, under the accounting standard IAS 19, the post-employment benefits liability in the balance sheet decreased from £7.8m to £7.2m in the Period.

The Group was required to adopt IFRS 16, 'Leases' from 1 October 2019, however, this had no material impact on the Group's financial statements. Further details are set out in note 13 to the financial statements below.

Cash flow

The first half of our financial year resulted in net cash generated from operations of £4.9m (2019 H1: £6.3m) with normalised free cash inflow[3] of £2.0m for the Period. There was a working capital outflow in the Period of £1.1m, although this was largely as a consequence of a strong finish to the half year which left us with £5.0m of trade receivables. With inventory levels reducing by £2.5m in the Period and there was a related working capital inflow of £2.2m. Similarly, there was an inflow relating to trade and other payables of £1.6m. Excluding our major capital investment project in the UK, we anticipate further improvement in cash flow in H2.

During the Period £11.9m of capital expenditure was incurred, £8.6m of which related to the UK relocation project.

Balance sheet

As at 31 March 2020 the Group had a net cash balance of £6.1m, as compared with £15.6m[1] at the beginning of the Period. This was made up of gross cash of £33.0m, bank loans and borrowings of £26.6m and net lease liabilities of £0.4m. The Group has borrowing facilities of £25.0m of which £24.9m was undrawn at the Period end.

Discontinued operations

The disposal of Earthoil Plantations Limited, was completed in 2018 for an enterprise value of £11.3m and since that time the Kenyan operations which remained part of the Group have been held as discontinued activities. It has not proven possible to attract a suitable acquirer for those businesses and since support for the local management, employees and their families has been a priority throughout this process, contracts have been exchanged for a buy-out of the business by local management after the Period end for a nominal sum. Completion is expected to take place within the next few weeks. Consequently, there was an exceptional impairment of the Kenyan businesses (which are reported under discontinued activities) of £0.6m in the Period. This impairment is reflected in the profit after tax from continuing and discontinued operations of £3.5m (2019 H1: £3.7m[1]) and basic earnings per share of 5.78p (2019 H1: 6.30p[1]). We wish the team in Kenya well as they take over the management of this business.

Dividend

Consistent with our interim dividend policy in prior years which is to pay an interim dividend of approximately one-third of the previous year's total dividend, the Board has declared an increase to the interim dividend of 8.2% to 1.84 pence per share (2019 interim dividend: 1.70 pence per share). This interim dividend will be payable on 13 August 2020 to all shareholders on the register at close of business on 3 July 2020.

Outlook

COVID-19 has the potential to have a profound impact on people and businesses globally. Looking ahead it is difficult to determine its likely impact on the demand for the Group's products and operations, for example there may be a slowdown in some of our customers' new product development activities in the short term, reflecting the dramatic changes in consumption habits with at-home consumption witnessing a steep rise as the on-trade' and out-of-home markets are effectively closed in many markets.

However, citrus raw material prices began to gradually firm during the Period and this is expected to have a positive impact in H2 as is the re-opening of the Chinese markets and the momentum in our high-performing tea, health & wellness and fruit & vegetables categories.

The Group is trading well and is encouraged by the level of its order book and the current demand for its products from beverage ingredients through to solutions for hand soaps and cleaning products. Therefore, whilst there remains much to do, the Board is pleased to report that at this time trading remains in line with its expectations for the financial year ending 30 September 2020.

11 May 2020

1 The comparative period has been restated for the adoption of IFRS 16, 'Leases' – see note 13 for further information.
2 Constant currency revenue growth is calculated on the movement from prior period comparative restated at the current period average exchange rate.
3 Normalised free cash flow is calculated as net cash from operations less purchase of property, plant and equipment and intangible assets (excluding expenditure on the UK relocation project).

HALF YEAR FINANCIAL STATEMENTS

CONDENSED GROUP INCOME STATEMENT

for the six months ended 31 March 2020

	Notes	**Six months to 31 March 2020 (unaudited) £'000**	Six months to 31 March 2019 (unaudited) (restated[1]) £'000
CONTINUING OPERATIONS			
Revenue	6	53,604	56,625
Cost of sales		(39,561)	(42,482)
Gross profit		14,043	14,143
Administrative expenses		(7,966)	(7,822)
Operating profit[2]		6,077	6,321
Finance income		62	57
Finance costs		(196)	(196)
Other gains – hedge ineffectiveness		113	-
Profit before taxation and exceptional items		6,056	6,182
Exceptional items	7	(475)	(245)
Profit before taxation		5,581	5,937
Taxation	8	(1,200)	(1,206)
Profit for the period from continuing operations		4,381	4,731
DISCONTINUED OPERATIONS			
Loss for the period from discontinued operations	9	(929)	(1,007)
Profit for the period attributable to owners of the Parent Company		3,452	3,724
Earnings per share			
From continuing and discontinued operations:			
Basic	11	**5.78p**	6.30p
Diluted	11	**5.73p**	6.23p
Adjusted basic[3]	11	**7.72p**	8.04p
Adjusted diluted[3]	11	**7.65p**	7.94p
From continuing operations:			
Basic	11	**7.33p**	8.01p
Diluted	11	**7.27p**	7.91p
Adjusted basic[3]	11	**8.08p**	8.35p
Adjusted diluted[3]	11	**8.02p**	8.24p

[1] The comparative period is restated for the adoption of IFRS 16; more information is provided in note 13.

[2] Operating profit is calculated as profit before net finance costs, exceptional items and taxation.

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

Notes 1-13 form part of these condensed half year financial statements.

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 March 2020

	Six months to	Six months to

	31 March 2020 (unaudited) £'000	31 March 2019 (unaudited) (restated[1]) £'000
Profit for the period attributable to owners of the Parent Company	**3,452**	3,724
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences on foreign currency net investments	**(209)**	(8)
Current tax on foreign currency translation differences	**8**	(1)
Fair value movement on cash flow hedges	**(396)**	274
Deferred tax on fair value movement	**67**	(47)
	(530)	218
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gain/(loss) on defined benefit pension scheme	**515**	(2,898)
Deferred tax on actuarial gain or loss	**58**	493
	573	(2,405)
Other comprehensive income/(expense) for the period	**43**	(2,187)
Total comprehensive income for the period attributable to owners of the Parent Company	**3,495**	1,537

[1] The comparative period is restated for the adoption of IFRS 16; more information is provided in note 13.

Notes 1-13 form part of these condensed half year financial statements.

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 March 2019

	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 2018 (restated[1])	1,189	23,484	(34)	50	3,515	53,395	81,599
Profit for the period						3,724	3,724
Exchange differences	-	-	-	-	(8)	-	(8)
Fair value movement on cash flow hedges	-	-	-	274	-	-	274
Actuarial loss on defined benefit pension Scheme	-	-	-	-	-	(2,898)	(2,898)
Taxation relating to items above	-	-	-	(47)	(1)	493	445
Total comprehensive income	-	-	-	227	(9)	1,319	1,537
Transactions with owners:							
Dividends	-	-	-	-	-	(2,071)	(2,071)
Share-based payments	-	-	-	-	-	361	361
Movement in own shares in share trusts	-	-	22	-	-	-	22
Gain on release of shares in share trusts	-	-	-	-	-	173	173
Total transactions with owners	-	-	22	-	-	(1,537)	(1,515)
As at 31 March 2019 (restated[1])	1,189	23,484	(12)	277	3,506	53,177	81,621

for the six months ended 31 March 2020

	Share capital	Share premium account	Own shares in share trusts	Hedging reserve	Foreign exchange reserve	Retained earnings	**Total equity**

	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**
1 October 2019 (restated[1])	1,203	23,484	(15)	127	5,566	56,714	87,079
Profit for the period						3,452	**3,452**
Exchange differences	-	-	-	-	(209)	-	**(209)**
Fair value movement on cash flow hedges	-	-	-	(396)	-	-	**(396)**
Actuarial gain on defined benefit pension scheme	-	-	-	-	-	515	**515**
Taxation relating to items above	-	-	-	67	8	58	**133**
Total comprehensive income	-	-	-	(329)	(201)	4,025	**3,495**
Transactions with owners:							
Dividends	-	-	-	-	-	(2,275)	**(2,275)**
Share-based payments	-	-	-	-	-	332	**332**
Movement in own shares in share trusts	-	-	7	-	-	-	**7**
Gain on release of shares in share trusts	-	-	-	-	-	144	**144**
Total transactions with owners	-	-	7	-	-	(1,799)	**(1,792)**
As at 31 March 2020	**1,203**	**23,484**	**(8)**	**(202)**	**5,365**	**58,940**	**88,782**

[1] Brought forward retained earnings has been restated in the current and comparative periods for the adoption of IFRS 16; more information is provided in note 13.

Notes 1-13 form part of these condensed half year financial statements.

CONDENSED GROUP BALANCE SHEET

as at 31 March 2020

	As at 31 March 2020 (unaudited) £'000	As at 30 September 2019 (audited) (restated[1]) £'000
ASSETS		
Non-current assets		
Intangible assets	**880**	845
Property, plant and equipment	**40,655**	29,848
Deferred tax assets	**1,549**	1,400
	43,084	32,093
Current assets		
Inventories	**34,346**	36,799
Trade and other receivables	**28,259**	23,020
Current tax assets	**34**	455
Cash and bank balances	**32,972**	37,187
Assets classified as held for sale	**-**	697
	95,611	98,158
Total assets	**138,695**	130,251
LIABILITIES		
Current liabilities		
Borrowings	**(22,566)**	(16,882)
Provisions	**(444)**	(261)
Trade and other payables	**(12,463)**	(11,331)
Current tax liabilities	**(468)**	(124)
Derivative financial instruments	**(729)**	(315)
Liabilities classified as held for sale	**-**	(14)
	(36,670)	(28,927)
Net current assets	**58,941**	69,231
Non-current liabilities		
Borrowings	**(4,339)**	(4,738)
Post-employment benefits	**(7,196)**	(7,788)
Deferred tax liabilities	**(1,708)**	(1,719)
	(13,243)	(14,245)
Total liabilities	**(49,913)**	(43,172)
Net assets	**88,782**	87,079

CONDENSED GROUP BALANCE SHEET (continued)

as at 31 March 2020

	As at 31 March 2020	As at 30 September 2019

	(unaudited)	(audited) (restated[1])
	£'000	£'000
EQUITY		
Share capital	**1,203**	1,203
Share premium account	**23,484**	23,484
Own shares in share trusts	**(8)**	(15)
Hedging reserve	**(202)**	127
Foreign exchange reserve	**5,365**	5,566
Retained earnings	**58,940**	56,714
Total equity attributable to owners of the Parent Company	**88,782**	87,079

[1] The comparative period is restated the adoption of IFRS 16; more information is provided in note 13. The restatements in respect of IFRS 16 are unaudited.

Notes 1-13 form part of these condensed half year financial statements.

CONDENSED GROUP STATEMENT OF CASH FLOWS

for the six months ended 31 March 2020

	Six months to 31 March 2020 (unaudited)	Six months to 31 March 2019 (unaudited) (restated[1])
	£'000	£'000
Cash flow from operating activities		
Profit before taxation including discontinued operations	**4,606**	4,923
Adjusted for:		
Depreciation of property, plant and equipment	**783**	761
Amortisation of intangible assets	**39**	47
Net finance costs[1]	**134**	139
Impairment of Kenyan operations	**638**	825
Share-based payments	**332**	361
Decrease/(increase) in fair value of derivatives	**18**	(450)
(Decrease)/increase in post-employment benefit obligations	**(77)**	49
Operating cash flow before movements in working capital	**6,473**	6,655
Movements in working capital:		
Decrease in inventories	**2,244**	2,303
Increase in receivables	**(4,958)**	(1,740)
Increase in payables	**1,607**	1,170
Cash generated from operations	**5,366**	8,388
Taxation paid	**(486)**	(2,106)
Net cash from operating activities	**4,880**	6,282
Cash flow from investing activities		
Disposal of subsidiaries	**(138)**	-
Purchase of property, plant and equipment	**(11,857)**	(4,921)
Purchase of intangible assets	**(73)**	(16)
Interest received	**62**	57
	(12,006)	(4,880)

CONDENSED GROUP STATEMENT OF CASH FLOWS (continued)
for the six months ended 31 March 2020

	Six months to 31 March 2020 (unaudited) £'000	Six months to 31 March 2019 (unaudited) (restated[1]) £'000
Cash flow from financing activities		
(Repayment)/increase of bank loans	**(194)**	4,274
Interest paid	**(196)**	(196)
Dividends paid	**(2,275)**	(2,071)
Net sale of own shares by share trusts	**151**	196
	(2,514)	2,203
Net increase in cash and cash equivalents	**(9,640)**	3,605
Effect of foreign exchange rates	**(93)**	(24)
Movement in cash and cash equivalents in the period	**(9,733)**	3,581
Cash and cash equivalents at beginning of period	**21,076**	13,060
Cash and cash equivalents at end of period	**11,343**	16,641
Cash and cash equivalents comprise:		
Cash and bank balances	**32,972**	34,451
Bank borrowings	**(21,629)**	(17,810)
	11,343	16,641

[1] The comparative period is restated for the adoption of IFRS 16; more information is provided in note 13.

Notes 1-13 form part of these condensed half year financial statements.

CONDENSED GROUP RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET CASH
for the six months ended 31 March 2020

	Six months to 31 March 2020 (unaudited) £'000	Six months to 31 March 2019 (unaudited) (restated[1]) £'000
Movement in cash and cash equivalents in the period	**(9,733)**	3,581
Repayment/(increase) of bank loans	**194**	(4,274)
Cash outflow from changes in net cash in the period	**(9,539)**	(693)
Effect of foreign exchange rates	**39**	24
Movement in net cash in the period	**(9,500)**	(669)
Net cash at beginning of period	**15,567**	9,668

Net cash at end of period	**6,067**	8,999

[1] The comparative period is restated for the adoption of IFRS 16; more information is provided in note 13.

Notes 1-13 form part of these condensed half year financial statements.

Responsibility statement

We confirm that to the best of our knowledge:

(a) the condensed set of financial statements for the six months ended 31 March 2020 has been prepared in accordance with IAS 34

(b) the half year report and condensed financial statements includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year)

(c) the half year report and condensed financial statements includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

RICHARD HOPE
Chief Financial Officer
11 May 2020

NOTES TO THE UNAUDITED HALF YEAR FINANCIAL STATEMENTS

1. Basis of preparation

The Group is required to prepare its condensed half year financial statements in accordance with accounting standards adopted for use in the European Union (International Financial Reporting Standards (IFRS)). The Group has adopted the reporting requirements of IAS 34, 'Interim Financial Reporting'.

The consolidated condensed half year financial statements are prepared on the basis of all International Accounting Standards (IAS) and IFRS published by the International Accounting Standards Board (IASB) that are currently in issue. New interpretations may be issued by the International Financial Reporting Interpretations Committee (IFRIC) on existing standards and best practice continues to evolve. It is, therefore, possible that the accounting policies set out below may be updated by the time the Group prepares its full set of financial statements under IFRS for the year ending 30 September 2020.

The information relating to the six months ended 31 March 2020 and 31 March 2019 is unaudited and does not constitute statutory accounts. The statutory accounts for the year ended 30 September 2019 have been reported on by the Group's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498 of the Companies Act 2006. These condensed half year financial statements for the six months ended 31 March 2020 have neither been audited nor formally reviewed by the Group's auditors.

2. Accounting policies

The Group has adopted IFRS 16, 'Leases' from 1 October 2019. The Group has adopted the full retrospective approach which means the Group has calculated its position as though it had always applied IFRS 16, and as such has restated its comparative information. Further information on the IFRS 16 restatements are set out in detail in note 13. The adoption of this new accounting standard has not had a material effect on these condensed half year financial statements.

With the exception of IFRS 16, these condensed half year financial statements have been prepared on the basis of the same accounting policies and presentation set out in the Group's 30 September 2019 annual report.

3. Accounting estimates

The preparation of the condensed half year financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. In preparing these condensed half year financial statements, 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 consolidated financial statements as at, and for the year ended, 30 September 2019.

4. Going concern

In light of the global COVID-19 pandemic, the Group has assessed a variety of scenarios and the impact of these on the business to continue as a going concern and as at the date of this report, the Directors have a reasonable expectation that the Group has adequate resources to continue in business for the foreseeable future. Accordingly, the condensed half year financial statements have been prepared on the going concern basis.

5. Risks and uncertainties

The Group's operations involve a series of risks and uncertainties across a range of strategic, commercial, operational and financial areas and a process is in place to identify and assess their potential impact on the Group's business, which is regularly updated. The principal risks and uncertainties for the remainder of the financial year are not expected to change materially from those included on pages 36-41 of the 2019 Annual Report and Financial Statements, with the exception of the potential impact of COVID-19, further details relating to which are set out above.

6. Segmental information

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, US and Kenya. 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 for continuing operations.

		Six months to 31 March 2020 (unaudited) £'000	Six months to 31 March 2019 (unaudited) £'000	**Year on Year Growth (unaudited) %**	**Year on Year Growth - constant currency (unaudited) %**
United Kingdom		**3,742**	4,221	**(11.3%)**	**(12.1%)**
Rest of Europe	**- Germany**	**2,136**	3,604	**(40.7%)**	**(40.7%)**
	- Ireland	**2,863**	4,096	**(30.1%)**	**(30.2%)**
	- Other	**5,887**	7,641	**(23.0%)**	**(23.1%)**
The Americas	**- USA**	**21,853**	21,548	**1.4%**	**0.5%**
	- Other	**3,914**	3,489	**12.2%**	**11.6%**
Rest of the World	**- China**	**3,095**	3,285	**(5.8%)**	**(5.9%)**
	- Other	**10,114**	8,741	**15.7%**	**15.5%**
		53,604	56,625	**(5.3%)**	**(5.8%)**

7. Exceptional items

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

	Six months to 31 March 2020 (unaudited) £'000	Six months to 31 March 2019 (unaudited) £'000
Accelerated depreciation expense	**-**	108
UK relocation expenses	**475**	137
	475	245
Less: tax effect of exceptional items	**(26)**	(46)
	449	199

The exceptional items all relate to non-recurring items. Relocation expenses relate to one-off costs incurred in connection with the relocation of the Group's UK operations, which is expected to be completed in 2021.

8. Taxation

The effective tax rate for the six months ended 31 March 2020 has been estimated at 21.5% (2019 H1: 20.3%). The main UK corporation tax rate of 19% has been substantively enacted on 17 March 2020. This increase from 17% has resulted in an increase in deferred tax assets and liabilities.

9. Discontinued operations

On 31 May 2018 the Group completed the disposal of Earthoil Plantations Limited. Following this disposal the Group retained the former Earthoil operations based in Kenya, which are loss-making. These operations are not considered core to the Group's existing business and future growth strategy and consequently have been classified as a disposal group held for sale.

As a result of further losses incurred during the Period, management has assessed the carrying value of the disposal group and recognised an impairment £638,000 (2019: £825,000) in the Income Statement. This impairment is reflected in earnings per share from continuing and discontinued operations as shown in note 11.

Subsequent to the reporting date, the Group disposed of these operations through a sale to management for a nominal sum.

The results of the discontinued operations, which have been included in the income statement, were as follows:

	Six months to 31 March 2020 (unaudited) £'000	Six months to 31 March 2019 (unaudited) £'000
Revenue	**625**	852
Cost of sales	**(762)**	(913)
Gross loss	**(137)**	(61)
Administrative expenses	**(129)**	(128)
Operating loss	**(266)**	(189)
Net finance costs	**-**	-
Loss before taxation and exceptionals	**(266)**	(189)
Exceptional – costs relating to disposal of Kenyan operations	**(71)**	-
Exceptional – impairment of net assets	**(638)**	(825)
Loss before taxation	**(975)**	(1,014)
Taxation	**46**	7
Loss for the period attributable to owners of the Parent Company	**(929)**	(1,007)

The adoption of IFRS 16 has had no impact on the results of the discontinued operations in the current or comparative period as reported.

10. Dividends

Equity dividends on ordinary shares

	Six months to 31 March 2020 (unaudited) £'000	Six months to 31 March 2019 (unaudited) £'000
Final dividend for the year ended 30 September 2019 of 3.80p per share (2018: 3.50p per share)	**2,275**	2,071

11. 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 (EBT), together with shares held by the Treatt SIP Trust (SIP) which do not rank for dividend.

	Six months to 31 March 2020 (unaudited)	Six months to 31 March 2019 (unaudited) (restated[1])
Profit after taxation attributable to owners of the Parent Company (£'000)	**3,452**	3,724
Loss from discontinued operations (£'000)	**929**	1,007
Profit from continuing operations attributable to owners of the Parent Company (£'000)	**4,381**	4,731
Weighted average number of ordinary shares in issue (No: '000)	**59,744**	59,065
Basic earnings per share – continuing and discontinued (pence)	**5.78p**	6.30p
Basic earnings per share – continuing (pence)	**7.33p**	8.01p

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:

	Six months to 31 March 2020 (unaudited) No ('000)	Six months to 31 March 2019 (unaudited) (restated[1]) No ('000)
Weighted average number of shares	**60,171**	59,471
Weighted average number of shares held in the EBT and SIP	**(427)**	(406)
Weighted average number of shares for calculating basic EPS	**59,744**	59,065
Executive share option schemes	**479**	589
All-employee share options	**32**	157
Weighted average number of shares for calculating diluted EPS	**60,255**	59,811
Diluted earnings per share – continuing and discontinued (pence)	**5.73p**	6.23p
Diluted earnings per share – continuing (pence)	**7.27p**	7.91p

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:

	Six months to 31 March 2020 (unaudited) £'000	Six months to 31 March 2019 (unaudited) (restated[1]) £'000
Profit after taxation attributable to owners of the Parent Company	**3,452**	3,724
Adjusted for:		
Exceptional items (see note 7)	**475**	245
Exceptional items relating to disposal of Kenyan operations (see note 9)	**71**	-
Impairment of Kenyan operations (see note 9)	**638**	825

Taxation thereon	**(26)**	(46)
Earnings for calculating adjusted earnings per share:		
From continuing and discontinued operations	**4,610**	4,748
Loss from discontinued operations	**220**	182
Adjusted earnings from continuing operations	**4,830**	4,930
Adjusted basic earnings per share (pence)		
- Continuing and discontinued operations	**7.72p**	8.04p
- Continuing operations	**8.08p**	8.35p
Adjusted diluted earnings per share (pence)		
- Continuing and discontinued operations	**7.65p**	7.94p
- Continuing operations	**8.02p**	8.24p

[1] The comparative period earnings are restated for the adoption of IFRS 16; more information is provided in note 13. The impact of the restatement on the comparative period earnings per share measures is as follows:

	Earnings per share (as reported)	**Earnings per share (restated)**
Basic earnings per share – continuing and discontinued (pence)	6.31p	**6.30p**

All other earnings per share measures remained as reported.

12. Capital commitments

The Group has entered into material contracts in connection with the UK relocation project totaling £10.2m, and £0.5m committed to capital projects in the US, all of which was unprovided for at the period end.

13. Adoption of new accounting standards

IFRS 16 leases

The objective of IFRS 16 is to report information that (a) faithfully represents lease transactions and (b) provides a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. To meet that objective, the lessee should recognise assets and liabilities arising from a lease.

IFRS 16 replaces IAS 17 and removes the distinction between operating leases and finance leases, instead introducing a single lessee accounting model requiring a lessee to recognise liabilities (‘lease liabilities’) and assets (‘right-of-use assets’) for all leases with a term of more than 12 months, unless the underlying asset is of low value.

Lease liabilities

A lease liability is recognised at the inception of a contract at an amount equal to the present value of payments due under the lease, discounted at an incremental borrowing rate that reflects the nature and duration of the lease in question. The lease liability is subsequently measured using the effective interest rate method with an associated finance cost charged to the income statement.

Right-of-use assets

At the inception of the contract, a right-of-use asset is recognised equal to the lease liability, adjusted to reflect any lease incentives or associated direct costs. The right-of-use asset is depreciated over the useful life of the asset, which can be no longer than the lease term, and the depreciation cost is charged to the income statement.

Impact of the transition and application of IFRS 16

The Group has opted to apply the full retrospective approach and has restated prior year figures accordingly.
The Group has used the following practical expedients allowable under IFRS 16 when applying the standard to leases previously classified as operating leases under IAS 17:

- The exclusion of low-value leases and leases with a remaining lease term of less than twelve months as at 1 October 2018 from its transition workings.
- The decision to maintain the classification of leases for contracts previously identified as leases prior to the date of initial application.

Prior year restatements

Balance sheet

The impact of the adoption of IFRS 16 on comparative figures in the condensed Group balance sheet is summarised below:

	30 September 2019 (as reported) £'000	Adoption of IFRS 16 £'000	**30 September 2019 (restated) £'000**
ASSETS			
Non-current assets			
Property, plant and equipment	29,485	363	**29,848**
LIABILITIES			
Current liabilities			
Borrowings	(16,860)	(22)	**(16,882)**
Non-current liabilities			
Borrowings	(4,369)	(369)	**(4,738)**
EQUITY			
Retained earnings	56,742	(28)	**56,714**

Income statement

The impact of the adoption of IFRS 16 on comparative figures in the condensed Group income statement and total comprehensive income is summarised below:

	31 March 2019 (as reported) £'000	Adoption of IFRS 16 £'000	**31 March 2019 (restated) £'000**
Administrative expenses	(7,832)	10	**(7,822)**
Finance costs	(185)	(11)	**(196)**
Profit for the period	3,725	(1)	**3,724**
Total comprehensive income	1,538	(1)	**1,537**

Statement of changes in equity

The opening positions in the current and prior period of the condensed Group statement of changes in equity are amended for the impact of the adoption of IFRS 16 as summarised below:

	1 October 2018 £'000	1 October 2019 £'000
Retained earnings (as reported)	53,421	56,742
IFRS 16 adjustment	(26)	(28)
Retained earnings (revised)	**53,395**	**56,714**

Statement of cash flows and reconciliation of net cash flow to movement in net cash

The prior year condensed Group statement of cash flows and reconciliation of net cash flow to movement in net cash have also been amended for the impact of the adoption of IFRS 16 as summarised below:

	31 March 2019 (as reported) £'000	Adoption of IFRS 16 £'000	**31 March 2019 (restated) £'000**
Adjustment for net finance costs	128	11	**139**
Adjustment for depreciation	760	1	**761**

Interest paid	(185)	(11)	**(196)**
Net cash at start of period	9,390	(391)	**8,999**

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.