RNS Half-year/Interim Report

TREATT PLC

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Treatt PLC
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TREATT PLC
HALF YEAR RESULTS
SIX MONTHS ENDED 31 MARCH 2021

11 May 2021

Strong growth over H1 with multiple opportunities across expanding addressable markets

Treatt Plc ('Treatt' or the 'Group'), the manufacturer and supplier of a diverse and sustainable portfolio of natural extracts and ingredients for the beverage, flavour and fragrance industries, announces its half year results for the six months ended 31 March 2021.

FINANCIAL HIGHLIGHTS[1]:

	Half year ended 31 March 2021	Half year ended 31 March 2020	Change
Revenue	**£60.8m**	£53.6m	+13.5%
Gross profit margin	**35.0%**	26.2%	+880bps
Operating profit	**£10.6m**	£6.1m	+73.9%
Profit before tax and exceptional items	**£10.4m**	£6.1m	+71.4%
Adjusted basic earnings per share	**12.93p**	8.08p	+60.0%
Dividend per share	**2.00p**	1.84p	+8.7%

OPERATIONAL HIGHLIGHTS:

- Strong momentum, with encouraging revenue growth across the Group's portfolio
- Increase in margins from growth in higher value-added categories and improved citrus product mix:
  - Revenue growth of 57.1% from the 'healthier living' categories of tea, health & wellness and fruit & vegetables.
  - Core citrus product category reporting materially improved margins from recovery in raw material prices and increasing demand for more value-add, solution-driven ingredients.
- Transition to the new UK headquarters, with significant capacity uplift in the next financial year.
- Ongoing investment in the Group's capacity and innovation capability to fuel long-term growth.
- Further strengthening management team with addition of Chief Innovation Officer and Chief People Officer.

CURRENT TRADING AND OUTLOOK:

- Good trading momentum continues, with encouraging order book levels and further growth opportunities across a number of expanding addressable markets.
- Profit before tax and exceptional items for the current financial year is expected to be at least £20.0m, exceeding the current market consensus[2] of £18.0m.

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

"Our performance over the half has been remarkable in what remain challenging times. The dedication of our teams to deliver this exceptional outcome and execute on our strategy speaks volumes about the business we have become and the

culture which has been developed. It also demonstrates the value we bring to our customers, providing bespoke, exciting, innovative and differentiating solutions, across a number of growing addressable markets.

We are optimistic about demand returning from the re-opening of hospitality across more geographies in the coming months and the boost from our UK relocation, which gives us much to look forward to and further enhances the future prospects for our business."

[1] All measures are based on continuing operations.
[2] Treatt compiled consensus of analyst forecasts for FY21 profit before tax and exceptional items.

Analyst and investor conference call

A conference call for analysts and investors will be held at 9.00 a.m. today, 11 May 2021. For dial-in details, please contact MHP Communications at treatt@mhpc.com. A recording will be made available after the event.

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Information contained within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

HALF YEAR RESULTS STATEMENT

Introduction

The Group has delivered strong revenue growth, reporting an exceptional set of results for the six months ended 31 March 2021 (the "Period") despite the continued challenges of the global pandemic. The Period saw material margin improvement due to the strong growth across the high margin solution-driven categories of tea, health & wellness and fruit & vegetables. The Group's core citrus category also reported a much-improved margin position, with the market now recovered from the sharp fall in raw material prices which impacted the comparable period last year.

Whilst COVID continues to influence our ways of working, the gradual transitioning of both the UK and US staff back to the workplace in line with their respective government guidelines, is ongoing. The tenacity of our staff to continue providing a high quality of service to our customers and their collaborative approach to overcoming challenges is evident in the positive performance we have seen in this financial year to date.

Our 'healthier living' categories drove much of the growth in the Period, with combined revenue from tea, health & wellness and fruit & vegetables increasing by 57.1% over the comparable period. The increasing desire from customers to differentiate their products and align with new consumer trends, particularly in the beverages market, is creating further opportunities for our innovative ingredient solutions. With increased consumer focus on personal health, the high proportion of natural ingredients across our portfolio is aligned with the global appetite for clean-label products synonymous with healthier living.

We continue to see increased demand from existing customers, across a wide product range, coupled with new business wins in our key markets during the Period. With distinct strategies for each of our product categories leading ongoing investment in both our capacity and technical capabilities, the Group is well-positioned to drive future growth and target new opportunities to deliver products that meet our customers' evolving needs across a number of growing addressable markets.

Demand during the Period remained weighted towards the off-trade channel with many global travel and hospitality restrictions impacting on-trade demand. However, as restrictions have begun to be lifted, we are starting to see on-trade business recover.

Strategic focus

The Group's core citrus category remains an important offering in our increasingly diverse portfolio. As we further expand our footprint with global beverage customers, we see increasing demand for high impact, authentic citrus ingredients, which brings important sophistication to this category and a need for higher value, science-led solutions. Ongoing investment in more advanced technologies is expanding the Group's capability to meet an unfaltering demand for premium beverages, in particular the fast-growing alcoholic hard seltzer market, with significant new business wins during the Period. This, in itself, is a clear example of how Treatt's addressable market is growing with hard seltzers winning market share from unflavoured beer and wine in particular.

Our concerted drive towards value-add products and nutritional-led innovation positions Treatt strongly to partner with customers as they seek to differentiate their brands. In particular, the strength of our reputation in the complex health and wellness market continues to attract new opportunities to enable customers to achieve their targets for sugar reduction, without impacting taste, and to produce low or no alcohol products as demand from the health-conscious consumer shows no sign of slowing down.

Further strengthening management team

To equip the business for future growth we are working on a plan to bring in new talent from both within and outside our industry, building the experience and expertise at a senior level. As an initial priority, we have identified the need for two new key roles; a Chief People Officer, who will be tasked with driving organisational design on an international basis, and a Chief Innovation Officer who will lead our growing R&D efforts on a global basis. People and Innovation are key to the next phase of growth at Treatt.

Environmental, Social and Corporate Governance (ESG)

We remain fully committed to creating sustainable value for all stakeholders and to improving our sustainability reporting. ESG was synonymous with Treatt's values even before it became an acronym with which stakeholders are now familiar. Over 75% of our sales, and over 90% of our purchases, are of natural products and our largest product category of citrus is entirely derived from by-products which might otherwise go to waste. We are expanding our approach in this area with appropriate metrics and targets and are working at pace with experienced ESG consultants to develop a formal sustainability strategy which will be embedded at the heart of our decision-making, to positively impact our business. A fuller update on our progress will be provided in our full year report.

Category developments

Citrus

Consistent with the Group's strategy to diversify away from minimally processed citrus into more value-added ingredients, whilst the Citrus category reported modest revenue growth of 0.4%, other categories have grown strongly such that Citrus represented 44% of Group revenue in the Period as compared with 50% in H1 2020. Raw material market prices recovered from the sharp fall that impacted the previous financial year and the category saw an 860 bps increase in margin in the Period.

Tea

Our natural and authentic tea solutions, which represented 11% of Group revenue in the Period (2020 H1: 6%), continued to materially outperform with impressive growth of 93.0%. Last year demand for our tea category was particularly impacted by the intermittent, but prolonged, closure of on-trade channels due to COVID. We are now seeing encouraging signs of pre-COVID on-trade demand levels beginning to return but have also supported beverage customers in developing products specifically targeted at the increasing demand for home consumption through retail channels. Whilst the growth in our tea category came predominantly from existing customers, the scale achieved is testament to Treatt's collaborative approach and technical innovation agility in supporting customers as they respond to new market opportunities and harness consumer demand. The increased manufacturing capacity for tea extracts at our US plant, which was created as part of our capex investment in 2019, ensures that we are well placed to continue growing this category materially over the next few years, increasing our market share.

Fruit & vegetables

Our fruit & vegetables category reported notable growth of 50.4% compared with 2020 H1, increasing revenue share to 10% in the Period (2020 H1: 7%). The leading products in this portfolio, namely passion fruit, watermelon, cucumber and mango, each showed considerable growth over the comparable period. The proven success of our natural distillates in beverage applications continues to reap rewards as health-conscious consumers favour products that promote clean-label ingredients.

Health & wellness

Our health & wellness category has strengthened to represent almost 8% of Group revenue (2020 H1: 7%), with growth of 29.1% compared with 2020 H1. Our technical expertise and proven capability to deliver unrivalled quality in the complex area of sugar reduction science continues to drive volume growth with existing customers and secure new opportunities.

Herbs, spices & florals

Herbs, spices & florals which contains an extensive array of manufactured and traded natural, non-citrus, ingredients reported a decline of 13.3% in the Period, with the share of Group revenue falling to 9% (2020 H1: 11%). Lower demand for essential oils from the beverage market in particular has shaped the recent performance in this category, primarily linked to the closure of hospitality venues across the globe in the face of COVID.

Synthetic aroma

Revenue from aroma and speciality high impact ingredients grew by 16.1% in the Period, having experienced a decline in the last financial year. This is our second largest product category, representing 18% of Group revenue (2020 H1: 18%). Growth within this category is driven by increased partnering with our customers, in some cases offering greater integration into the supply chain by providing an effective alternative to in-house production; our procurement expertise and manufacturing capability providing both cost and quality advantage to our customers.

Coffee

The Group continues to build out its US coffee platform, with plans progressing to develop a UK production capability to provide greater agility in servicing the UK and European markets. The quality of our extracts and our technical expertise to meet the needs of the complex cold brew coffee market are generating strong interest from both existing and new customers. Whilst revenue from this category was not significant in the Period, it offers material growth potential in the medium term.

Geographical markets

The US remains the Group's largest market, representing 45% of Group revenue in the Period and reporting strong growth of 25.3% over the comparable prior period (31.5% in constant currency[1]). Whilst citrus continues to dominate the mix, at 45% of the US market revenue, growth in the Period was led by tea, which increased from 15% (H1 2020) to 23% of US revenue, and fruit & vegetables now representing 17% of US revenue.

Revenue attributable to UK customers represented 7% of Group revenue in the Period, growing by 21.6%, having been impacted in particular in 2020 H1 by the fall in citrus prices due to the high proportion of citrus revenues. Our UK business is also seeing increasing volumes from a number of strategic partnerships within our synthetic aroma category and new business wins in the 'make or buy' outsourcing arena.

Despite the foreseen challenges post-Brexit, most notably on shipment lead times, revenue in Europe grew by 17.0% (17.8% in constant currency[1]) and represented 21% of Group revenue. In addition to solid growth from the more established citrus and synthetic aroma categories, opportunities for our tea and fruit & vegetables categories within Europe contributed notably to revenue growth.

China represents a significant opportunity and contributed 6% of Group revenue with growth of 7.9% in the period (8.1% in constant currency[1]). The process of establishing a wholly-owned foreign enterprise ('WOFE') in China is progressing well, and we expect the formalities to be completed later this financial year, thereby providing the base from which to accelerate our growth in the Asia-Pacific region.

Capital Investment Programme

Progress with our new £41m UK facility continues apace and we are now a significant way through the operational fit out, which has remained on budget with approximately £8m of capital expenditure remaining. In adherence to current COVID secure guidelines, a restricted number of employees transitioned across to our new premises in late April 2021. With the expectation that remaining restrictions in the UK are lifted in late June 2021, full occupancy of the office space will commence thereafter. Commissioning of the new plant and machinery is scheduled to take place later this calendar year, with production anticipated to relocate in the first half of calendar year 2022. Three years after completion, we expect to be generating a 10 – 15% return on investment ('ROI') from this site. We believe this site, along with our recently expanded US facility, will provide Treatt with the platform we need to support its ambitious growth ambitions.

Financial review

Continuing operations

Revenue for the Period grew by 13.5% to £60.8m (2020 H1: £53.6m) resulting in profit before tax (excluding exceptional costs of £0.7m; 2020 H1: £0.5m) increasing by 71.4% to £10.4m (2020 H1: £6.1m). In constant currency terms, revenue increased by 16.2%[1]. Our strategic sourcing of commoditised citrus coupled with a conscious focus on our added-value and solution-led citrus capabilities have increased performance during 2021 H1 in a stronger citrus market. Growth rates year-on-year were also favourably impacted by the challenges experienced during 2020 H1, which saw citrus raw material pricing slowly recovering as the market emerged from a period of sharp decline.

As a result of the faster growth in higher margin value-added categories and improved citrus margins, gross margin increased by 880 bps to 35.0% during the Period. Operating costs increased by 34.6% to £10.7m (2020 H1: £8.0m) due to the higher cost base of our expanded US facility, as well as demand-led and strategic recruitment and investment across the Group to support sustainable growth. Resulting net operating margins increased by 610 bps to 17.4% (2020 H1: 11.3%).

COVID has caused delays to the timing of the relocation to our new UK facilities which have resulted in additional one-off costs that do not fall to be capitalised, including project management and parallel running costs of the new and current sites. These are treated as exceptional costs and are now expected to total £4m, which is £1.5m more than originally budgeted. Current year exceptional costs of £0.7m (2020 H1: £0.5m) take the total exceptional relocation costs to date to £2.2m, with the balance expected to be incurred by the end of FY23.

The Group has a hedging strategy in place which aims to offset the impact on gross margins caused by movements in foreign exchange rates between the original purchase of largely dollar-denominated inventory and the ultimate cash receipt from the sale to customers. 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 in the order of £0.4m (2020 H1: £0.6m favourable).

Reported profit for the Period from continuing operations of £7.2m represents a 64.2% increase against the comparable period last year, with basic adjusted earnings per share from continuing operations rising by 60.0% to 12.93p (2020 H1: 8.08p).

Cash flow

The first half of our financial year resulted in net cash generated from operations of £4.7m (2020 H1: £4.9m) with a normalised free cash inflow[2] of £3.7m. During the Period £7.7m of capital expenditure was incurred, £6.0m of which related to the new UK facility. Excluding continued capital investment on the UK relocation project, we anticipate further improvement in cash flow in 2021 H2.

The working capital outflow for the Period of £5.4m was largely as a consequence of a strong finish to trading for the half year, increasing trade and other receivables by £5.2m. The strong growth in our order books led to inventory levels increasing by £5.5m in the Period and there was a related working capital inflow of £5.3m in trade and other payables.

Balance sheet

Predominantly as a consequence of the planned capital investment in the UK relocation project, as at 31 March 2021 the Group's funding position moved to a net debt balance of £5.1m, as compared with £0.4m net cash at the beginning of the Period. This was made up of gross cash of £8.1m, bank loans and borrowings of £12.6m and net lease liabilities of £0.6m. The Group has borrowing facilities of £21.1m which remained undrawn at the Period end.

The UK final salary pension scheme, which has been closed to both new entrants and future accruals for many years, benefitted from positive investment returns on scheme assets and also an increase in the discount rate 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 to £7.6m in the Period.

Dividend

The Board has declared an increase to the interim dividend of 8.7% to 2.00 pence per share (2020 interim dividend: 1.84 pence per share), which will be payable on 12 August 2021 to all shareholders on the register at close of business on 2 July 2021. Consistent with our interim dividend policy in prior years, the interim dividend is determined as approximately one-third of the previous year's total dividend.

Outlook

The resilience in our business model and our agility in meeting the needs of our customers, as they responded to changes in consumer behaviours, underpinned the strong performance achieved in the Period. To deliver this performance, despite the ongoing impact of COVID within many of the markets we serve, brings confidence that we will continue to generate strong returns as we look ahead to the second half of the financial year.

We anticipate further volume growth as on-trade channels reopen and demand from the hospitality sector improves. We see the current momentum of our high-performing tea, health & wellness and fruit & vegetables categories continuing, as consumer lifestyle choices continue to shape innovation and brand development; we remain optimistic of a positive effect across our portfolio and our geographical markets.

The Group continues to trade well in the second half to date and is encouraged by the level of its order book and pipeline growth opportunities. Consequently, the Board is optimistic that the current strong momentum will result in profit before tax and exceptional items for the current financial year of at least £20.0m, exceeding the current market consensus[3] of £18.0m.

1 Constant currency revenue growth is calculated on the movement from prior period comparative restated at the current period average exchange rate.
2 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).
3 Treatt compiled consensus of analyst forecasts for FY21 profit before tax and exceptional items.

TREATT PLC

HALF YEAR FINANCIAL STATEMENTS

CONDENSED GROUP INCOME STATEMENT

for the six months ended 31 March 2021

	Notes	**Six months to 31 March 2021 (unaudited) £'000**	Six months to 31 March 2020 (unaudited) £'000
CONTINUING OPERATIONS			
Revenue	6	60,827	53,604
Cost of sales		(39,540)	(39,561)
Gross profit		21,287	14,043
Administrative expenses		(10,719)	(7,966)
Operating profit[1]		10,568	6,077
Finance income		11	62
Finance costs		(199)	(196)
Other gains – hedge ineffectiveness		-	113
Profit before taxation and exceptional items		10,380	6,056
Exceptional items	7	(699)	(475)
Profit before taxation		9,681	5,581
Taxation	8	(2,486)	(1,200)
Profit for the period from continuing operations		7,195	4,381
DISCONTINUED OPERATIONS			
Loss for the period from discontinued operations		-	(929)
Profit for the period attributable to owners of the Parent Company		7,195	3,452
Earnings per share			
From continuing and discontinued operations:			
Basic	10	**11.97p**	5.78p
Diluted	10	**11.84p**	5.73p
Adjusted basic[2]	10	**12.93p**	7.72p
Adjusted diluted[2]	10	**12.79p**	7.65p
From continuing operations:			
Basic	10	**11.97p**	7.33p
Diluted	10	**11.84p**	7.27p
Adjusted basic[2]	10	**12.93p**	8.08p
Adjusted diluted[2]	10	**12.79p**	8.02p

[1] Operating profit is calculated as profit before net finance costs, other gains or losses, exceptional items and taxation.

[2] 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 1-11 form part of these condensed half year financial statements.

CONDENSED GROUP STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 March 2021

	Six months to 31 March 2021 (unaudited) £'000	Six months to 31 March 2020 (unaudited) £'000
Profit for the period attributable to owners of the Parent Company	**7,195**	3,452
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences on foreign currency net investments	**(2,947)**	(209)
Current tax on foreign currency translation differences	**5**	8
Fair value movement on cash flow hedges	**51**	(396)
Deferred tax on fair value movement	**(13)**	67
	(2,904)	(530)
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gain on defined benefit pension scheme	**2,333**	515
Current tax on pension liability	**29**	-
Deferred tax on actuarial gain or loss	**(1,029)**	58
	1,333	573
Other comprehensive (expense)/income for the period	**(1,571)**	43
Total comprehensive income for the period attributable to owners of the Parent Company	**5,624**	3,495

Notes 1-11 form part of these condensed half year financial statements.

CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 March 2020 (unaudited)

	Share capital £'000	Share premium account £'000	Own shares in share trusts £'000	Hedging reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	**Total equity £'000**
1 October 2019 (restated[1])	1,203	23,484	(15)	127	5,566	56,705	87,070
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 (restated[1])	1,203	23,484	(8)	(202)	5,365	58,931	88,773

for the six months ended 31 March 2021 (unaudited)

	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 period						7,195	**7,195**
Exchange differences	-	-	-	-	(2,947)	-	**(2,947)**
Fair value movement on cash flow hedges	-	-	-	51	-	-	**51**
Actuarial gain on defined benefit pension Scheme	-	-	-	-	-	2,333	**2,333**
Taxation relating to items above	-	-	-	(13)	5	(1,000)	**(1,008)**
Total comprehensive income	-	-	-	38	(2,942)	8,528	**5,624**
Transactions with owners:							
Dividends	-	-	-	-	-	(2,501)	**(2,501)**
Share-based payments	-	-	-	-	-	924	**924**
Movement in own shares in share trusts	-	-	1	-	-	-	**1**
Gain on release of shares in share trusts	-	-	-	-	-	201	**201**
Total transactions with owners	-	-	1	-	-	(1,376)	**(1,375)**
As at 31 March 2021	**1,205**	**23,484**	**(4)**	**161**	**612**	**69,911**	**95,369**

[1] Retained earnings at 1 October 2019 and at 31 March 2020 have been restated to be shown inclusive of the recognition of lease liabilities following the adoption of IFRS 16 Leases on 1 October 2019. Both balances are reduced by £9,000 in comparison to those previously reported.

Notes 1-11 form part of these condensed half year financial statements.

CONDENSED GROUP BALANCE SHEET

as at 31 March 2021

	As at 31 March 2021 (unaudited) £'000	As at 30 September 2020 (audited) £'000
ASSETS		
Non-current assets		
Intangible assets	**1,482**	1,358
Property, plant and equipment	**55,306**	50,159
Right-of-use assets	**1,174**	1,173
Deferred tax assets	**312**	1,358
	58,274	54,048
Current assets		
Inventories	**40,211**	36,050
Trade and other receivables	**28,622**	24,167
Current tax assets	**737**	1,057
Derivative financial instruments	**451**	459
Cash and bank balances	**8,143**	7,739
	78,164	69,472
Total assets	**136,438**	123,520
LIABILITIES		
Current liabilities		
Borrowings	**(7,213)**	(3,203)
Provisions	**(173)**	(146)
Trade and other payables	**(17,408)**	(12,441)
Lease liabilities	**(31)**	(31)
Current tax liabilities	**(789)**	-
Derivative financial instruments	**(12)**	(168)
	(25,626)	(15,989)
Net current assets	**52,538**	53,483
Non-current liabilities		
Borrowings	**(5,398)**	(3,450)
Post-employment benefits	**(7,572)**	(10,051)
Lease liabilities	**(635)**	(628)
Deferred tax liabilities	**(1,838)**	(2,282)
	(15,443)	(16,411)
Total liabilities	**(41,069)**	(32,400)
Net assets	**95,369**	91,120

CONDENSED GROUP BALANCE SHEET (continued)

as at 31 March 2021

	As at 31 March 2021 (unaudited) £'000	As at 30 September 2020 (audited) £'000
EQUITY		
Share capital	**1,205**	1,205
Share premium account	**23,484**	23,484
Own shares in share trusts	**(4)**	(5)
Hedging reserve	**161**	123
Foreign exchange reserve	**612**	3,554
Retained earnings	**69,911**	62,759
Total equity attributable to owners of the Parent Company	**95,369**	91,120

Notes 1-11 form part of these condensed half year financial statements.

CONDENSED GROUP STATEMENT OF CASH FLOWS

for the six months ended 31 March 2021

	Six months to 31 March 2021 (unaudited) £'000	Six months to 31 March 2020 (unaudited) £'000
Cash flow from operating activities		
Profit before taxation including discontinued operations	**9,681**	4,606
Adjusted for:		
Depreciation of property, plant and equipment	**973**	783
Amortisation of intangible assets	**28**	39
Net finance costs	**107**	134
Impairment of Kenyan operations	**-**	638
Share-based payments	**938**	332
(Increase)/decrease in fair value of derivatives	**(97)**	18
Increase/(decrease) in post-employment benefit obligations	**79**	(77)
Operating cash flow before movements in working capital	**11,709**	6,473
Movements in working capital:		
(Increase)/decrease in inventories	**(5,472)**	2,244
Increase in receivables	**(5,227)**	(4,958)
Increase in payables	**5,329**	1,607
Cash generated from operations	**6,339**	5,366
Taxation paid	**(1,631)**	(486)
Net cash from operating activities	**4,708**	4,880
Cash flow from investing activities		
Disposal of subsidiaries	**-**	(138)
Purchase of property, plant and equipment	**(7,504)**	(11,857)
Purchase of intangible assets	**(180)**	(73)
Interest received	**11**	62
	(7,673)	(12,006)

CONDENSED GROUP STATEMENT OF CASH FLOWS (continued)
for the six months ended 31 March 2021

	Six months to 31 March 2021 (unaudited) £'000	Six months to 31 March 2020 (unaudited) £'000
Cash flow from financing activities		
Increase/(repayment) of bank loans	2,158	(194)
Interest paid	(120)	(196)
Repayment of lease liabilities	(5)	-
Contributions to defined benefit pension scheme	(225)	-
Dividends paid	(2,501)	(2,275)
Net sale of own shares by share trusts	201	151
	(492)	(2,514)
Net increase in cash and cash equivalents	(3,457)	(9,640)
Effect of foreign exchange rates	(194)	(93)
Movement in cash and cash equivalents in the period	(3,651)	(9,733)
Cash and cash equivalents at beginning of period	5,250	21,076
Cash and cash equivalents at end of period	1,599	11,343
Cash and cash equivalents comprise:		
Cash and bank balances	8,143	32,972
Bank borrowings	(6,544)	(21,629)
	1,599	11,343

Notes 1-11 form part of these condensed half year financial statements.

CONDENSED GROUP RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT
for the six months ended 31 March 2021

	Six months to 31 March 2021 (unaudited) £'000	Six months to 31 March 2020 (unaudited) (restated[1]) £'000
Movement in cash and cash equivalents in the period	**(3,651)**	(9,733)
(Increase)/repayment of bank loans	**(2,158)**	194
Increase of lease liabilities	**(7)**	-
Cash outflow from changes in net cash in the period	**(5,816)**	(9,539)
Effect of foreign exchange rates	**255**	39
Movement in net cash in the period	**(5,561)**	(9,500)
Net cash at beginning of period	**427**	15,958
Lease liability recognised as debt	**-**	(659)
Net (debt)/cash at end of period	**(5,134)**	5,799

[1] Net cash for the period ended 31 March 2020 has been restated to be shown inclusive of the initial recognition of lease liabilities following the adoption of IFRS 16 leases on 1 October 2019.

Notes 1-11 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 2021 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
10 May 2021

NOTES TO THE UNAUDITED HALF YEAR FINANCIAL STATEMENTS

1. Basis of preparation

The Group has prepared its condensed half year financial statements in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and the reporting requirements of IAS 34, 'Interim Financial Reporting'.

The information relating to the six months ended 31 March 2021 and 31 March 2020 is unaudited and does not constitute statutory accounts. The statutory accounts for the year ended 30 September 2020 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 2021 have neither been audited nor formally reviewed by the Group's auditors.

2. Accounting policies

These condensed half year financial statements have been prepared on the basis of the same accounting policies and methods of computation as set out in the Group's 30 September 2020 annual report.

There were no new standards, or amendments to standards, which are mandatory and relevant to the Group for the first time for the financial year ending 30 September 2021 which have had a material effect on these condensed half year financial statements.

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 2020.

4. Going concern

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 59-63 of the 2020 Annual Report and Financial Statements.

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 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 for continuing operations.

		Six months to 31 March 2021 (unaudited) £'000	Six months to 31 March 2020 (unaudited) £'000	**Year on Year Growth (unaudited) %**	**Year on Year Growth - constant currency (unaudited) %**
United Kingdom		**4,552**	3,742	**21.6%**	**21.5%**
Rest of Europe	**- Germany**	**3,150**	2,136	**47.5%**	**47.6%**
	- Ireland	**2,742**	2,863	**(4.2%)**	**(3.0%)**
	- Other	**6,842**	5,887	**16.2%**	**16.9%**
The Americas	**- USA**	**27,379**	21,853	**25.3%**	**31.5%**
	- Other	**5,070**	3,914	**29.5%**	**32.3%**
Rest of the World	**- China**	**3,338**	3,095	**7.9%**	**8.1%**
	- Other	**7,754**	10,114	**(23.3%)**	**(22.9%)**
		60,827	53,604	**13.5%**	**16.2%**

7. Exceptional items

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

	Six months to 31 March 2021 (unaudited) £'000	Six months to 31 March 2020 (unaudited) £'000
UK relocation expenses	**699**	475
Less: tax effect of exceptional items	**(124)**	(26)
	575	449

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.

8. Taxation

The effective tax rate for the six months ended 31 March 2021 has been estimated at 25.7% (2020 H1: 21.5%) as a consequence of the international profit mix differing to that from the prior year.

9. Dividends

Equity dividends on ordinary shares

	Six months to 31 March 2021 (unaudited) £'000	Six months to 31 March 2020 (unaudited) £'000
Final dividend for the year ended 30 September 2020 of 4.16p per share (2019: 3.80p per share)	**2,501**	2,275

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 (EBT), together with shares held in respect of the Treatt Share Incentive Plan (SIP) which do not rank for dividend.

	Six months to 31 March 2021 (unaudited)	Six months to 31 March 2020 (unaudited)
Profit after taxation attributable to owners of the Parent Company (£'000)	**7,195**	3,452
Loss from discontinued operations (£'000)	**-**	929
Profit from continuing operations attributable to owners of the Parent Company (£'000)	**7,195**	4,381
Weighted average number of ordinary shares in issue (No: '000)	**60,108**	59,744
Basic earnings per share – continuing and discontinued (pence)	**11.97p**	5.78p
Basic earnings per share – continuing (pence)	**11.97p**	7.33p

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 2021 (unaudited) No ('000)	Six months to 31 March 2020 (unaudited) No ('000)
Weighted average number of shares	**60,293**	60,171
Weighted average number of shares held in the EBT and SIP	**(185)**	(427)
Weighted average number of shares for calculating basic EPS	**60,108**	59,744
Executive share option schemes	**443**	479
All-employee share options	**218**	32
Weighted average number of shares for calculating diluted EPS	**60,769**	60,255
Diluted earnings per share – continuing and discontinued (pence)	**11.84p**	5.73p
Diluted earnings per share – continuing (pence)	**11.84p**	7.27p

NOTES TO THE UNAUDITED HALF YEAR FINANCIAL STATEMENTS (continued)

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:

	Six months to 31 March 2021 (unaudited) £'000	Six months to 31 March 2020 (unaudited) £'000
Profit after taxation attributable to owners of the Parent Company	**7,195**	3,452
Adjusted for:		
Exceptional items (see note 7)	**699**	475
Exceptional items relating to disposal of Kenyan operations	**-**	71
Impairment of Kenyan operations	**-**	638
Taxation thereon	**(124)**	(26)
Earnings for calculating adjusted earnings per share:		
From continuing and discontinued operations	**7,770**	4,610
Loss from discontinued operations	**-**	220
Adjusted earnings from continuing operations	**7,770**	4,830
Adjusted basic earnings per share (pence)		
- Continuing and discontinued operations	**12.93p**	7.72p
- Continuing operations	**12.93p**	8.08p
Adjusted diluted earnings per share (pence)		
- Continuing and discontinued operations	**12.79p**	7.65p
- Continuing operations	**12.79p**	8.02p

11. Capital commitments

The Group has entered into material contracts in connection with the UK relocation project totaling £4.2m, with a further £1.5m committed to capital projects in the US, all of which was unprovided for at the period end.

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.