FULL YEAR RESULTS
TREATT PLC

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Treatt PLC

28 November 2023

TREATT PLC
FULL YEAR RESULTS
YEAR ENDED 30 SEPTEMBER 2023

Resilient sales performance

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 audited results for the financial year ended 30 September 2023.

FINANCIAL HIGHLIGHTS[1]:

	Financial year ended 30 September 2023	Financial year ended 30 September 2022	Change
Revenue	**£147.4m**	£140.2m	+5.1%
Gross profit	**£44.8m**	£39.1m	+14.7%
Gross profit margin	**30.4%**	27.9%	+250 bps
Profit before tax and exceptional items	**£17.3m**	£15.3m	+13.7%
Profit before tax	**£13.5m**	£16.2m	-16.3%
Adjusted basic earnings per share[2]	**22.94p**	19.80p	+15.9%
Basic earnings per share	**18.01p**	22.04p	-18.3%
Final dividend per share	**5.46p**	5.35p	+2.0%
Total dividend per share	**8.01p**	7.85p	+2.0%
Net debt	**£10.4m**	£22.4m	-53.7%
Net debt to adjusted EBITDA[3] ratio	**0.45x**	1.21x	-62.8%
Net debt to EBITDA ratio	**0.54x**	1.16x	-53.2%
Adjusted return on average capital employed[4]	**12.2%**	11.6%	+60bps
Return on average capital employed	**9.0%**	11.9%	-290bps

[1] All measures based on continuing operations.
[2] Adjusted earnings per share measures exclude exceptional items and the related tax effect.
[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.
[5] Operating margin is calculated by dividing operating profit by revenue from continuing operations. The adjusted measure excludes exceptional items.
[6] TreattZest is a citrus product that offers an authentic, fresh, zesty profile, this is an existing product of Treatt's with high growth potential.

FINANCIAL HIGHLIGHTS[1]:

- Resilient revenue growth of 5% (3% in constant currency) at £147.4m (FY22: £140.2m)

- Gross margin improvement driven by minimal impact of FX, operational efficiencies, as well as pricing adjustments
- FY23 profit before tax and exceptional items growth of 14% year on year to £17.3m (FY22 £15.3m) in line with Board expectations
- Year-end net debt of £10.4m (FY22 £22.4m), reflecting record cash generation in the year

OPERATIONAL HIGHLIGHTS[1]:

- Successful pricing actions, particularly in Citrus, to recover raw material inflation
- Continued strong growth in China and Coffee, key strategic growth drivers
- With UK site transition now complete, capex has returned to normalised levels, and the group has a strong platform to drive growth and efficiencies in the year ahead and beyond
- Cost discipline embedded in the business, mitigating macro headwinds, including customer destocking

Commenting on the results, CEO Daemmon Reeve said:

"We have delivered good progress this year, with growth in both sales and profit, and sustained demand in our end markets, despite a challenging backdrop. We saw encouraging growth in new markets, including coffee, China and Treattzest[6], as we worked to capitalise on the opportunities here, and a strong performance from our citrus lines. While destocking trends were evident as customers reduced inventory in the face of elevated interest rates, we dealt with this proactively, mitigating impact through good cost discipline and considered pricing action."

"We achieved a significant milestone in the Group's history, as we completed our transition to the new Skyliner way facility, with work ongoing to maximise efficiencies as we continue to grow.

"As we enter the new financial year, while we are seeing some signs of recovery in a few customers, we are hoping to see further signs that destocking trends are reversing. In addition, long-term trends towards health and wellness, sugar reduction and use of natural extracts, areas in which Treatt excels, continue to support our core beverage market, and our largest geographical markets are returning to growth. These factors, together with the commitment and hard-work of all our colleagues in the past year and into the new, means that Treatt is well-positioned for further growth in the year ahead.

"After 32 years working at Treatt, this is my final set of results before I retire in December. The business has changed immeasurably for the better in that time. I am lucky to have worked with talented and energetic colleagues and I leave with Treatt in good shape and in good hands."

Analyst and investor conference call
A conference call for analysts and investors will be held at 8.15 a.m. today, 28 November 2023. 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 in the region of 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

I am delighted to present my first Chair's Statement, having taken up the role earlier this year. I am grateful to my predecessor, Tim Jones, for his guidance as I took over the reins from him.

Daemmon Reeve, who has been with Treatt for almost 33 years, 11 of these as CEO, retires on 31 December 2023. Ryan Govender, our CFO, will become Interim CEO while we conduct a search for Daemmon's replacement. On behalf of all stakeholders, I'd like to thank both Tim and Daemmon for the important contribution they have made to Treatt over many years. The business is set for exciting growth, and I look forward to working with its talented people as the business forges ahead.

Well invested for future growth

As Treatt enters the next chapter in its almost 140-year history, it feels an appropriate time to reflect on some of its many strengths: deep expertise in the global sourcing and manufacturing of ingredients; long-standing trusted customer relationships; renowned technical expertise to deliver authentic tastes sustainably; and commitment to delivering excellence in its products. Capital investments in the UK and US, together with the dedication and expertise of our people, have positioned Treatt for significant growth in the years ahead. We are excited by growth potential in China and have continued to invest in our local team, product range and operations, establishing a facility focused on product testing and development tailored to the Chinese market and the wider region.

Since joining the Board, I have been struck by the talent of my colleagues and their commitment to the business, to each other and to our customers, across all our functions and geographies. Their expertise, passion and teamwork position Treatt strongly to deliver the Group's strategic priorities, and to capitalise on the many opportunities ahead in the dynamic beverage sector.

Treatt is proud to be trusted by a broad, international customer base, with many relationships in place for decades. These include household brands and some of the biggest flavour houses in the world, as they navigate and influence evolving consumer trends.

Performance

Treatt has delivered a resilient performance in the year despite difficult macroeconomic conditions. This is thanks to the drive and expertise of colleagues, and the business' agility in aligning with changing demand in the beverage market for healthier and authentic options.

With interest rates at their highest level for many years, volumes softened as customers in the beverage sector, and beyond, destocked as they tightened control of working capital. However, through considered pricing adjustments to offset materials price increases, and by focusing on cost control, we have been able to deliver a profit before tax and exceptional items increase of 13.7% in the period. Also, through our team's discipline and focus, we have been able to reduce our net debt position by some £12.0m, driven by record cash generation over the course of the year. On behalf of the Board, I would like to thank all of our people for their hard work and dedication in delivering these resilient results.

Board Matters

As well as extending our gratitude to Tim Jones and Daemmon Reeve, I would also like to thank Yetunde Hofmann, who stepped down from the Board in January 2023, for her service. We wish them all the best for the future.

In January 2023, Bronagh Kennedy joined the Treatt Board as an Independent Non-executive Director and Chair of the Remuneration Committee. Bronagh brings a wealth of experience from listed companies in various sectors, and has made a significant contribution already through her insights on both people and governance matters.

We have recently established an ESG Board Advisory Panel, chaired by Non-executive Director, David Johnston, to support our ESG Management Team as they develop and execute Treatt's activities on sustainability matters, an area our people and our customers are passionate about.

I feel very fortunate to chair a Board that has significant industry and business experience and which is so committed to supporting our management team in delivering Treatt's strategy.

Dividend

The Board intends to recommend at the forthcoming AGM a final dividend of 5.46 pence (2022: 5.35 pence which, if approved by shareholders, would bring the total dividend for the year to 8.01 pence (2022: 7.85 pence), in line with our progressive dividend policy and our aim to work towards our historical level of dividend cover of three times.

Outlook

Our talented and dedicated people are focused on delivering technically sound solutions tailored to evolving consumer demand. We will continue to build on our heritage in citrus, herbs, spices & florals and synthetic aromas, while leveraging our expertise to drive growth in health & wellness/sugar reduction categories and accelerate exciting growth opportunities like China. All of these efforts will be underpinned on sound provenance and sustainable practices.

Having made significant investments in our infrastructure in recent years, we now have the opportunity to deliver improved operational leverage and gain further efficiencies from our modern facilities, and from our supply chain and procurement as the business continues to grow, utilising new capacity.

While we remain cognisant of ongoing macroeconomic headwinds, we are confident in our strategy and in the strength of our teams and their expertise to deliver this.

Vijay Thakrar

Non-executive Chair

28 November 2023

Chief Executive's review

Following substantial investment in our people in the past two years, we believe we now have the right team in place to seize multiple growth opportunities.

Optimised for opportunities

In September 2023, with the completion of our relocation to Skyliner Way, handing over the keys for the head office Treatt first moved into in 1971 marked a key milestone for the business. This was the largest project in Treatt's 137-year history, executed brilliantly despite challenges in relation to Brexit and the Covid-19 pandemic. Feedback from colleagues and customers who have visited the site has been overwhelmingly positive.

Performance during the year has been resilient, thanks to ongoing strong demand in our end markets. Although revenues in the second half of the year were impacted by customers destocking as they sought to reduce inventories in response to interest rate rises, encouragingly, we are now seeing some early signs of a reversal of this temporary growth slow-down in a few customers, whilst volumes are still down from normalised levels.

During the year we have worked to optimise our cost base for future growth, supported by investment in technology and the good performance of the new site since operations began there a year ago. Since joining as CFO in July 2022, Ryan Govender has brought an invigorating commercial finance mindset and cost discipline, setting the business up well for sustainable growth.

Performance

I am pleased with the performance in the year which is reflected in the sales and profit growth along with record cash generation, despite the difficult macro trends in our industry. Particularly pleasing was our growth in new product offerings, including coffee and Treattzest[6], and from our expanding footprint in China. Cost discipline has been embedded into the business, and with the transition of our new UK site now complete, the Group is well-positioned for continued growth.

Although cost of living pressures are being felt in many of the 74 countries we serve, our core beverage market continues to be buoyed by long term trends towards health & wellness, sugar reduction and use of natural extracts, areas in which Treatt is recognised for our technical excellence. Growing interest in provenance, authenticity and sustainability also play to our strengths.

Our citrus lines performed extremely well this year, and we are continuing to drive the category towards more value-added and innovative products.

Our business in China continues to deliver, with growth accelerating since the lifting of pandemic- related restrictions early in the reporting period. We continue to develop relationships with domestic Chinese beverage customers, which provide a rich source of growth opportunities in this vast, innovative market.

Coffee performance in the year was pleasing, with revenues now reaching £5.0m, from £1m in the previous year, we have successfully integrated coffee as a new category in our portfolio.

We implemented price increases to mitigate inflationary pressures, although our relatively low energy usage somewhat shields the business from these to a degree, since many of our extraction processes are necessarily gentle, and therefore more energy efficient to preserve the integrity of the flavours and fragrances.

Sustainability

Treatt's operations are rooted in sustainability, with core lines of our business deriving from by-products of the citrus industry. The nature of what we do means it is inherent to our ethos to be conscious of our impact and what we can do to mitigate this. To oversee our sustainability efforts and to further embed these throughout the business we recently established an ESG Board Advisory Panel, chaired by Non-executive Director David Johnston. Alongside the panel, the ESG Management Team, including members from across the business, collectively brings diverse perspectives to such an important area. We have made good progress with our pathway to net zero, aligning to science-based target methodology for our short-term targets.

Although the world is experiencing more frequent and more extreme weather events, our long-term supply relationships and longstanding experience of sourcing in times of drought, flood, hurricane and other risks to harvests mean our customers can rely on us to supply them consistently. This is one of Treatt's core strengths. We are not heavily dependent on single origins and often source from different hemispheres to mitigate any issues.

People and culture

Our culture remains a fundamental element of Treatt's success, and having the whole of our UK team under one roof, following the closure of our previous site, is already paying dividends culturally. Communication is much easier, and relevant departments are located close to each other to facilitate cross-departmental collaboration. This is also the case between our international locations, with best practice shared among our facilities, strengthening our organisational culture as well as operational excellence.

During the year we launched our refreshed values with accompanying initiatives to embed them throughout the business, including the appointment of cultural ambassadors and materials setting out what each of the values means to individuals.

Mindful of the impact of inflationary pressures on household finances in some countries in which we operate, we were pleased to support colleagues with a cost of living payment during the year.

Personal

After nearly 33 years in the Group, and the last 11 years as CEO, my retirement from Treatt was announced effective on 31 December 2023. I have enjoyed a wonderful career at Treatt and it has been a privilege to serve as CEO during a time when the business has made great strides. I would like to thank all of my colleagues both past and present for their trust and support. I retire from Treatt with the Group in very good shape, the UK site move well-executed, and the platform set for the business to ascend even to greater heights in the future.

Outlook

Thanks to the drive and dedication of colleagues, the business is well-positioned to capitalise on its future opportunities. We have honed our cost base appropriately for the growth we expect in the next few years, and there are further operational efficiencies to be derived as volumes grow, which we expect to come from multiple categories and regions. Our core areas of expertise align with macro trends. Citrus remains a strong suit, with one in four new beverages globally based on those flavours, and we have some exciting new offerings coming to market across our portfolio. We are seeing signs of a return to growth in our largest geographical markets and are continuing to invest in China, where our burgeoning relationships and new business wins bode well for a healthy order book. By continuing to nurture what makes Treatt special, I am confident in the ability of our team to achieve our objectives for the years ahead.

Daemmon Reeve

Chief Executive Officer

28 November 2023

Financial review

Resilient revenue performance

Overview

I am pleased with the return to growth in 2023. Revenue, Profit before tax and exceptionals, and adjusted EBITDA[3] are all in growth which reflects the successful price increase programme and embedding of cost disciplines to offset macro inflation and customer destocking.

Having implemented a revised currency management strategy, providing increased visibility and controls over our currency exposures, foreign exchange impacts during the year were successfully managed.

With the transition to the new UK site complete and the closure of the old UK site at Northern Way, capital expenditure has returned to normalised levels. The Group completed refinancing of the UK bank facility for £25m with HSBC, and US facility of $25m with Bank of America for a minimum of three years. These facilities mean the group is set up for future growth.

We launched our new strategy during the year with a focus on sales volume and innovation led growth. We have world class people and well-invested infrastructure globally with available capacity. Our strong customer base and strategic relevance in the beverage market gives me belief that we can grow our core, premium and new markets, resulting in improvement in profit and operating margins over the medium term.

I would like to thank Daemmon Reeve for his leadership of the business, during his eleven year tenure as CEO, and wish him the very best in retirement.

Income statement

Revenue

Revenue for the year increased by 5.1% to £147.4m (2022: £140.2m). In constant currency terms, revenue increased by 3%. The growth was delivered mainly through price increases despite a challenging macro environment and sector destocking, particularly in H2. Sales price increases were successfully implemented to offset raw material price inflation. Value-added beverage volumes declined moderately while, as a result of strategic shedding of lower margin commoditised citrus products and sector destocking, commodity volumes declined more significantly.

Heritage categories, which include citrus (excluding China and Treattzest), herbs, spices & florals and synthetic aromas grew by 1% with revenue of £97.6m (2022: £96.6m). Citrus margins, mainly driven by price increase, improved across several products while customer destocking and a decrease in demand for alternative proteins adversely impacted sales of synthetic aroma and herbs, spices & florals.

Premium categories, which include tea, health & wellness, fruit & vegetables, were in line with the prior year with revenue of £33.7m (2022: £33.6m). Fruit & vegetables has shown growth in passionfruit, cucumber and mango while sugar reduction products are well established in health & wellness with growth opportunities in new customers and regions. Tea volumes declined with lower US sales, partially offset by price increase.

New markets, which include Coffee, China and Treattzest citrus, grew by 61% with revenue of £16.1m (2022: £10.0m). Coffee growth was significant in the year with revenue of £5.0m in the year with a focus on the premium cold brew coffee and ready-to-drink markets. China continues to make encouraging progress, in line with management expectations, as citrus gains momentum in regional FMCG customers, with revenue of £9.5m (2022 £7.9m).

Geographical analysis of revenues shows that the UK and Europe declined, whereas USA grew significantly. Europe declined due to the impact of destocking, particularly in synthetic aromas, more heavily in H2.

Revenue in the Group's largest market, the USA, grew by 14% to £61.4m (2022: £53.7m) representing 42% of the Group total (2022: 38.3%). Within the US, the Group benefitted from particularly strong growth in citrus, mainly driven by price increase.

In the UK, revenues declined by 18% at £8.0m, primarily due to sector destocking. Sales to the rest of Europe, which represented 22.8% of Group revenue (2022: 24.3%), also declined due to sector destocking, reporting total revenue of £33.6m (2022: £34.0m).

The Group continued to focus on growth opportunities in China, and despite the extended Covid-19 restrictions in large parts of China in place until January 2023, reported revenue to the country increased by 21% to £9.5m

(2022: £7.9m). We remain optimistic about the opportunities in this market with a large proportion of growth representing new business for Treatt, particularly in local FMCG beverage customers in China.

Sales to the Rest of the World (excluding China) grew by 2% to £22.3m (2022: £21.8m).

Product category % share of revenue – 2023 v 2022:

% of revenue	Citrus	Tea	Health & wellness	Fruit & vegetables	Herbs, spices & florals	Synthetic aroma	Coffee
2023	53%	5%	8%	11%	7%	13%	3%
2022	48%	6%	8%	10%	9%	18%	1%

Geographical % share of revenue– 2023 v 2022:

% of revenue	UK	Germany	Ireland	Rest of Europe	USA	Rest of the Americas	China	Rest of the world
2023	6%	4%	10%	9%	42%	9%	7%	13%
2022	7%	6%	8%	10%	38%	9%	6%	16%

Profit

Gross profit increased by 14.7% with gross profit margins increasing from 27.9% to 30.4%. The gross margin increase was driven by operational efficiencies, successful price increases to mitigate the impact of raw material inflation, as previously communicated the strategic exit of some lower margin citrus business in the year, and the benefit of effective management of FX, resulting in negligible FX losses in the year (2022: £2.3m loss).

Administrative expenses (excluding exceptional items) grew by 13.7% in the year to £26.5m (2022: £23.3m), primarily driven by inflationary pressures, and an increase in depreciation year-on-year. Headcount across the Group decreased by 14% from 425 heads in September 2022 to 365 heads in September 2023, following the closure of the previous UK manufacturing site, and targeted restructuring. During the year depreciation increased by £2.0m due to the full year impact of Skyliner Way depreciation. The outlook for administration expenses will be to maintain cost disciplines embedded, and foresee increases only due to depreciation, inflation and focussed investment in sales and innovation to drive growth.

Adjusted net operating margin[5] increased in the year to 12.4% (2022: 11.3%), benefitting from the increase in gross profit. Net operating margin decreased in the year to 9.9% (2022: 11.9%), mainly due to the one-off exceptional gain in the prior year relating to the sale of the previous UK site. Operating profit excluding exceptional items increased 16% to £18.3m (2022: £15.8m) whilst statutory operating profit decreased 13% to £14.5m (2022: £16.7m), due again to the sale of the previous UK site. Our medium-term target for adjusted net operating margin is 15%.

Adjusted return on average capital employed (ROACE)[4] increased to 12.2% (2022: 11.6%) as a consequence of the increase in operating profits during the year. Statutory return on average capital employed decreased to 9.0% (2022: 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 range for ROACE is 15-20%.

Exceptional items included UK restructuring costs of £2.7m (2022: £0.6m) and relocation expenses of £1.1m (2022: £1.5m income).

Adjusted earnings before interest, tax, depreciation and amortisation (adjusted EBITDA) for the year increased significantly by 24.6% to £23.0m (2022: £18.5m) whereas statutory EBITDA reports a 1.0% decrease to £19.2m (2022: £19.4m). Profit before tax and exceptional items from continuing operations grew by 13.7% to £17.3m (2022: £15.3m). Reported profit after tax for the year of £10.9m represents a decrease of 17.8% on the prior year, driven by an increase in exceptional charges during the year (as set out above).

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 strengthened against the US Dollar, ending the year 9.3% stronger at £1=$1.22 (2022: £1=$1.12); the average Sterling/ US Dollar exchange rate for the year was 4.3% stronger as compared with the prior year.

The overall impact of foreign exchange gains and losses in 2023 was a total loss of £0.1m (2022: £2.3m loss. This is the result of the new FX controls and processes put in place in the year.

There was a foreign exchange loss of £6.2m (2022: £11.5m gain) 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 £1.0m (2022: £0.5m) due to materially higher interest rates despite strong cash generation of £12.0m in the year. 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. Interest cover for the year before exceptional items decreased to 18.8 times (2022: 30.5 times), this is well above the covenant of 1.5x.

Group tax charge

After providing for deferred tax, the Group tax charge decreased by £0.3m to £2.6m (2022: £2.9m); an effective tax rate (after exceptional items) of 19.5% (2022: 17.7%). The increase in effective tax rate is driven largely by the prior year tax treatment on the disposal of Northern Way premises, on which a gain of £3.3m was considered not taxable.

Earnings per share

Basic earnings per share (as set out in note 10) decreased by 18.3% to 18.01p (2022: 22.04p). Adjusted basic earnings per share[4] for the year increased by 15.9% to 22.94p (2022: 19.80p). The calculation of earnings per share excludes those shares which are held by the Treatt Employee Benefit Trust (EBT) ,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 5.46p per share (2022: 5.35p) increases the total dividend per share for the year to 8.01p, a 2% increase on the prior year (2022: 7.85p), representing dividend cover of 2.2 times earnings for the year and a rolling three-year cover after exceptional items of 2.8 times. The Board considers this to be appropriate cover at this stage of the Group's development and against our aim to work towards our historical level of dividend cover of three times earnings.

Balance sheet

Shareholders' funds grew in the year by £3.3m to £137.2m (2022: £133.9m), with net assets per share increasing by 2.1% to £2.25 (2022: £2.20). Over the last five years net assets per share have grown by 63.5%. 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 £62.4m (2022: £68.4m), a decrease of £6.0m. This decrease was driven by a significant reduction in inventory volume, offset with higher raw material costs. 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 £10.4m (2022: £22.4m) including leases of £0.5m (2022: £0.4m), with available unused facilities of £35.6m (2022: £8.4m), this is the result of a focus on cash generation.

In order to support the Group's growth plans for the foreseeable future, the Group has secured new financing arrangements in the UK and US totalling £45.5m (2022: £30.8m) following a refinance of all the Group's main banking arrangements across the UK and US during the year. None of the banking facilities (2022: £13.4m) expire in one year or less.

During the year, the Group replaced its various UK banking arrangements (totalling c.£19.3m), with a single asset-based lending facility with HSBC of £25.0m for a three-year term, with an optional accordion (pre-approved facility) of £10.0m and option to extend the term of facility for two further years. This facility lends against the value and quality of inventory and receivables within the UK business, and strengthens the ability of the Group to borrow in the UK.

The US revolving credit facility with Bank of America was expanded on similar terms, providing a facility of up to $25.0m (2022: $10.0m), with an optional accordion of $10.0m, for a period of three years. Revolving credit facility funds were then used to repay the secured term loan balance (2022: £3.2m) in full.

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 inflow for the year was £4.6m (2022: £4.1m outflow) including a net outflow of £7.1m paying down the existing bank loans and borrowings.

Excluding the refinancing, the Group delivered record cash generation of £12.0m largely due to strong cash generation from operations, driven by efforts across the business to exercise greater financial prudence but also through lower capital expenditure and efforts to improve working capital.

During the year the Group invested £5.7m (2022: £12.8m) on capital projects, of which £1.3m (2022: £5.0m) was incurred on the UK relocation project. The level of capital investment was lower than in previous years as the Group's capital investment program nears completion. Total investments in the Group's US operations were £1.9m and was largely focussed on finishing existing value-added projects.

There was an overall improvement in working capital, generating an inflow of £3.5m (2022: outflow £18.5m), £2.5m of which was generated from a reduction of inventory, and as a result of a focus on working capital efficiency.

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. to deliver operational efficiencies and advanced capabilities, the aim of the new facility was to bring together all our UK-based employee into a single premises.

Construction of the new facility was completed during 2021. 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 first phase production began from the new facility as equipment was successfully brought online. The new site has state of-the-art laboratories which 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, to maintain the continuity of its manufacturing capability during the transition. In September 2023, we successfully exited the Northern Way premises with all UK-based employees now located at Skyliner Way.

During 2023 we commenced phase two activity which relates to the purchase and installation of value-added manufacturing equipment, with the majority now complete. The remaining project is now viewed as a capital management process instead of a relocation project, we anticipate to be completed during 2024, in line with original expectations.

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	3,509	44,786
Previous site disposal	(5,592)	–	(5,592)

Exceptional items	4,820	2,299	7,119
Total costs	40,505	5,808	46,313

The total capital project costs, including proceeds from the sale of the previous site, are expected to be approximately £39.2m with exceptional costs totalling £7.1m expected to be incurred. As the project moves into the final phase, we expect a further net cash outflow of £3.1m over the next year. The cash outflows for the project are expected to result in the rolling Group net debt to adjusted EBITDA ratio remaining below 1.0x during FY2024.

It should be noted that in accordance with IAS 23 'Borrowing costs', the interest charges incurred on funds utilised on the relocation project prior to its completion can be capitalised. In the year ended 30 September 2023 £307,000 (2022: £187,000) was capitalised, and further capitalisation of borrowing costs is expected to be minimal for the year ending 30 September 2024.

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 employees. All UK employees with a year's service were awarded £700 (2022: £700) 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 employees who were awarded $1,000 (2022: $1,000) 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 30,000 (2022: 24,000) matching shares were granted.

The SIP currently holds 380,000 shares (2022: 438,000) 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 employees in the UK and US. Under US tax legislation, employees 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 267,000 (2022: 72,000) 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 355,000 (2022: 205,000) shares during the year, whilst 299,000 (2022: 278,000) were exercised from options awarded in prior years which have now vested. During the year 200,000 (2022: 400,000) shares were issued to the Employee Benefit Trust (EBT) at par (2 pence per share). The EBT currently holds 162,000 shares (2022: 270,000) 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 (2022: £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 £2.8m (2022: £1.3m asset). The increase in the pension asset is driven by investment returns of £0.8m, and also an actuarial gain on changes to financial assumptions of £0.9m, due to continuing increases in government bond yields which further increased the discount rate used to calculate liabilities.

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.

Ryan Govender

Chief Financial Officer

28 November 2023

GROUP INCOME STATEMENT

for the year ended 30 September 2023

	Notes	2023 Before exceptional items £'000	2023 Exceptional items £'000	2023 Total £'000	2022 Before exceptional items £'000	2022 Exceptional items £'000	2022 Total £'000
Revenue	6	**147,397**	**–**	**147,397**	140,185	–	140,185
Cost of sales		**(102,573)**	**–**	**(102,573)**	(101,101)	–	(101,101)
Gross profit		**44,824**	**–**	**44,824**	39,084	–	39,084
Administrative expenses	7	**(26,503)**	**(2,655)**	**(29,158)**	(23,311)	(601)	(23,912)
Gain on disposal of land and buildings	7	**–**	**–**	**–**	–	3,324	3,324
Relocation expenses	7	**–**	**(1,145)**	**(1,145)**	–	(1,800)	(1,800)
Operating profit[1]		**18,321**	**(3,800)**	**14,521**	15,773	923	16,696
Finance income		**112**	**–**	**112**	8	–	8
Finance costs		**(1,089)**	**–**	**(1,089)**	(525)	–	(525)
Profit before taxation		**17,344**	**(3,800)**	**13,544**	15,256	923	16,179
Taxation	8	**(3,405)**	**803**	**(2,602)**	(3,295)	431	(2,864)
Profit for the year attributable to owners of the Parent Company		**13,939**	**(2,997)**	**10,942**	11,961	1,354	13,315
Earnings per share		**Adjusted**[2]		**Statutory**	Adjusted[2]		Statutory
Basic	10	**22.94p**		**18.01p**	19.80p		22.04p
Diluted	10	**22.81p**		**17.91p**	19.60p		21.82p

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.

The group reconciliation of net cash flow to movement in net debt, together with notes 1 to 12 form part of these financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 September 2023

	Notes	2023 £'000	2022 £'000
Profit for the year attributable to owners of the Parent Company		**10,942**	13,315
Items that will or may be reclassified subsequently to profit or loss:			
Currency translation differences on foreign currency net investments		**(6,188)**	11,461
Current tax on foreign currency translation differences	8	**(33)**	102
Deferred tax on foreign currency translation differences	8	**301**	–
Fair value movement on cash flow hedges		**269**	(23)
Deferred tax on fair value movement	8	**–**	4
		(5,651)	11,544
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain on defined benefit pension scheme		**1,381**	8,273
Deferred tax on actuarial gain	8	**(345)**	(2,068)
		1,036	6,205
Other comprehensive (expense)/income for the year		**(4,615)**	17,749
Total comprehensive income for the year attributable to owners of the Parent Company		**6,327**	31,064

All financial information presented relates to continuing operations.

The group reconciliation of net cash flow to movement in net debt, together with notes 1 to 12 form part of these financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2023

	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 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 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
Profit for the year	–	–	–	–	–	10,942	**10,942**
Other comprehensive income:							
Exchange differences	–	–	–	–	(6,188)	–	**(6,188)**
Fair value movement on cash flow hedges	–	–	–	269	–	–	**269**
Actuarial gain on defined benefit pension scheme	–	–	–	–	–	1,381	**1,381**
Taxation relating to items above	–	–	–	–	268	(345)	**(77)**
Total comprehensive income	**–**	**–**	**–**	**269**	**(5,920)**	**11,978**	**6,327**
Transactions with owners:							
Dividends	–	–	–	–	–	(4,802)	**(4,802)**
Share-based payments	–	–	–	–	–	1,189	**1,189**
Movement in own shares in share trusts	–	–	9	–	–	–	**9**
Gain on release of shares in share trusts	–	–	–	–	–	620	**620**
Issue of share capital	6	–	(6)	–	–	–	**–**
Taxation relating to items recognised directly in equity	–	–	–	–	–	53	**53**
Total transactions with owners	**6**	**–**	**3**	**–**	**–**	**(2,940)**	**(2,931)**
30 September 2023	**1,223**	**23,484**	**(2)**	**(42)**	**7,463**	**105,120**	**137,246**

The group reconciliation of net cash flow to movement in net debt, together with notes 1 to 12 form part of these financial statements.

GROUP BALANCE SHEET

as at 30 September 2023

Registered Number: 01568937

	2023 £'000	2022 £'000
ASSETS		
Non-current assets		
Intangible assets	**2,752**	3,206
Property, plant and equipment	**71,526**	74,281
Right-of-use assets	**538**	375
Post-employment benefits	**3,723**	1,782
	78,539	79,644
Current assets		
Inventories	**62,396**	68,351
Trade and other receivables	**32,969**	37,113
Current tax assets	**300**	719
Derivative financial instruments	**8**	–
Cash and bank balances	**809**	2,354
	96,482	108,537
Total assets	**175,021**	188,181
LIABILITIES		
Current liabilities		
Bank overdrafts	**–**	(6,174)
Borrowings	**(10,642)**	(15,861)
Provisions	**(102)**	(397)
Trade and other payables	**(20,700)**	(22,903)
Lease liabilities	**(176)**	(105)
Derivative financial instruments	**(176)**	(666)
Current tax liabilities	**(755)**	(223)
	(32,551)	(46,329)
Net current assets	**63,931**	62,208
Non-current liabilities		
Borrowings	**–**	(2,342)
Lease liabilities	**(373)**	(291)
Deferred tax liabilities	**(4,851)**	(5,369)
	(5,224)	(8,002)
Total liabilities	**(37,775)**	(54,331)
Net assets	**137,246**	133,850

GROUP BALANCE SHEET (continued)

as at 30 September 2023

	Notes	2023 £'000	2022 £'000
EQUITY			
Share capital	11	**1,223**	1,217
Share premium account		**23,484**	23,484
Own shares in share trusts		**(2)**	(5)
Hedging reserve		**(42)**	(311)
Foreign exchange reserve		**7,463**	13,383
Retained earnings		**105,120**	96,082
Total equity attributable to owners of the Parent Company		**137,246**	133,850

The group reconciliation of net cash flow to movement in net debt, together with notes 1 to 12 form part of these financial statements.

GROUP STATEMENT OF CASH FLOWS

for the year ended 30 September 2023

	Notes	2023 £'000	2022 £'000
Cash flow from operating activities			
Profit before taxation		**13,544**	16,179
Adjusted for:			
Depreciation of property, plant and equipment and right-of-use assets		**4,277**	2,476
Amortisation of intangible assets		**399**	215
Impairment charge on intangible assets		**228**	–
Loss/(gain) on disposal of property, plant and equipment		**241**	(3,324)
Net finance costs excluding post-employment benefit expense		**1,087**	382
Share-based payments		**1,222**	1,039
(Increase)/decrease in fair value of derivatives		**(230)**	61
Employer contributions to defined benefit pension scheme		**(450)**	(450)
Post-employment benefit (income)/expense		**(110)**	135
Operating cash flow before movements in working capital		**20,208**	16,713
Movements in working capital:			
Decrease/(increase) in inventories		**2,507**	(14,396)
Decrease/(increase) in receivables		**3,004**	(8,502)
(Decrease)/increase in payables		**(2,054)**	4,355
Cash generated from/(used in) operations		**23,665**	(1,830)
Taxation (paid)/received		**(2,174)**	443
Net cash generated from/(used in) operating activities		**21,491**	(1,387)
Cash flow from investing activities			
Proceeds on disposal of property, plant and equipment		**1,557**	5,597
Purchase of property, plant and equipment		**(5,507)**	(11,849)
Purchase of intangible assets		**(207)**	(925)
Interest received		**2**	8
Net cash used in investing activities		**(4,155)**	(7,169)

GROUP STATEMENT OF CASH FLOWS (continued)

	Notes	2023 £'000	2022 £'000
Cash flow from financing activities			
Repayment of borrowings and loans		**(17,737)**	(360)
Proceeds from bank borrowings		**10,642**	9,412
Repayment of lease liabilities		**(161)**	(80)
Interest paid		**(1,080)**	(390)
Dividends paid	9	**(4,802)**	(4,834)
Proceeds on issue of shares	11	**6**	9
Net sale of own shares by share trusts		**623**	621
Net cash (used in)/generated from financing activities		**(12,509)**	4,378
Net increase/(decrease) in cash and cash equivalents		**4,827**	(4,178)
Effect of foreign exchange rates		**(198)**	111
Movement in cash and cash equivalents in the year		**4,629**	(4,067)
Cash and cash equivalents/(overdrafts) at beginning of year		**(3,820)**	247
Cash and cash equivalents/(overdrafts) at end of year		**809**	(3,820)
Cash and cash equivalents/(overdrafts) comprise:			
Cash and bank balances		**809**	2,354
Bank overdrafts		**–**	(6,174)
		809	(3,820)

The group reconciliation of net cash flow to movement in net debt, together with 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 2023

	2023 £'000	2022 £'000
Movement in cash and cash equivalents in the year	**4,629**	(4,067)
Repayment of borrowings and loans	**17,737**	360
Proceeds from bank borrowings	**(10,642)**	(9,412)
(Increase)/reduction in lease liabilities	**(153)**	657
Cash inflow/(outflow) from changes in net debt in the year	**11,571**	(12,462)
Effect of foreign exchange rates	**466**	(843)
Movement in net debt in the year	**12,037**	(13,305)
Net debt at beginning of year	**(22,419)**	(9,114)
Net debt at end of year	**(10,382)**	(22,419)

Analysis of movement in net debt during the year:

	At 1 October 2022 £'000	Cash flow £'000	Non-cash movements £'000	Foreign exchange movements £'000	At 30 September 2023 £'000
Cash and bank balances	2,354	(1,347)	–	(198)	**809**
Bank overdrafts	(6,174)	6,174	–	–	–
Cash and cash equivalents	(3,820)	4,827	–	(198)	**809**
Bank borrowings and term loans	(18,203)	7,095	–	466	**(10,642)**
Lease liabilities	(396)	161	(317)	3	**(549)**
Net debt	(22,419)	12,083	(317)	271	**(10,382)**

	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 borrowings and term loans	(8,308)	(9,052)	(843)	(18,203)
Lease liabilities	(1,053)	666	(9)	(396)
Net cash/(debt)	(9,114)	(12,564)	(741)	(22,419)

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 2023 and 2022 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 accounting standards.. The statutory accounts for the year ended 30 September 2022 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 30 September 2023 have been audited and approved but have not yet been filed.

The Group's audited financial statements for the year ended 30 September 2023 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 28 November 2023.

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 2022.

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 2023 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 2022.

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 twelve months from the date these financial statements are approved.

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 most significantly severe business interruption like that which was experienced during the pandemic, or that could arise through the impact of climate change or through global conflict.

The Group successfully refinanced all of its banking facilities during the year, agreeing a new £25.0m asset-based lending facility with HSBC in the UK and extending the existing revolving credit facility with Bank of America in the US to $25.0m. Both facilities are for a minimum term of three years and contain pre-agreed accordion elements of £10.0m and $10.0m respectively, these accordions are disregarded for the purposes of the going concern and viability assessment. At the year-end date, the Group had net debt of £10.4m and headroom on facilities of £35.6m.

In assessing the Group's prospects and resilience, the Directors have done so with reference to its current financial position and prospects, its credit facilities, its recent and historical financial performance, and forecasts.

The 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 both separately and simultaneously. These assumptions are those that would arise from the aforementioned uncertainties and that would adversely impact cash generation and profitability. Using these assumptions, Group headroom and covenant compliance have been assessed throughout the going concern (twelve-month) and viability (three-year) periods.

The modelling indicated that the Group would retain sufficient headroom on total facilities and comply with its banking covenants throughout the tested periods. In the most adverse scenario, where all risks are stressed simultaneously by 10% or more, the Group's subsidiary, R C Treatt & Co Ltd, would breach its banking facility limit in October 2025, but in that event the Group would act swiftly to activate the mitigations described below, or recapitalise the company using cash elsewhere in the business.

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 and the Group's headroom on facilities within the viability period. This scenario was then stress-tested further by overlaying the adverse impact of a decline in profit margins.

Under the reverse-engineered scenario, it was determined that a continuous decline in sales of greater than 36.0% per annum, or 29.0% per annum alongside a 400bps decline in margin for two consecutive years, with no mitigating measures put in place, would result in a breach of the financial covenants in Treatt USA, Inc and a breach of R C Treatt's facility limit by around October 2025, followed by a breach of overall Group facility limits in October 2026. The possibility of these severe scenarios materialising is considered remote. In addition, it is implausible that the Group would not act swiftly and decisively to activate mitigations such as operating cost savings, reduction in capital expenditure, and delaying or cancelling future dividend payments to avoid a breach of its banking limits or covenants.

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 twelve months from the date this report is approved. 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 62 to 67 of the audited 2022 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, supply chain, 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		2023 Total £’000	2022 £’000 Total
United Kingdom		**8,039**	9,777
Rest of Europe	– Germany	**5,937**	7,907
	– Ireland	**14,653**	11,527
	– Other	**13,006**	14,596
The Americas	– USA	**61,407**	53,731
	– Other	**12,549**	12,919
Rest of the World	– China	**9,525**	7,901
	– Other	**22,281**	21,827
		147,397	140,185

All Group revenue is in respect of the sale of goods, other than property rental income of nil (2022: £1,000). No country included within ‘Other’ contributes more than 5.0% of the Group’s total revenue. The Group revenue from the largest customer was £15,472,000 (2022: £15,226,000).

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

Continuing operations	2023 £’000	2022 £’000
United Kingdom	**44,800**	44,914
United States	**29,908**	32,910
China	**108**	38
	74,816	77,862

7. EXCEPTIONAL ITEMS

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

	2023 £'000	2022 £'000
UK relocation project		
Relocation expenses	**(1,145)**	(1,800)
Less: tax effect of relocation expenses	**205**	317
Restructuring costs		
Restructuring costs	**(2,655)**	(601)
Less: tax effect of restructuring costs	**598**	114
Disposal of Northern Way premises		
Gain on disposal of land and buildings	**–**	**3,324**
Less: tax effect of disposal	**–**	**–**
	(2,997)	1,354

The exceptional items all relate to non-recurring costs which are considered material and discrete in nature; therefore the Group considers them exceptional in order to provide a more meaningful view of the Group's underlying business performance.

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. These costs arose in relation to the decommissioning of equipment and site preparation ahead of the UK business formally exiting the Northern Way premises in August 2023, together with costs associated with the final stages of manufacturing fit-out at Skyliner Way premises. Included within this line is a loss on the disposal of property, plant and equipment of £104,000 that did not transition to Skyliner Way.

Restructuring costs principally comprise redundancy and consulting costs relating to the closure of distillation operations at the Northern Way premises and the creation of an enhanced global leadership structure, which was communicated to the business in August 2023. These costs consist of contractual employment and termination payments for those employees impacted. Amounts which are contractually due under employees' existing terms and conditions are considered to be fully allowable for tax purposes.

During the financial year, payments totalling £887,000 had been made in respect of the restructuring costs, with the cash flow impact of the remaining costs expected to be settled in the following financial year.

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.

8. TAXATION

Analysis of tax charge in income statement:

	2023 £'000 Total	2022 £'000 Total
Current tax:		
UK corporation tax on profits for the year	**(32)**	153
Adjustments to UK tax in respect of previous periods	**(41)**	(231)
Overseas corporation tax on profits for the year	**3,577**	2,069
Adjustments to overseas tax in respect of previous periods	**(365)**	(52)
Total current tax	**3,139**	1,939
Deferred tax:		
Origination and reversal of temporary differences	**(141)**	726
Effect of change of tax rate on opening deferred tax	**(29)**	(45)
Adjustments in respect of previous periods	**(367)**	244
Total deferred tax	**(537)**	925
Tax on profit on ordinary activities	**2,602**	2,864

Analysis of tax charge in other comprehensive income:

	2023 £'000	2022 £'000
Current tax:		
Foreign currency translation differences	**33**	(102)
Total current tax	**33**	(102)
Deferred tax:		
Cash flow hedges	**–**	(4)
Foreign currency translation differences	**(301)**	–
Defined benefit pension scheme	**345**	2,068
Total deferred tax	**44**	2,064
Total tax charge recognised in other comprehensive income	**77**	1,962

8. TAXATION (continued)

Analysis of tax (credit)/charge in equity:

	2023 £'000	2022 £'000
Current tax:		
Share-based payments	**(28)**	(20)
Deferred tax:		
Share-based payments	**(25)**	444
Total tax (credit)/charge recognised in equity	**(53)**	424

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 22.0% (2022: 19.0%). The differences are explained below:

	2023 £'000 Total	2022 £'000 Total
Profit before tax multiplied by standard rate of UK corporation tax at 22.0% (2022: 19.0%)	**2,980**	3,074
Effects of:		
Expenses not deductible in determining taxable profit	**335**	268
Income not taxable in determining taxable profit	**–**	(694)
Research and development tax credits	**(20)**	(243)
Difference in tax rates on overseas earnings	**49**	678
Adjustments to tax charge in respect of prior years	**(732)**	(39)
Effect of change of tax rate on opening deferred tax	**(47)**	(38)
Deferred tax not recognised	**37**	(142)
Total tax charge for the year	**2,602**	2,864

From 1 April 2023, the main rate of corporation tax increased from 19% to 25%. The blended rate applicable to the Group's UK operations is 22.0%. The Group's effective UK corporation tax rate for the year was 13.2% (2022: 17.7%). The effective tax rate of US-based earnings is 19.4% (2022: 21.5%). 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				
	2023 Pence	**2023 Pence**	**2021 Pence**	**2023 £'000**	**2022 £'000**
Interim dividend	**2.55p[3]**	2.50p[2]	2.00p[1]	**1,552**	1,512
Final dividend	**5.46p[4]**	5.35p[3]	5.50p[2]	**3,250**	3,322
	8.01p	7.85p	7.50p	**4,802**	4,834

1 Accounted for in the year ended 30 September 2021.

2 Accounted for in the year ended 30 September 2022.

3 Accounted for in the year ended 30 September 2023.

4 The proposed final dividend for the year ended 30 September 2023 of 5.46p pence will be voted on at the Annual General Meeting on 25 January 2024 and will therefore be accounted for in the financial statements for the year ending 30 September 2024.

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) as these do not rank for dividend.

	2023	**2022**
Profit after taxation attributable to owners of the Parent Company (£'000)	**10,942**	13,315
Weighted average number of ordinary shares in issue (No: '000)	**60,762**	60,400
Basic earnings per share (pence)	**18.01p**	22.04p

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:

	2023 No ('000)	**2022 No ('000)**
Weighted average number of shares	**60,916**	60,578
Weighted average number of shares held in the EBT	**(154)**	(178)
Weighted average number of shares used for calculating basic EPS	**60,762**	60,400
Executive share option schemes	**301**	487
All-employee share options	**45**	148
Weighted average number of shares used for calculating diluted EPS	**61,108**	61,035
Diluted earnings per share (pence)	**17.91p**	21.82p

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:

	2023 £'000	2022 £'000
Profit after taxation attributable to owners of the Parent Company	**10,942**	13,315
Adjusted for:		
Exceptional items – relocation expenses (see note 7)	**1,145**	1,800
Exceptional items – restructuring costs (see note 7)	**2,655**	601
Exceptional items – gain on disposal of land and buildings (see note 7)	**–**	(3,324)
Taxation thereon	**(803)**	(431)
Adjusted earnings	**13,939**	11,961
Adjusted basic earnings per share (pence)	**22.94p**	19.80p
Adjusted diluted earnings per share (pence)	**22.81p**	19.60p

11. SHARE CAPITAL

Called up, allotted and fully paid	2023 £'000	2023 Number	2022 £'000	2022 Number
At start of year	**1,217**	**60,864,564**	1,208	60,411,933
Issued in year	**6**	**265,025**	9	452,631
At end of year	**1,223**	**61,129,589**	1,217	60,864,564

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 200,000 (2022: 400,000) ordinary shares to the Employee Benefit Trust, and 65,025 (2022: 52,631) ordinary shares to the SIP Trust, at nominal value of 2p per share, for the purpose of meeting obligations under employee share option schemes.

The number of shares held in the EBT at 30 September 2023 is 162,000 (2022: 270,000) and the number of shares held in the SIP is 380,000 (2022: 437,000).

12. ALTERNATIVE PERFORMANCE MEASURES

The Group reports certain alternative performance measures (APMs) that are not required under IFRS. The Group believes that these APMs, when viewed in conjunction with its IFRS financial information, provide valuable and more meaningful information regarding the underlying financial and operating performance of the Group to its stakeholders.

APMs referenced throughout the Annual Report which are not possible to easily derive from the financial statements, are shown in the reconciliations below alongside their statutory equivalent measures.

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 percentage, along with the statutory equivalent measure, is shown below:

ROACE – APM measure

Group	2023 £'000	2022 £'000
Total equity	**137,246**	133,850
Net debt	**10,382**	22,419
Capital employed	**147,628**	156,269
Interim total equity[1]	**129,685**	114,988
Interim net debt[1]	**17,704**	19,787
Interim capital employed[1]	**147,389**	134,775
Average capital employed[2]	**150,429**	135,486
Adjusted operating profit[3]	**18,321**	15,773
ROACE %	**12.2%**	11.6%

ROACE – statutory measure

Group	2023 £'000	2022 £'000
Average capital employed[2]	**150,429**	135,486
Profit before taxation	**13,544**	16,179
ROACE %	**9.0%**	11.9%

12. ALTERNATIVE PERFORMANCE MEASURES (continued)

Net debt to adjusted EBITDA

The net debt 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	2023 £'000	2022 £'000
Profit before taxation	**13,544**	16,179
Exceptional items	**3,800**	(923)
Profit before taxation and exceptional items	**17,344**	15,256
Interest receivable	**(112)**	(8)
Interest payable	**1,089**	525
Depreciation of property, plant and equipment and right-of-use assets	**4,277**	2,476
Amortisation of intangible assets	**399**	215
Adjusted EBITDA	**22,997**	18,464
Net debt	**10,382**	22,419
Net debt to adjusted EBITDA	**0.45**	1.21

Statutory measure

Group	2023 £'000	2022 £'000
Profit before taxation	**13,544**	16,179
Interest receivable	**(112)**	(8)
Interest payable	**1,089**	525
Depreciation of property, plant and equipment and right-of-use assets	**4,277**	2,476
Amortisation of intangible assets	**399**	215
EBITDA	**19,197**	19,387
Net debt	**10,382**	22,419
Net debt to EBITDA	**0.54**	1.16

1 Interim total equity and interim net debt 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.

3 Adjusted operating profit for ROACE purposes is operating profit before exceptional items as defined in the Group income statement.