Hilton Food Group

Half Year Results 2023 / Video Webcast

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Transcript



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Steve Murrells: Good morning everybody. Welcome to Hilton Food's Interim Results. During this presentation, for those who don't know me, I'm Steve Murrells, the Group's Chief Executive, and I'm presenting today with our CFO Matt Osborne. We're going to share our first half performance, review the progress that we are making. And as it's my first Interim in charge, I want to reiterate as to why this is such an exciting business to be leading.

This is a solid set of results following a tough 2022. We've made good progress in the first half and performed in line with market consensus. I'm particularly pleased with our performance in APAC where revenue and volume growth is up 7% across Australia and New Zealand, and it's a reminder of how strong our core offer is. Our operational performance has continued to be underpinned by the strength, the reach, and the scale of our core meat business. And in addition, we've made decisive and proactive changes within our UK seafood business with the turnaround well underway. The full unwind of our successful seafood recovery will be seen in H2- and we're on track to hit our full year numbers. As a reminder, ESG continues to underpin all that we do, and it does remain an important enabler to deliver for our customers.

Now, Matt we'll come back to the specific numbers later, but my callouts would be revenues continue to be strong with a slight positive uptick in volumes and operating profits, as we've worked hard to mitigate persistent inflationary pressures. A strong cash position has been delivered in this first half, and I'm pleased to set the interim dividend at 9 pence, an increase of 27% on the interim dividend declared in the prior year and reflects a resumption in the interim dividend pay-out being approximately 30% of the previous year's dividend.

Now before I hand across to Matt, I want to go through the numbers in more detail. I want to take a moment to give my view as why I joined Hilton and remind you why this is a great business to back. As you know, I was previously a customer of Hilton's and so I had a positive and well-informed view of the business. That's only been reinforced these past few months, not least by the strength and the depth of the talented team. It struck me when we were last together the reminder of why we've been so successful and the unique opportunities that we have in front of us would be of value. Hilton has all the right ingredients evolving from a traditional meat operator to a value adding customer-centric protein provider of choice. Today we have a leading-edge supply chain that brings real competitive advantage to our partners, and all of this is underpinned by a focus on ESG and of course a strong financial position which facilitates continued investment and continued growth.

The purpose of this slide is to give you the answer to the question, "Why Hilton?" The three pillars illustrate that we are a multi-category provider of proteins, an international player of scale, and a business with a market leading technology offer. This brings us competitive advantage with high barriers to entry that others cannot follow due to the increasing costs of capital. Hilton is a business built on a passion for food, and it's my intention to accelerate our food skills and innovation in the mainstream, allowing us to premiumise our offer by really exploiting our world-class insights. This will be across our largest category of meat, as well as those smaller areas such as easier meals and vegan and vegetarian.

Over the past 30 years, we've grown from operating in one country with one retailer relationship to a business which has strong customer partnerships around the world and where 75% of revenues are now outside the UK. Our most recent venture with Woolworths and the strength of our performance in APAC is a prime example of how new relationships drive incremental growth and returns. No one is doing what we do. So the pathway is clear and we know there is significant white space for us to go after. What is as important is to grow incrementally with the partners that we have today, gaining a greater share of their business, facilitated through our investment in technology.

As well as growing with existing partners, there is of course potential for a further step change in growth by agreeing new partnerships in new geographies. Due to their long-term nature, these sorts of deals always take some time to get over the line. And while I can reassure you that we continue to have multiple conversations, I am only going to update when I have something meaningful to say.

Turning to our industry leading technology, we provide the most efficient supply chain to our partners through Agito, our joint venture robotic business and foods connected, our cloud-based platform that enables the retailers to manage their full end-to-end value chain from specifications to product quality and the cost of production mapping.

I've shared with you the reasons to believe. Now let me just take a moment to take you through the significant opportunities that the group has within its existing geographies and existing partnerships. In the past, we've never really spoken about our product catalogue and the opportunity to diversify our offer internationally. We have strong market positions around the globe and a foothold to go after much more. The blue areas indicate our presence within each category and country. The white space illustrates those clear gaps for new category entries. Just to be clear, we see opportunities for growth in both the blue and white space.

So, to bring this to life for you, this could be growth in white fish as growth in fish in New Zealand or vegan and vegetarian in Holland. Going forward, our commercial teams will seek to fill in the gaps and increase share within the blue space.

Personally speaking, I'm bringing a retailer's perspective into this business. And one of my priorities in the first three months of my tenure was to meet and better understand the challenges that our customers face. While it is clear that we have strong and trusted relationships in place, I can see that there is plenty more to go for. Let me pause there and I'm going to hand you over to Matt to go deeper into the numbers.

Matt Osborne: Thank you, Steve. And good morning, everyone. Performance in the first half has been in line with expectations and has been achieved against tough market conditions. Our revenue is up 5.2% compared to last year with volumes up north 0.2%. Operating profit at £41.8 million pounds is 1.4% up, and our operating profit margin at 2% is in line with half one last year, but ahead of the 1.8% margin we reported for the full year 2022. These figures exclude the impact of FRS 16 and the exceptional cost that we've incurred in the period. And as expected, after allowing for increased interest costs, our PBT of £26.8 million pounds was 22% down on last year with EPS of 21.6 pence down by 23%. As Steve says, the interim dividend we've declared 9 pence is 30% of last year's total dividend. That should lead us to a more normalised half one, half two split.

And finally, we've continued to invest in the business with £28 million pounds spent in the first half, whilst our debt has remained relatively stable closing the period at £217 million. As we've seen, revenue has increased by 5.2% to 2.1 billion with a like-for-like revenue growth, so adjusting for the impact of Foppen at a respectable 3.8%. Overall volumes are marginally ahead of last year, and there has been a small positive impact on revenue from changes in our product mix with revenue increases though largely reflecting the inflationary impact on prices we've seen in the period.

If we're looking in more detail at our regional performance, within Europe, although volumes are down by 1.7% compared to the first half of last year, you can see the impact of inflation and also the favourable benefits on mix from the higher value products produced by our Foppen business, which leaves overall revenue up 9.3% on a constant currency basis. On a like-for-like basis in Europe, our revenue was up 4.1%. In the UK and Ireland, volumes were down 4% and you can see the inflationary impact on revenues, which were 0.5% up on half one last year. And then finally to APAC where we've continued to see strong volume and revenue growth, both up 6.8% With the impact of inflation being less material as raw material costs remain relatively stable.

The operating profit margin we've reported in the first half of 2% shows good progression compared to the margin of 1.8% we reported for the 2022 full year. You can see in the bridge the improvements we've seen particularly in the UK and Ireland, and that underlies the positive impact that the actions we've taken on the UK seafood business have given us. The performance of our businesses in Europe and APAC have also contributed to the improvement, and we've seen profit growth from our higher margin convenience business in Central Europe, plus the benefits of Foppen whilst margins in APAC are benefiting from the past through of interest costs on EBIT.

Hilton Foods is a value adding service provider. Around 80% of our cost base is the raw material within our food products. And in our de-risked model with primarily dedicated open book relationships, over 90% of these raw material costs are directly passed through to customers. Our core business generates relatively stable cash margins, but the raw material pass through means we report low single digit percentage margins. Excluding these costs from our margin calculations allows us to look at Hilton Foods more as a processing and supply chain services business as opposed to a pure manufacturing one. And looking at the business in this way, the margins we generated within our efficient facilities on our controllable conversion costs in the first half were 11.1% compared to 10.6% for the 2022 year.

Moving on to profit before tax. And as we've discussed, we've seen operating profit growth in all regions with particularly strong performance in APAC. In Europe, a full period of Foppen trading combined with strong performances in our fresh food factory in Central Europe and in our Scandinavian business is being partially offset by the impact of the structural challenges being faced in the vegetarian and vegan market. And in the UK and Ireland, we've seen strong performance despite the volume pressures in the core business, whilst the seafood turnaround is continuing to deliver against our plan. After allowing for increased central costs and the impact of interest rates, our PBT for the year was £26.8 million pounds.

Looking to cash flows. The business continues to generate strong cash flows with an operating cash conversion ratio of 2.3 times in the period. Operating cash flows have improved by £39 million pounds compared to the same period last year with strong benefits from working capital cash flows.

Now the working capital cash outflow last year was primarily from our new businesses, and the underlying working capital benefits we have this year are at more typical levels, but we're also seeing the benefit of the unwind of the inflated stock position we had at the year-end, whereas you recall, we bought forward some salmon purchases to mitigate some of the impact of the Q1 price rises we were anticipating.

Underlying free cashflow after consistent levels of maintenance capital spend was £37 million pounds with overall free cashflow after expansionary spend at £19 million. Net debt of £217 million is marginally up on the year-end closing position and our net debt to EBITDA remains at 1.8 times. And we would expect our net debt to fall below £200 million pounds by the year-end. At the half year-end, we had £88 million pounds of undrawn bank facilities. And with our supportive bank group, we have the ability to invest in the future.

Of the £27.8 million pounds we've invested in our facilities in the period, £18 million pounds of that is expansionary spend that we would expect to deliver strong returns. And £9.7 million is maintenance CapEx that keeps our facilities at the high standard we expect. The majority of our spend has been in our UK and Ireland and Europe regions with the ongoing investment in automation, delivering efficiencies in both our Huntington and Grimsby facilities. We've also spent £9 million pounds on our food park in Sweden, which builds on the strong relationship we have with our customer to broaden the product range we supply. We're expecting full year CapEx to be between £55 and £60 million pounds, and we'll be targeting reductions in 2024 with spend of around £50 to £55 million pounds expected.

Finally, I wanted to talk about returns on capital, which in recent years have been impacted by a number of factors, the significant expansion in investment in APAC, the structural shift in the business following the strategic M&A, and of course the 2022 impact of the performance of the UK seafood business. Now, returns will improve as we continue to deliver the turnaround planned in seafood and we benefit from the growth opportunities that we have. But focusing on APAC, where we've been in the early stages of our relationship with our customer, we can now clearly see the positive impact on returns our investments are making. The APAC business has also delivered strong cash flows, generating cash of more than £100 million pounds since 2019. So, as the capital we've invested matures, we will continue to drive stronger returns. Thank you for your time and I'll hand back to Steve.

Steve Murrells: Thanks, Matthew. Now, as you can see from the pictures on this slide, we have outstanding products right across our categories, driven by our passion for food. I'm now going to take you through each of our core product areas and how they are underpinned by our strengthening supply chain. Meat is our core category and underpins everything. To put it bluntly, meat is what we do, and we've maintained a strong performance across the geographies that we operate in. Starting with APAC, this was a very strong performance where we achieved continued growth. During the period I was pleased to welcome the Woolworths team on a European tour of our sites, enabling us to share Hilton's best practice and support their strategic agenda.

Our efficiency programs in core meat and fish, as Matt says, are also driving forward. Automation has already gone into Huntington and Grimsby, as we focus on offsetting inflationary challenges whilst leaning into the higher cost of living.

On top of red meat, we're also successfully diversifying our product set. Our move into poultry is going well and we've seen a number of new business wins across Europe in the first half. Taking the third column here, I'm particularly pleased with the progress on some sustainable mince packaging at a time when "mincegate" blew up in the face of some retailers. Unlike the vacuum pack alternative that had come under much criticism, our pillow pack product allows the mince to remain fluffy with the same ease of use for the consumer. We've now fully rolled out in Holland and Sweden, delivering an annual reduction of just under 700 tons a year, and I expect the current trial in the UK an ROI to follow suit.

Now, I wanted just to touch on Fairfax Meadow, as it continues to provide new channel growth as we leverage our meat capability and win new customers. Our foodservice business compliments our core meet offer and provides an additional route to market, with lots of opportunities to differentiate our offer. With Hilton's scale, we're well positioned within a fragmented market that's just yet to consolidate, and I'll update you more on our plans at our Investor Day in November. The issues in seafood have been well-publicised, but over the past year the team have been laser-focused in fixing the problems, righting the business and getting it well back on track for profitability. We started the year with an ambition to get the business back to operating profit by the year-end, and we are on track to achieve this. To get us into this position, we've undertaken a full route and branch review to bring about that change.

We've successfully passed through cost inflation, which was needed, and we've concluded the 2023 cost inflation very quickly. We've reset the operating footprint, and we now have the right leadership team in place. Seafood remains a large and very attractive protein sector for us to be in, and along with Foppen, it will become margin enhancing to the group with significant opportunities for cross-sale and strategic sourcing benefits upstream. Again, I'll update you more at the Investor Day in November. I wanted just to spend a little time facing into the vegan and vegetarian sector. While currently this is a small proportion of our mix, I wanted to update you on the actions that we're taking as we respond to the change in consumer dynamics. As we know, early adopters drove rapid growth in the sector, but as mainstream consumers have started to come on board, they've wanted to see an improvement in health, in taste, and price and demand on the back of this has taken a significant knock in 2023.

The overcrowded nature of the plant-based sector has seen a number of leveraged brands and smaller businesses fall away. Now, learning from recent events we're acting fast and resetting our business with the closure of our second facility in Holland by the year-end. Capacity will be consolidated and move to our remaining facility in Oosterhout in Holland, and will bring significant cost savings as we review our offer across B2B and B2C. As we consolidate our ranges, we are focused on getting match fit within a market which retains potential. Now, moving to easier meals, the category showcases our love of food and demonstrates our prowess in food skills innovation. We are making delicious food easier for customers, based on the culinary expertise and the capability of the team. An important part of our strategy is to add value whenever and wherever we can, and we have made good progress.

Our latest Food Park investment in Sweden, where we've partnered with ICA, will help accelerate our growth in this sector. Taking this Food Park in particular, it brings to life how we collaborate with our partners to meet their customers highly localised needs. Now, complementing our product offer is Hilton Services and how we provide a supply chain that benefits our customers in ways others simply cannot do. Through our assets of Agito and Connected, we are creating efficiencies and prioritising traceability, two of the most important aspects for the modern retailer. Again, at our Investor Day in November, I'll explain how we plan to pump up the volume in this space, maintain fast revenue growth in a capital light way, but making sure that this does not distract from the core focus. The Sustainable Protein Plan underpins everything that we do, not least our ESG commitments are crucial to our customers and their customers.

The mince flow wrap is a good example of how we are reducing plastic usage, developed in Holland, Sweden and the UK. We continue to raise our standards and have recently submitted more ambitious science-based targets in line with one and a half degrees centigrade. So, these are the key priorities for the second half. Very much centred around our core proposition and diversifying our offer with our existing partners. Building on the progress we have made, we'll continue to consolidate, protect and grow the core, grow within our existing partnerships, and strategically invest in the future.

In closing, we've made good progress during the first half, achieving profitability across all three core regions. We're well-placed for the second half of the year, and remain confident meeting full year expectations. Our core category has performed well and we've taken action to support the continued recovery in seafood. There are many opportunities for further growth through existing partnerships or wider geographic expansion, whilst our strong financial position allows us to continue to invest in the future. I do look forward to updating you further and providing greater detail at our Investor Day on the 7th of November. Thank you very much.

We'll now move to questions. Just to say, I'll take the questions from the floor first, and then any collated questions that have come in virtually. Before asking a question if I could just ask, wait for the mic, Charles, and then please just introduce yourself and the name of the company.

Charles Hall: Thanks. Charles Hall from Peel Hunt. Steve, you mentioned that you expected the seafood business to return to being margin enhancing for the group. Over what time period do you think that will be? Supplementary to that, is there anything more you can do to improve the resilience and the consistency of the profit contribution from that area?

Steve Murrells: Yeah. So, I think very much midterm, Charles, is where we're expecting, as both Foppen starts to scale up, and we can see in this first phase of the UK recovery that there is equally as much to go after in the second stage that we're now reviewing as far as our up sourcing, buying is concerned, the relationships that we want to bolster even further. I think it's important that we see this as one category for us. We've tended, in the past, to think of it as Foppen and Grimsby, but actually the thinking by the board and the management was this as an entity is most definitely value enhancing, and we can then add our adding value capability to reinforce and grow the overall group performance. So, in the midterm I'd say you'd start seeing that coming through.

Charles Hall: Does the recent experience colour your view as to the pace that you might want to expand the seafood operations with customers, or would you just look at it in different ways that actually you were looking for more of a similar business model to what you've got in the rest of the business?

Steve Murrells: Well, I see the seafood category slightly different, because as an area it works and makes sense for us to have multiple customer relationships because of the diversity of the offer. When I look at the opportunities that we have and the white space opportunities to go for, then I think if we get our basics right, run these facilities successful, but through the automation that we're putting in, that is going to unlock more volume opportunities for us. With the fixed overheads of both facilities, I think you'll then start to see that flow through very quickly. But I think the learnings for me on fish was we just needed to take a step back, get back to basics, have a very simple but effective plan in place, and we are seeing effectively what we said we would do, is actually coming through.

Charles Hall: Just going back to the margin point. Does it require additional volume of new business wins or is that just operating efficiencies and getting things right internally?

Steve Murrells: The additional business wins will be the icing on the cake.

Sean Kealy: Morning guys. So, three from me if I can. Should I ask them one by one or... Up to you guys.

Steve Murrells: Ask them one by one.

Sean Kealy: Okay. So, first of all, looking at slide seven with your white and blue space chart, are you intending to focus primarily on cost plus or do you see any change in the cost plus to multi customer business mix? Then just is there any sense you can give us of the priority by geography that you are looking at first?

Steve Murrells: Is that two questions or is there-

Sean Kealy: One in two parts.

Steve Murrells: So, I think the route we go to market will very much depend on the product sector. What the business has I think, is an agility to effectively be very bespoke. So, whatever model works best for that customer in that protein sector in that region, we'll accommodate. I think that's the right thing. What we don't want to do is a simple cookie cutter that we apply everywhere. The obvious, if you were going to get into priorities, if you start looking at seafood in Australia and New Zealand, where you would assume that actually there'd be very good at it, we've learned as we've gone down there regularly that there is low hanging fruit for us to get after.

We've already started that work in New Zealand and have made a real meaningful difference to their product offer. But I think certainly in that region, and also in the Asian region, is where we will probably see quickest progress. The point I think I made in the presentation though is that where you do have these blue spaces, don't assume that's where we're saturated. There is still as much for us to go at, where we've got blue. But I thought it would be helpful for everyone to see where the pure white gaps were, because that's there and available for us to go and land.

Sean Kealy: Brilliant, thank you Steve. Second one, you said you've passed through 2023 cost inflation. Is there anything you can give us around the timing of those conversations next year, just so that we know when to expect that?

Steve Murrells: Well, one of our learnings which we've applied to all inflationary conversations was to have them much sooner. As an example therefore, the cost inflation on fish and meat for that extent, was concluded by March for 2023. I'd like to probably have got them concluded towards the back end of 2023 for 2024. I think the tension that was clearly there will start to ease. We've definitely seen it ease as inflation starts to drop away. I'm not expecting any protracted negotiations of length that we experienced during the end of 2022.

Sean Kealy: Perfect. Thank you. And then final one, on Fairfax Meadow and the food service sector, you mentioned offhand that it's yet to consolidate. What sort of role do you see yourselves playing in that, if any, in the near future?

Steve Murrells: Well, I think all bets are off at the moment. We've got a good facility that we can see opportunities with at the moment. I think it's important that, however, that we can see other weaker players in the sector, and therefore we should keep that dialogue open. This business is winning new contracts. It's just won a new contract in The Restaurant Group, The Big Table Group. And so, I think there's everything to play for, whether we do that through acquisition or probably more so through our own organic growth will be kind of planned out over the next 12 months. But it's quite an exciting sector because it allows us certainly in the catering side to sell to both the bottom end of the market and the top end of the market, which in the current climate I think is very helpful. And then clearly, as people see travel and leisure as an absolute given now rather than a choice, with the relationships that we have in those sectors, there's really good opportunity as well for us.

Sean Kealy: Perfect. Thank you, Steve.

Steve Murrells: Thank you.

Jason Molins: Good morning. Jason Molins from Goodbody. Steve, you mentioned in your opening, opening remarks about the opportunity of premiumisation, and just wondering how you're thinking about that in the context of the current market backdrop and challenges for the consumer. Second question, if you don't mind just touching back on margins, how should we think about the sort of second half margin outlook given your opening remarks in which you mentioned the seafood recovery will really start to bear fruit in the second half of the year. And then, the final question, just around your debt structure, where do you see that, obviously, given where cost of financing is at the moment and the impact that's running through on your P&L? Thanks.

Steve Murrells: Matt, do you want to pick up margins and debt? If I just pick up the first thing about premiumisation. As our food parks, and hopefully I've started to demonstrate, our culinary skills show, we are becoming better and better about adding value to products. We've done that successfully frankly in our meat business. When you look at our Christmas ranges and tomahawk steaks and finest as two examples, but then adapting that into a more convenience needing market where margins are generally higher is opportunity for us, certainly within the convenience food park added value. If you take Sweden as an example, that is very much predicated on a higher gross margin than we would normally expect within our core meat business. Do you want to just come back on Jason's point on margin and debt?

Matt Osborne: Looking at the margin, as we saw in the chart, we've seen growth in the first half, particularly in the UK and Ireland, largely from the impact of the seafood turnaround. We've talked about we'd expect that second half, the momentum with that to continue, and then there's naturally a corresponding benefit on margins or margins there too. I think in terms of debt structure, we've got head driven in our facility. We've talked before about the ability to pass interest costs through with some of the arrangements we have. That provides us a degree of, if not hedging, insulation certainly. So as it stands comfortable with our debt structure, we are comfortable with the partnerships we have with our key lenders and see opportunity to invest should we need to.

Emma Letheren: Thank you. Hi, it's Emma Letheren from RBC Capital Markets. Just going back to your slide on the blue and white on all your growth opportunities, you mentioned APAC seafood. Just wondering what other blue spaces are where you really see opportunities to get extra share gains. And then secondly, if you could talk about the UK volume decline, was a lot of that due to the changes you're making in the seafood business, or is there a step up in price elasticity? Just anything around that volume decline. Thank you.

Steve Murrells: Yeah. There's always a risk, I think, sometimes when we illustrate the catalogue opportunities that you then kind of go even further very quick. One of the things that I'm endeavouring to help the business with is to take complexity out and simplify the way we run it. It would be great to land those gaps on that page, and then I think kind of go what else is there out there, because you can easily get lost in the proverb of just don't go out there for the sake of trying to get it. I'd much rather be less is more. My focus will be land this and then review. If we start to go beyond this list, I think we'll meet ourselves coming backwards.

The volume position within the UK is quite simply down to one key area, which is hyperinflation that flowed through in our fish business, where the market's salmon volumes are down 11%. Inflation at the retail edge was at 27%, and this is a price elastic category in the same way that that meat is a price elastic category. Those two combinations, along with the fact that Tesco came out of fish counters, which has had a short-term effect because they, like us, believe that in closing those fish counters, that will shift to their pre-pack offer. But there is always a time where that requires that trade to go to that space in the store.

The counter closure on Tesco's fish counters, of which we were predominantly the sole provider, with hyperinflation in our key category of salmon along with meat inflation of around 7% has been the causes for that volume drop.

We are confident though that as that starts to meet itself through 2024, that clearly those in place we pressured should start to abate, and we'll see volumes moving forward. I think that the retailers will see those categories in those same areas.

Emma Letheren: Just as a quick follow up, as you do see that inflation abate, do you expect to see price deflation in your business, or how sustainable are those price increases that you've put through?

Steve Murrells: Yeah, look, we've got to get the balance between holding onto our hard-earned negotiation, but providing the most efficient costs for our partners so that they can incentivise and promote at the shelf edge. That's ever an important conversation for us to have, but we equally know that we want to be turning that volume number. Because actually, volume growth is the bedrock of the Hilton model, and it's certainly the bedrock of just about every retailer's model. But we've just got to get the balance right between keeping a hold of our hard-earned efforts but driving those categories through 2024.

Ashton Olds: Hi, Ashton Olds here from Redburn Atlantic. Just one from me. You mentioned, Steve, just in your opening remarks about how when you joined, you went around the retailers and coming from a retailer yourself, you wanted to understand how Hilton could work better with its customers. I guess were there any common themes which you learned in this process, or anything that you've put into action since those chats?

Steve Murrells: That's a great question. My experience would, say, for all of those relationships to work, you've got to have both a top-to-top and a mid-tier connectivity. We probably lost a little bit of touch with the top whilst our teams were working really hard in the middle. It was important for me to help the senior teams within each of our major customers to understand the strategic difference that we can start to bring to each of their businesses, so that they can progress and do things differently. I think it was at that level, at a strategic level, that I was able and can see opportunities and doors opening.

What was clear however, is that the relationships were good in the middle tier, but there is no doubt that there was tension around inflationary conversations, because if you were a retailer, you were being hit with inflationary conversations, right the way across fresh food. It wasn't just hyperinflation on salmon, it was hyperinflation on eggs, it was hyperinflation in pig meat, it was hyperinflation on fruit coming in from around the globe.

So, having an awareness of the challenges that our partners have are more available to me having been a retailer for 20 odd years, which then allows me to come back in the group and go, "Look, we've got to do what's right for us, but we need to understand where their real issue is. And if we are better aware of what their real issue is, there is a real win-win here for both of us."

It was pretty consistent whether I was with Woolworths in Australia, Albert Heijn in Holland, ICA, the Sweden team, the Danish Coop, or Tesco, those big strategic conversations weren't being had in the way that they had been had in the past. Therefore, that was a real opportunity I think for us.

Ashton Olds: Great. Thank you.

Damian Mcneela: Thank you. Damian Mcneela from Numis. Just three for me please. Just one for Matt on, are you able to provide a returns target that the business is working towards on new business opportunities? You've spent a lot of money in the UK in automation. I know CapEx is being guided down for next year, but should we expect across the medium term more automation to come in across the European estate, and what are the triggers for that, if there are? I know you're not going to talk to us about new business wins, but what's the balance of time being spent between existing customer opportunities and brand new customer opportunities? Thank you.

Steve Murrells: Can I take the last one first? There aren't enough hours in the day at the moment, because actually, they are as equally important. The most important thing, I think, for us, as a supplier or manufacturer, is to build our customer success for them. Clearly, as we've illustrated in today's presentation, that when you do land these long-term relationships, like our newest one with APAC, they are really cash generative. They do grow the top line and the bottom line, and they provide good returns. What we are trying to do is spend the same amount of time on both because it's ripe for the business, but it's equally important for those customers that we have today that they see us fully focused on their challenges and growing in their own sector.

The UK is in an interesting place because you've got the dynamics of a strong Tesco with a strong discounter sector and some less strong individuals. Fortunately, all of our partners in the UK, in Australia, and the vast majority in Europe are all winning. That's important to us, and that's why I make the point that there is as much for us to go for in those existing relationships that we have, but I'd say an equitable amount of time, Damian.

Matt, do you want to just come back on returns target, and then we'll just pick up on the automation point?

Matt Osborne: Yeah. We all have spoken in the past about how we assess the investments we make and using our cost of capital as a guideline. But I think, to be honest, I'll dodge the question a little bit around our returns targets. If you don't mind delay until we talk in November, because we really want to talk a lot more about the business then and about our targets then. I don't want to pre-empt any of that conversation. In terms of, I guess, the wider CapEx piece, fair to say in the UK particularly, we have had opportunity to invest in automation given how the labour market has evolved over the last few years. And so the business case, the returns that we're able to generate on those automation investments is much more significant than perhaps it would've been if we were looking at the business cases three or four years ago. In our other European sites and in Australia, as some of you would've seen, we are already further along on the automation journey. We've taken and made the choice on some of those investments already. And that's not to say there's not more to go after, and clearly there is, and we will continue to look at where it makes sense to automate, to drive the efficiency of the business.

Steve Murrells: There's a simple model we use though in that we'll use an incubator approach on the latest automation, test it, make sure it works, roll it out in country, and then we'll then come back to rolling that out across other countries. Generally, we're seeing a 10% saving when those types of automation activity goes in.

Darren Shirley: Yeah, thanks. Darren Shirley from Shore Capital, a few from me if you don't mind. First of all, looking at the margin through an alternative lens, could you just give us a bit more colour about the lens that you've used in terms of what you've changed to get to that number? It looks like it's been on a decline in path over the last few years. What's driven that and what's the potential to get that back to mid-teens?

Matt Osborne: In terms of what we use to look at the lens as a illustrator, we're really just taking out that raw material and packaging costs that are largely passed through and really focusing on the conversion costs that we are able to drive and control, and drive efficiencies within our facilities. And in terms of the decline, I think you'll have seen both, that alternative approach to our margin and the underlying margin have reduced, albeit by similar proportions. And I think certainly in recent years, clearly the impact of the seafood challenges we had last year will be some of that, but also that underlying inflation that's been baked into the system.

So, whilst our pound note margin has stayed broadly the same and consistent, the percentage margin calculation on both the basic level and the adjusted level will have meant just the mathematics of it.

If we had 100 last time and it's costing us 110 now but our margin stayed the same, then you end up with a slightly lower margin. Now, can we get it back to where it was? I think we've talked already about some of the higher margin business we have with Foppen, the opportunity to restore margin as we turn around seafood. We have higher margin convenience businesses as well, so we see opportunities to rebuild that certainly.

Darren Shirley: And is there any way you can give us more granularity on that basis going forward? It will be helpful. I don't know whether you can or not.

Matt Osborne: Yeah, we can certainly. Look, I think anything like that where we can provide more information, we're happy to look at.

Darren Shirley: And then just a couple of quick ones, Singapore, nine months on, where are we now and how should you look at that in 12 month’s time? And then also Belgium, where there's obviously still chunky amounts of millions there associated with the fire of a couple of years ago, where we stand on that and when you expect that to be nailed down, please?

Steve Murrells: So, on Singapore, Darren, I think we announced a while back the first phase with SATS, which was to start opening up access to new opportunities or new white spaces in the area. We've done that successfully with dairy farmers. With containers, I think are literally just on the water now, starting off with their fish offer, but with scope to then look at red meat. How we get red meat there will need to be more localised, whereas on fish, we are able just because of the nature and the code life, we can effectively source that or provide that from both the UK and Holland.

So that's a new opportunity for us with a new retailer through that connection with SATS, and I think we see that starting to give us confidence about how we unlock those other retail relationships in that space. And the way we intend to go after that is to have a small, effectively a procurement team that sits in that part of the world's... Controlled very much by Mel Chambers, who's our new CEO in APAC and is doing an incredible job, following on from an incredible job that Pat McEntee did, the previous CEO, and we are very excited about how that footprint can now start to expand in that region. Matt, do you want to just come back on because the Belgium side of things is clearly linked still to the fire.

Darren Shirley: Singapore then in terms of that relationship with dairy farmers, is that through with them or is that through?

Steve Murrells: So interestingly, it started with SATS' connection into dairy farmers and then very quickly, we all agreed that the connection was better with dairy farmers and ourselves. The value that SATS brought was their supply chain capability on moving freight and containers into that region in the most efficient way. So, we are now the primary relationship with dairy farmers, which wasn't where we started, but that's where we finished up.

Matt Osborne: On Belgium, obviously the insurance claim is ongoing. It's an incredibly complex process and from an accounting perspective, clearly, we quite rightly don't book any benefit of the claim until we have it finally confirmed, and that's why we'll have seen exceptional costs over time. I think the key for us is that we've been able to support our customer in Belgium from our facility in the Netherlands. The service they've received from us has been as good as could be expected from Hilton business, even given the circumstances, and we're pleased we've been able to do that. Look, I think we'd expect to see exceptional costs ease up as we move forward. And certainly, this year, there's some one-offs in there about ERP system impairments and other things built into those Figures. But certainly, the thing I look at is how we've been able to adapt to still ensure that our customer is getting the high-quality proteins that they expect from us, albeit from a different facility.

Darren Shirley: Understand, what's happened because you think that you maybe don't need a Belgium facility going forward?

Steve Murrells: I think once we conclude the insurance discussion, then we all want to sit down and just work out how best do we organise ourselves in that region because it is very clear that we don't necessarily need to have a facility there. And so, I think at the moment, the jury's out about what does good look like once we've sorted this nutty issue out. We're as frustrated as everybody, but as we know, large insurance claims are never quick to resolve. We've got a very good legal team on it, we're very positive. We're just trying to move the wheel a little bit faster to get to conclusion.

Matthew Webb: Thanks. Morning, Matthew Webb from Investec. I wonder if I could ask a few questions on the finance costs? Obviously gone up quite significantly up from seven to 15, which... I appreciate interest rates have gone up a lot, but that was still a bit higher than I was expecting. Is there any reason why that wouldn't be roughly twice that level in the full year, and has the effect of that largely been captured this year or is there still a bit of a delayed effect of interest rate increases flowing through into next year as well? That's the first question. And then just following on from that, in terms of the increase in interest costs that you face, how much of that have you been able to pass on to your customers? And in terms of where that shows up, I think from the presentation it looked like that was either largely or wholly relating to the APAC business rather than anywhere else. Have I understood that correctly? Thanks.

Matt Osborne: So, interest costs, we will borrow in a variety of local currencies, Sterling being a major one, clearly, plus the Euro, plus the Zloty, plus Aussie dollar. There are changing and different dynamics with each of those currencies and the underlying rates that sit in there. In terms of pass-through... Historically, it's around 50% of the interest costs are passed through as part of those cost-plus relationships we have, and that's where we have incurred borrowings to fund specific facilities for our customers. And in terms of how that's recovered, that's through EBIT. So, EBIT will inflate as we recover interest through those pass-throughs. From a return’s perspective, we talk about the recent investments. Australia, given the recent and level of investment naturally has higher borrowings and therefore higher interest costs than many of the other areas.

I think if you look at obviously the interest costs that we incur on borrowings that we've used to fund M&A, the dynamic is slightly different, so recovering those costs works in a slightly different way. It's not that automatic pass-through, but clearly, we look to recover interest costs through other ways. And I think there's work for us to do in terms of looking at how we as a business can use our balance sheet a bit more effectively. We're a large multinational business looking at how we can more efficiently use the cash we have as well. In terms of half-one half-two splits, I think the first half is slightly longer than the second half. We'd expect to delever a little bit so I wouldn't say it's quite doubled, but it's not a bad place to start and then work backwards.

Matthew Webb: Got it. And then into next year, is there still a bit of a delayed effect of rising interest rates?

Matt Osborne: If they continue to rise more, then there will be an impact, but I think we're seeing those increases slow though. I guess you're probably better placed to forecast where interest rate rises go than I am, certainly.

Steve Murrells: I think if we were good at it, we wouldn't be sat here. We all hold our breath with an election looming and see what happens.

Matthew Webb: But sorry, if we were to assume that interest rates remain broadly where they are now, which probably not an unreasonable assumption then, but would there still be a delayed effect? You see what I mean?

Matt Osborne: Oh, so will interest charges grow into next year? No, I think we're-

Steve Murrells: Pretty much there.

Matt Osborne: Pretty much there. I wouldn't expect the rates alone to drive the increases.

Matthew Webb: Great. Okay, thank you very much.

Steve Murrells: Susanna, are there any calls?

Susanna Voyle: There are no questions online.

Steve Murrells: Okay. I can't see any more raised hands. Thank you very much. No doubt, speak to you in the next few days. Thank you.