



Rating: **OUTPERFORM** Issued 30/06/09

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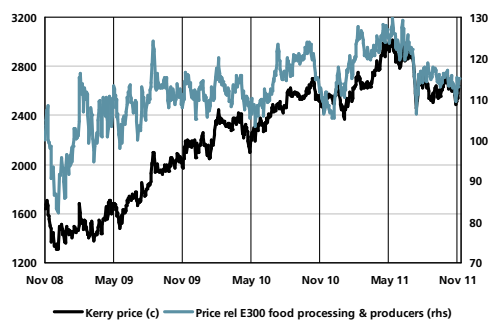
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Share Price Performance



Key financials (€m)

Year end	Dec11E	Dec12F	Dec13F
Revenue	5336.0	5525.9	5693.2
EBITDA	620.9	665.5	707.9
PBT	431.3	468.2	502.3
EPS Basic	202.7	220.2	236.1
EPS Diluted (Adj)	211.9	228.0	243.9
Cash EPS (Diluted)	281.2	300.8	320.0
Dividend	30.3	33.3	36.6
NBV	1081.0	1266.8	1478.8

Valuation

P/E	12.5	11.6	10.8
FCF Yld (pre div) (%)	5.3	7.3	7.9
Dividend Yield (%)	1.1	1.3	1.4
Price / Book	2.4	2.1	1.8
EV / EBITDA	9.1	8.1	7.2
Group Int. Cover (x)	10.6	11.7	13.3
Debt / EBITDA (x)	1.6	1.1	0.6

Company data

Reuters/Bloomberg/Xetra	KYGa.I/KYG ID/KRZ
Sector	Ingredients
Shares (m)	175.6
Daily No. Shares Traded (m)	0.421
Free Float (%)	76.9
52 Week High/Low	3010.5/2367

Capital Structure

Mkt. Cap (€m)	4643.9
Net Debt/(Cash)	732.1
Deferred consideration/debt-related	N/A
Pref Shares/Non Eq Min	N/A
Minority interests	N/A
E.V. (€m)	5376.0

Summary of nearest peer-group valuations

P/E	EV/EBITDA	Div Yield	Price/Book
Givaudan			
15.5	10.3	3.0	2.1
IFF			
12.8	8.2	2.5	2.9
Kerry Group			
11.6	8.1	1.3	2.1
McCormick			
15.4	10.1	2.5	N/A
Symrise			
13.9	7.9	3.7	2.3

Equity Report: Market strategy

Kerry Group

Price: 2644c

Pharma ingredients, small as yet, but may evolve as a significant end-use market

Potential for pharma ingredients to expand

- We discuss whether pharma, as an end-use market for Kerry ingredients, can evolve in much the same way that flavours have and become as significant.
- This discussion has been prompted by Kerry's announcement in its Q3 update that it had acquired Lactose India, a producer of pharma-grade lactose.

Review of Kerry's pharma ingredients operations

- Kerry's pharma ingredients operations can be said to have begun with the 2004 acquisition of Quest.
- Since then, a number of strategic alliances in manufacturing and marketing have been concluded which expand Kerry's footprint in pharma ingredients. In addition, it has extended its capabilities in food ingredients to this sector. Its competence in pharma has been acknowledged by industry accolades.

Pharma still small in group ingredients context, but \$4bn-plus excipients market provides opportunity for development and growth

- In excipients, there is a proliferation of enterprises focused on the production of one or a very limited number of discrete excipient ingredients.
- What may be the Kerry model in excipients, providing formulation solutions embracing a range of functional and process attributes which embeds these in customer products and processes, may prove as sustainable an advantage as that in food ingredients.

Please refer to important disclosures at the end of this report.

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Pharma ingredients as an end-use market

Could pharma as an end-use market for Kerry ingredients evolve in much the same way that flavours have and become as significant? In 2010, pharma ingredients represented 4% of end-use market sales for Kerry ingredients; flavours represented 14% and will increase when the acquisition of Cargill Flavor Systems is completed. We estimate that a decade ago flavours represented a low-single-digit share of ingredients revenues, as we pointed out in a previous research note ("Kerry Group: Flavour - a key and expanding capability", issued October 28th 2010). In 2010, ingredients revenues were €3.68bn (pharma end-use sales were some €150m).

Kerry's pharma ingredients operations

Q3 update reveals acquisition of Lactose India

Other than communicated in its marketing literature to the pharma sector regarding its product and process capabilities, Kerry has not outlined a strategy to expand in ingredients for the pharma sector. What prompts us to conjecture that pharma ingredients may be early phase, along a development path similar to flavours, was the announcement in Kerry's Q3 update that it had acquired (for an undisclosed sum) only the pharma lactose activity of Lactose India, whose activities have historically included the co-manufacturing of pharmaceutical products.

Kerry's pharma ingredients operations began with acquisition of Quest in 2004

The acquisition of Lactose India prompted us to review the group's pharma ingredients operations. These can be said to have begun with the 2004 acquisition of Quest, which added bio-science to Kerry's applications technology platform. The long-established and well-known Sheffield pharma ingredients brand was part of this acquisition. Sheffield Bio-Science manufactures culture media for the biologics segment. As an aside, it can be observed that Kerry's bio-science (fermentation and cultures) activity addresses end-use markets other than pharma; these include the bakery, brewing and beverages, food (i.e. dairy, confectionery, meat, culinary) and nutrition sectors.

We assessed Kerry's bio-science capability and the end-use markets for this at the time of the purchase of Quest, believing that they would in time become more important in Kerry's ingredients development. Since then, however, we have largely ignored these and have concentrated instead on the more active and publicly disclosed acquisitions it made to expand in flavour and in other ingredients technologies.

Investment in Sheffield Bio-Science adds new capability

But Kerry has not been inactive in pharma ingredients since purchasing Quest. In 2004, after completing the Quest deal, it added a new capability when it invested in a microbiology laboratory located in its Almere (Amsterdam) facility specialising in peptones (nutrient extracts from milk protein, meat, yeast and plants) used for developing culture media formulations for genetic research and molecular biology. Sheffield Bio-Science may be the only culture media ingredients supplier that

produces peptones and yeast extracts. Sheffield has a long history as a leading supplier of refined complex nitrogen sources into media for microbial expression of recombinant proteins. It provides peptones in the product and/or feed media of a significant number of blockbuster drugs. It also develops a wide range of supplements to meet the nutritional needs of many micro-organisms in a broad range of fermentation applications. These include the following:

- antibiotics;
- cultures;
- enzymes;
- probiotics;
- rProtein;
- vaccines;
- xanthan gum;
- therapeutics;

In July 2010, Sheffield Bio-Science was awarded the Eli Lilly Global Supplier award.

Sheffield's website indicates that by end-2007 it had decided to expand the strategic horizon in pharma ingredients: "We are transforming our company into a functional pharma ingredient producer completely capable of collaborating in drug delivery systems development...with an emphasis on in-house capabilities coupled with radical new approaches in OSDFs (oral solid dosage forms)".

Extends its food ingredients capability to pharma sector

This seemed to mark the point where those Kerry capabilities (product and process) in food ingredients that had application potential in pharma were adopted by its bio-science unit as part of its transformation strategy. Examples are the marketing of its flavours and flavour systems and its coating systems as excipients (non-active ingredients in pharma products) targeted at pharma. Sheffield began to directly market its flavour capability to the over-the-counter (OTC) pharma sector. Here it focused on the functional and qualitative attributes of its Crystals freeze-dried juice powders. In 2003, Kerry acquired Crystals International. At the time, Kerry stated that Crystals had developed a reputation as the world's leading source of speciality all-natural fruit flavours, serving food processor, beverage, nutraceutical and food service markets. In 2007, its end-use market was extended to pharma excipients.

Coating systems is another established Kerry food ingredients capability, while established food ingredient process technologies include blending, extrusion, encapsulation, granulation, emulsification and stabilisation. All of these are used in excipient systems, formulations and solutions.

For OSDF or tableting, many of these processes could be applied using a systems approach that met functional imperatives with respect to the tablet itself (disintegrant rate, sensory properties) and the process (powder flowability, compressibility) involved in manufacturing it.

By volume, diluents or bulking agents are a major pharma excipient ingredient. Lactose or milk sugar and products derived from starch are the major volume diluents. In 2007, Sheffield entered into a sales, marketing and technical support agreement with respect to pharma grade lactose products with Foremost Farms, a Wisconsin dairy processor. In 2009, the agreement evolved into a strategic alliance incorporating a manufacturing agreement that included a joint investment to expand production of pharma lactose and, more importantly, to add an anhydrous drying capability. Sheffield/Foremost is the leading global supplier/manufacturer of direct compression lactose for oral solid dose excipients.

In 2010, Sheffield was awarded the prestigious Frost & Sullivan product innovation award for LubriTose, an integrated co-processed (involving many ingredients) excipient developed to improve direct compression and high speed tableting operations. The annual award is judged on numerous criteria including its innovative element, leverage of leading edge technologies, value added features/benefits, incremental customer value and customer uptake, or market potential.

The innovative element is LubriTose's self-lubricating functionality, which displaces other excipients traditionally used for this purpose. But, as we have pointed out many times with respect to food ingredients, additive replacement or substitution is a complex matter if only because of the interactive impact and synergistic effect of all ingredients. In pharma, this complexity is further increased because of the presence of the vital active pharmaceutical ingredient (API). Science and applications technology combine to establish formulation capability.

Evolution of Kerry pharma ingredients has included arrangements for global marketing

The evolution of pharma ingredients has not been confined to the development of existing capabilities with pharma (i.e. to multiple drug usage forms) or the transfer of group applied ingredient technologies to pharma. It has also included arrangements for global marketing. These include the following:

- A distribution agreement was made with DKSH (large capability in marketing in Asia) to market Sheffield's pharma lactose excipients and pharma coatings to southeast Asia and Australia.
- A reverse arrangement with Wockhardt, the Indian pharmaceutical and biotech company, was announced in February this year. The strategic global alliance involves Kerry having the exclusive sales and distribution rights to supply Wockhardt's recombinant insulin to the cell culture markets worldwide.

That ten months later Kerry would announce the acquisition of Lactose India may simply be co-incidental or elemental to a strategy in pharma culture media and excipients, which – in the absence of a formal statement by Kerry – can only be inferred.

Of course, in building the story from such disparate sources, we may be incurring the risk of all explanation – imposing a linear logic on a series of events that may be random.

Lessons from evolution of Kerry's flavour division

That said, for a long time, the significance and ultimate meaning of the myriad number of individually insignificant events in the evolution of Kerry's flavour division escaped us. Belatedly, we recognised that Kerry was a leading flavour house but not in the commonly understood sense of this term, one defined by enterprises such as IFF, Symrise or Givaudan. Kerry flavours, an integral part of its ingredient systems, is not a head-to-head competitor with these companies. It competes in the most effective way possible; that is, by not competing directly. This may be a blueprint for the evolution of pharma ingredients. As with LubriTose, it may be able to compete most effectively by developing new or radical solutions to historical protocols and processes.

In excipients, there is a proliferation of enterprises focused on the production of one or a very limited number of discrete excipient ingredients. What may be the Kerry model in excipients, that of providing formulation solutions embracing a range of functional and process attributes which embeds these in customer products and processes – may prove as sustainable an advantage as that in food ingredients.

As noted, pharma is still small in a group ingredients context. Nonetheless, pharma ingredients as an end-use market is as significant as confectionery, ice cream and frozen desserts, appetisers and side dishes, soups sauces and dressings and prepared meals.

Excipients market provides opportunity for development and growth

The \$4bn-plus value excipients market is an unappreciated (by the financial market) opportunity for development and growth.

The International Pharmaceutical Excipient Council (IPEC) defines an excipient as any substance other than the active drug or product that is included in the manufacturing process or that is contained in a finished pharmaceutical dosage form.

Excipients assist in formulation design and perform a wide range of functions in addition to APIs. Pharmtech.com regularly carries consultant updates regarding the size of the excipients market. The latest update (November 2nd 2011) valued it at \$4.6bn in 2010 and forecast CAGR growth to 2014 at 3-6% per year, in line with projected growth of the \$1trn global pharma market.

The excipients industry is predominantly (70%) a US/European one, but other countries (Japan, China) are major single markets. With its

wide geographic footprint in food ingredients, Kerry has the infrastructure to serve the pharma sectors in established and developing markets.

Excipients and specialist food ingredients both represent a low-cost share of products in which they are included. More critically, commonality exists as regards functionality in food and pharma ingredients.

The main categories of excipients are:

- binders;
- disintegrants;
- diluents;
- lubricants;
- glidants;
- colourings;
- sweeteners;
- anti-microbial preservatives;
- suspending or dispersing agents;
- film formers/coatings;
- flavours/flavourings;
- printing inks.

That Kerry may be developing in excipients does not represent a radical shift in strategy, but the pharma end-use market obviously has unique functional and regulatory requirements. In addition to their functionality, excipients must be chemically stable, non-reactive with the drug and other excipients, inert in the human body, have low equipment and process sensitivity, possess pleasing organoleptic (perception by sensory organs) properties, be well categorised and be well accepted by the industry and regulating agencies (Source: Review of Current issues in Pharmaceutical Excipients; Dorothy Chang, Rong-Kun Chang 2007).

Neither unique functionality nor regulatory requirements should constitute a barrier to entry for Kerry.

Key observations on excipients sector

A number of observations can be made from the literature on the excipients sector:

- A significant share of excipients seems to be commoditised.
- There is a limited number of large volume, frequently used excipients and a large number of infrequently used, low volume excipients.
- The growth in generic drugs (rising as patents increasingly expire because of the dearth of new blockbuster drugs) is exerting downward pricing pressure on commodity excipients.
- New product innovation (new chemical entities) is expensive, if not prohibitive, because of the requirement for toxicology studies and is therefore beyond the scope of the large number of small operators that

populate the sector. Plainly, this does not apply to larger, well resourced industry participants such as BASF.

- The lack of adequate regulatory procedures for a new excipient and the absence of appropriate regulatory protection of know-how or any intellectual property rights are also cited as impediments to innovation.
- Heightened consumer interest in ingredient lists, very much a current dynamic in food, is emerging as regards drug products. So "clean labelling" is a current phenomenon in pharma and is driving demand for more natural, as distinct from chemically synthesised, excipients.
- Industry rationalisation and concentration may be the inevitable outcome of drug companies and regulators insisting that the plants and processes of excipient manufacturers meet the highest standards such as good manufacturing practice (GMP).
- New drug delivery systems (e.g. nasal/inhalation systems) requiring new excipient functionality and excipient systems are a means of avoiding commoditisation.
- In the OTC market, sensory characteristics (colour, taste, flavour) are a means of differentiating products with identical active ingredients and functionality. One drug manufacturer told us that even for prescription drugs, sensory characteristics can exert a significant influence on sales.
- The falling rate of blockbuster drug introductions and the prospective expiry of existing patents are causing drug companies to focus more on manufacturing costs. New excipient formulation systems, functionality improvements (such as those that may achieve increased bioavailability or optimally regulated release times) and process innovations that can reduce supply chain and manufacturing costs are becoming increasingly important.

Many of the above observations suggest that the quality (growth and returns) of a business in the excipients sector is defined by the degree to which it is involved in specialist excipients, where defining complex formulation expertise and application technologies become an integral, not an incidental, part of a drug's defining functionality. In a metaphorical sense, the excipient will no longer be there for a simple, single function (e.g a filler), will not be easily substitutable as an entity (lactose or starch) or between suppliers but will be regarded as covalent with the API.

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Company profile

Kerry Group is a world leader in food ingredients and flavours, serving the food and beverage industry, and is a leading supplier of value-added brands and customer branded foods to the Irish and UK markets. With headquarters in Tralee, Ireland, the group employs over 20,000 people throughout its manufacturing, sales, technology and application centres across Europe, North America, South America, Australia, New Zealand and Asian markets. It supplies over 15,000 food, ingredients and flavour products to customers in more than 140 countries worldwide. It has manufacturing facilities in 20 different countries and international sales offices in 20 other nations across the globe.

Investment thesis

Kerry Group is a global leader in food ingredients and flavours. Its 'go-to-market' strategy has delivered volume growth and margin improvement at a group level. High levels of financial flexibility support the investment thesis.

'Go-to-market' strategy key driver in improving revenue and margin trajectory

- Kerry continues to make great strides in building a higher margin platform while growing volumes on a continuing basis. Kerry's new focus has deepened its alignment with global customers, which gives it greater revenue opportunities and enhanced visibility.
- The key driver for margin progression is the 'go-to-market' programme. The front-end reorganisation (particularly within Ingredients) is broadly complete, with the company now focused on back-end efficiencies (i.e. SAP).
- The Consumer Foods division has returned to like-for-like revenue and profit growth despite tough trading conditions in the UK and Ireland. A new strategy anchored around nine key brands should yield further benefits over the medium term.

Improving ROIC and ROCE

- Our FY 2011 EPS forecasts (+10.3%) assume that Kerry Group will return to double-digit earnings growth for the first time since 2002.
- Returns on invested capital (ROIC) and returns on capital employed (ROCE) have both increased by c.160 basis points since 2005 (FY 2010 – ROIC 13.6%, ROCE 14.4%).
- Despite the acceleration in ROIC, the underlying P/E rating has not reflected this – the average P/E in 2005 was 14.5x versus the current rating of 11.2x.

Cash flow and balance sheet supportive

- The company remains very cash generative. We expect free cash flow of €247m for 2011. The balance sheet is not stretched with an anticipated net debt/EBITDA of 1.1x for 2012 and interest coverage of 15.2x.
- We believe that the current rating is not over-demanding and fails to fully capture a business returning to sustainable growth.

Analysis of operations

	Dec06	Dec07	Dec08	Dec09	Dec10	Dec11E	Dec12F	Dec13F
Revenue (€m)								
Ingredients	3134.3	3309.6	3387.5	3261.0	3674.5	4000.4	4164.6	4310.3
Foods	1818.7	1819.3	1774.2	1712.9	1768.1	1868.3	1907.8	1946.0
Agri	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other	-307.1	-341.2	-370.8	-453.2	-482.6	-532.7	-546.5	-563.1
Total	4645.9	4787.8	4790.8	4520.7	4960.0	5336.0	5525.9	5693.2
Op. Profit (pre am.) (€m)								
Ingredients	293.1	310.4	320.2	340.1	401.3	435.1	470.7	503.0
Foods	117.5	119.3	119.7	122.1	132.0	134.1	143.0	146.9
Agri	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other	-27.0	-28.6	-30.6	-39.8	-63.1	-70.1	-76.1	-76.1
Total Operating Profit	383.6	401.1	409.2	422.4	470.2	499.1	537.6	573.8
Operating Margin by Division (%)								
Ingredients	9.4	9.4	9.5	10.4	10.9	10.9	11.3	11.7
Food	6.5	6.6	6.7	7.1	7.5	7.2	7.5	7.5
Agri	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Op. Profits (pre am) Analysis (%)								
Ingredients	71.4	72.2	72.8	73.6	75.2	76.4	76.7	77.4
Food	28.6	27.8	27.2	26.4	24.8	23.6	23.3	22.6
Agri	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Trading summary

	Dec06	Dec07	Dec08	Dec09	Dec10	Dec11E	Dec12F	Dec13F
Summary Accounts (€m)								
Revenue	4645.9	4787.8	4790.8	4520.7	4960.0	5336.0	5525.9	5693.2
EBITDA	486.6	500.1	503.3	519.6	618.6	620.9	665.5	707.9
Depreciation	102.9	99.0	94.0	97.2	148.4	121.8	127.8	133.8
Amortisation of intangibles	12.1	12.7	14.9	16.8	16.1	20.0	25.7	30.9
Operating profit	371.6	388.5	394.3	405.6	454.2	479.1	512.0	543.3
Share of J.V.'s operating profit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other income from operations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share of associate / JV after-tax profits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PBIT before exceptionals	371.6	388.5	394.3	405.6	454.2	479.1	512.0	543.3
Group net interest	-76.9	-79.1	-77.7	-69.8	-60.5	-45.3	-43.8	-41.0
Other finance costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total finance costs	-76.9	-79.1	-77.7	-69.8	-60.5	-45.3	-43.8	-41.0
Exceptionals	-73.4	-11.1	-76.3	-83.9	-0.8	-2.5	0.0	0.0
PBT	221.2	298.3	240.4	251.9	392.8	431.3	468.2	502.3
Tax	-43.5	-52.2	-63.4	-50.6	-68.6	-75.5	-81.5	-87.4
Minorities (incl. pref. divs.)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings (Basic)	177.7	246.1	177.0	201.2	324.2	355.8	386.7	414.9
Earnings Analysis								
Adjustment for convertibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Earnings (diluted)	177.7	246.1	177.0	201.2	324.2	355.8	386.7	414.9
Add-back of amortisation of intangibles	12.1	12.7	14.9	16.8	11.8	13.7	14.0	14.0
Dil. earnings before amort. of intangibles	189.8	258.8	191.9	218.0	336.0	369.5	400.7	428.9
Exceptional Items								
Restructuring/rationalisation costs	-73.4	-11.1	-76.3	-73.3	-0.7			
Gains/(Losses) on disposal								
Total Exceptionals pre tax	-73.4	-11.1	-76.3	-73.3	-0.7	-2.5	0.0	0.0
Tax on exceptionals	14.3	12.3	-0.7	0.0	0.0	0.0	0.0	0.0
Minority share of exceptionals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional net of tax & minorities	-59.2	1.2	-77.0	-73.3	-0.7	-2.5	0.0	0.0
Diluted earnings before amort. & except.	249.0	257.6	268.9	291.4	336.7	372.1	400.7	428.9
No. of shares (basic) (m)								
No. of shares (basic) (m)	186.0	179.1	174.7	175.0	175.3	175.5	175.6	175.7
Conversion of Options	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Convertibles/Exchangeables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
No. Shares Diluted	186.0	179.1	174.7	175.0	175.3	175.6	175.7	175.8
Per share data (c)								
Basic EPS	95.6	137.4	101.3	115.0	185.0	202.7	220.2	236.1
Diluted EPS	95.6	137.4	101.3	115.0	185.0	202.6	220.1	236.0
Diluted EPS before gw	102.1	144.5	109.8	124.6	191.7	210.4	228.0	243.9
Diluted EPS before gw & exceptionals	133.9	143.8	153.9	166.5	192.1	211.9	228.0	243.9
Cashflow per share	189.3	199.1	207.7	222.1	276.7	281.2	300.8	320.0
Dividend	18.0	20.0	22.5	25.3	27.5	30.3	33.3	36.6
NBV	711.6	686.5	654.7	733.1	928.8	1081.0	1266.8	1478.8
NBV (incl. amortisation of intangibles)	845.0	832.1	812.5	900.1	1105.0	1268.5	1469.0	1697.9
Movements on P&L & Reserves (€m)								
Profit attributable	177.7	246.1	177.0	201.2	324.2	355.8	386.7	414.9
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency translation effects	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Movement	177.7	246.1	177.0	201.2	324.2	355.8	386.7	414.9

Financial summary

	Dec06	Dec07	Dec08	Dec09	Dec10	Dec11E	Dec12F	Dec13F
Cash Flow (€m)								
EBITDA	486.6	500.1	503.3	519.6	618.6	620.9	665.5	707.9
Change in working capital	-45.9	-35.4	18.8	132.4	-21.5	-34.9	16.6	8.8
Share-based payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other operating cashflows	-0.5	-2.5	-34.2	-42.3	-68.9	-35.0	-35.7	-35.0
Cash generated from operations	440.2	462.3	487.9	609.8	528.2	551.0	646.3	681.7
Net capital expenditure	-89.2	-91.9	-146.1	-108.7	-151.0	-176.1	-182.4	-187.9
Operating cashflow	351.1	370.3	341.8	501.0	377.2	374.9	464.0	493.8
Dividends from associates	1.7	3.4	0.8	0.0	0.0	0.0	0.0	0.0
Net interest	-76.6	-79.2	-73.4	-78.0	-57.6	-52.3	-43.8	-41.0
Tax	-35.1	-37.3	-42.0	-57.1	-54.2	-75.5	-81.5	-87.4
Dividends to minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow	241.1	257.3	227.3	366.0	265.3	247.1	338.7	365.4
Dividends to shareholders	-30.8	-33.8	-36.3	-40.8	-45.8	-55.6	-61.2	-67.4
Acquisitions & investments	-98.6	-130.5	-107.2	-291.1	-150.7	-96.1	0.0	0.0
Business disposals	0.0	48.4	44.9	0.0	0.0	0.0	0.0	0.0
Share Issues / (Buybacks)	-44.0	-223.8	0.9	3.0	3.6	0.0	0.0	0.0
Translation differences	44.1	37.3	30.3	4.2	-40.5	0.0	0.0	0.0
Other	-29.1	-88.0	-89.2	-37.3	15.6	7.0	-0.0	0.0
Change in net cash / debt	82.8	-84.6	115.5	4.0	47.6	102.4	277.5	298.0
Summary Balance Sheet (€m)								
Property, plant & equipment	1010.3	990.7	986.0	993.7	1107.2	1161.5	1216.1	1270.2
Intangible assets	1684.8	1646.2	1569.5	1871.6	1998.9	1978.9	1953.2	1922.3
Investments in associates / jv's	19.9	18.9	18.5	15.4	13.6	13.6	13.6	13.6
Working capital	208.0	205.0	120.9	8.8	77.2	112.1	96.2	87.4
Other	N/A	3.3	N/A	N/A	N/A	N/A	N/A	N/A
Capital Employed	2923.0	2864.2	2694.9	2889.6	3196.8	3266.0	3279.0	3293.5
Financed by								
Equity capital & reserves	1323.2	1229.3	1143.7	1284.1	1627.0	1893.5	2218.9	2600.0
Minority / preference interests	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Debt/(Cash)	1194.4	1279.0	1163.5	1159.5	1111.9	1009.6	732.1	434.1
Deferred consideration/debt-related	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Retirement benefit obligations	180.3	112.0	155.0	194.4	194.7	159.7	124.7	89.7
Net deferred tax	120.4	134.2	124.8	147.4	157.5	157.5	157.5	157.5
Other long-term liabilities	104.8	109.7	107.8	104.2	105.8	45.8	45.8	12.2
Capital Employed	2923.0	2864.2	2694.9	2889.6	3196.8	3266.0	3279.0	3293.5
Goodwill Adjustments								
Intangibles amortised	248.1	260.8	275.7	292.5	308.6	328.6	354.3	385.1
Shareholder funds inc. intangibles	1571.3	1490.1	1419.4	1576.6	1935.5	2222.0	2573.2	2985.2
Capital employed inc. intangibles	3171.1	3125.0	2970.6	3182.1	3505.4	3594.6	3633.3	3678.6
Invested capital inc. intangibles	2765.7	2769.1	2582.9	2736.1	3047.5	3231.6	3305.3	3419.2
Analysis of Debt (€m)								
Loans	1194.4	1279.0	1163.5	1159.5	1111.9	1009.6	732.1	434.1
Cash Balances	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Debt/(Cash)	1194.4	1279.0	1163.5	1159.5	1111.9	1009.6	732.1	434.1
Fixed Rate Debt	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Working Capital (€m)								
Inventories	495.3	526.4	512.8	444.2	531.6	582.7	589.1	618.6
Accounts Receivable	599.8	594.6	557.0	547.1	618.7	667.0	685.2	706.0
Accounts Payable	-887.1	-915.9	-948.9	-982.5	-1073.1	-1137.6	-1178.1	-1237.1
Total	208.0	205.0	120.9	8.8	77.2	112.1	96.2	87.4

Financial analysis

	Dec06	Dec07	Dec08	Dec09	Dec10	Dec11E	Dec12F	Dec13F
Group Margin Analysis								
G/W Amort./Sales (%)	0.3	0.3	0.3	0.4	0.3	0.4	0.5	0.5
Operating Margin (pre G/W) (%)	8.3	8.4	8.5	9.3	9.5	9.4	9.7	10.1
Depreciation/Sales (%)	2.2	2.1	2.0	2.2	3.0	2.3	2.3	2.3
EBITDA margin (%)	10.5	10.4	10.5	11.5	12.5	11.6	12.0	12.4
Net Capex/Sales (%)	-1.9	-1.9	-3.0	-2.4	-3.0	-3.3	-3.3	-3.3
Change in Working Cap./Sales (%)	-1.0	-0.7	0.4	2.9	-0.4	-0.7	0.3	0.2
Other Op. Cash Flows/Sales (%)	-0.0	-0.1	-0.7	-0.9	-1.4	-0.7	-0.6	-0.6
Operating Cash Flow Margin (%)	7.6	7.7	7.1	11.1	7.6	7.0	8.4	8.7
Activity								
Revenue / Capital Employed (x)	1.47	1.53	1.58	1.48	1.49	1.51	1.53	1.56
Sales/Avg. Fixed Assets (x)	4.5	4.8	4.8	4.6	4.7	4.7	4.6	4.6
Return								
ROCE (before tax, ex. invs) (%)	12.2	12.8	13.5	13.8	14.1	14.1	14.9	15.8
ROE (after tax) (%)	16.7	16.8	18.5	19.5	19.2	17.9	16.7	15.4
Ret. on Inv. Cap. (after tax) (%)	11.4	11.6	12.4	13.6	13.5	13.3	13.7	14.3
WACC (%)	6.3	6.9	6.7	6.2	5.4	4.9	4.8	4.9
Cost of Equity (%)	7.1	7.9	7.1	5.9	5.4	4.9	4.9	4.9
Avg. Cost of Debt (after tax) (%)	5.1	5.1	5.2	5.1	4.4	3.6	4.2	5.9
Growth								
Revenue (%)	4.9	3.1	0.1	-5.6	9.7	7.6	3.6	3.0
EBITDA (%)	1.0	2.8	0.6	3.3	19.0	0.4	7.2	6.4
EPS Diluted (Adj) (%)	1.7	7.4	7.0	8.2	15.4	10.3	7.6	7.0
Cash EPS (Diluted) (%)	1.8	5.2	4.3	6.9	24.6	1.6	7.0	6.4
Dividend (%)	16.9	11.1	12.5	12.5	8.7	10.0	10.0	10.0
NBV (%)	13.0	-3.5	-4.6	12.0	26.7	16.4	17.2	16.7
Working Capital Ratios								
Working Capital / Revenue (%)	4.5	4.3	2.5	0.2	1.6	2.1	1.7	1.5
Days Inventory Held	68	71	67	54	65	N/A	N/A	N/A
Days Sales Outstanding	47	45	42	44	46	46	45	45
Cash Conversion Ratios								
Operating Cashflow/EBITDA (%)	72.1	74.0	67.9	96.4	61.0	60.4	69.7	69.8
Free Cashflow (pre divs)/Earnings (%)	184.5	98.9	197.9	252.9	79.1	67.3	84.5	85.2
Financial / General								
EBITDA Int. Cover (x)	6.3	6.3	6.5	7.4	10.2	13.7	15.2	17.3
Group Interest Cover (x)	4.8	4.9	5.1	5.8	7.5	10.6	11.7	13.3
Debt / EBITDA (x)	2.5	2.6	2.3	2.2	1.8	1.6	1.1	0.6
Debt / Equity (%)	90.3	104.0	101.7	90.3	68.3	53.3	33.0	16.7
Debt / Mkt cap (%)	33.9	32.9	50.8	32.2	25.4	21.8	15.8	9.3
Debt / Free Cash Flow (x)	5.0	5.0	5.1	3.2	4.2	4.1	2.2	1.2
Avg. Cost of Debt (before tax) (%)	6.2	6.4	6.4	6.0	5.3	4.3	5.0	7.0
Fixed rate Debt/ Net Debt (%)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Ret. benefits deficit / market cap (%)	5.1	2.9	6.8	5.4	4.5	3.4	2.7	1.9
Ret. benefits assets / liabilities (%)	80.3	86.9	N/A	N/A	N/A	N/A	N/A	N/A
Dividend Cover (x)	7.4	7.2	6.8	6.6	7.0	7.0	6.9	6.7
Gross Capex/Depreciation (x)	0.9	0.9	1.7	1.3	1.0	1.4	1.4	1.4
Depreciation / Avg. Fixed Assets (%)	9.9	9.9	9.5	9.8	14.1	10.7	10.7	10.8
Reported Tax Rate (%)	19.7	17.5	26.4	20.1	17.5	17.5	17.4	17.4
Tax Rate before Ex & GW (%)	18.8	20.0	18.9	14.4	16.7	16.6	16.5	16.4

Valuation summary

	Dec06	Dec07	Dec08	Dec09	Dec10	Dec11E	Dec12F	Dec13F
Share Data (c)								
Year High	2075	2275	2245	2200	2703			
Year Low	1525	1778	1310	1320	2050			
Average Price	1821	2062	1870	1728	2398	2650	2650	2650
Year End Price	1893	2170	1310	2058	2497	2644	2644	2644
Year End No. Shares (m)	186.0	179.1	174.7	175.2	175.2	175.2	175.2	175.8
Year End Market Cap	3520.0	3885.8	2288.6	3604.2	4373.8	4631.3	4631.3	4648.6
Capital Structure (€m)								
Average Market Cap	3390.9	3711.5	3271.6	3027.4	4202.8	4654.4	4654.4	4654.4
Net Debt/(Cash)	1194.4	1279.0	1163.5	1159.5	1111.9	1009.6	732.1	434.1
Deferred Consideration	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-equity Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise Value	4585.2	4990.4	4435.1	4186.9	5314.7	5664.0	5386.5	5088.5
Investments	19.9	18.9	18.5	15.4	13.6	13.6	13.6	13.6
E. V. (excl. invs.)	4565.4	4971.5	4416.6	4171.5	5301.1	5650.4	5372.9	5074.9
Key Operating Data								
Group Turnover	4645.9	4787.8	4790.8	4520.7	4960.0	5336.0	5525.9	5693.2
EBITDA	486.6	500.1	503.3	519.6	618.6	620.9	665.5	707.9
EBITA	383.7	401.1	409.2	422.4	470.2	499.1	537.7	574.2
Diluted EPS before gw & exceptionals	133.9	143.8	153.9	166.5	192.1	211.9	228.0	243.9
Dividend	18.0	20.0	22.5	25.3	27.5	30.3	33.3	36.6
NBV	711.6	686.5	654.7	733.1	928.8	1081.0	1266.8	1478.8
Equity Valuation								
Average P/E (pre gw & exc.)	13.6	14.3	12.2	10.4	12.5	12.5	11.6	10.9
Average Price / Cash EPS	9.6	10.4	9.0	7.8	8.7	9.4	8.8	8.3
Average Dividend Yield	N/A	N/A	1.2	1.5	1.1	1.1	1.3	1.4
Average Free Cash Flow Yld (pre divs) (%)	8.0	7.8	8.1	13.4	7.4	6.5	8.6	9.3
Price/Book	2.7	3.2	2.0	2.8	2.7	2.4	2.1	1.8
Price/book (incl. gw)	2.2	2.6	1.6	2.3	2.3	2.1	1.8	1.6
Average EV Multiples								
Sales	1.0	1.0	0.9	0.9	1.1	1.1	1.0	0.9
EBITDA (EV excl. Investments)	9.4	9.9	8.8	8.0	8.6	9.1	8.1	7.2
EBITA	12.0	12.4	10.8	9.9	11.3	11.3	10.0	8.9
Operating Cash Flow	13.0	13.4	13.5	8.7	14.1	15.1	11.6	10.3
Invested Capital (Y/E)	1.5	1.6	1.5	1.4	1.6	1.6	1.5	1.7

Sector valuations

Company	Price	Mkt. Cap	Wk	% Change		YTD
	(c)	(€m)		1 Mth		
Ingredients						
Kerry Group (KYG ID)	2644	4644	5.3	-3.1		5.9
Givaudan (GIVN VX)	84250	6343	6.9	3.3		-15.0
IFF (IFF US)	5262	3197	1.9	-11.2		-5.0
McCormick (MKC US)	4784	4766	2.6	2.4		3.2
Sensient Tech (SXT US)	3504	1318	2.3	-2.1		-4.3
Ingredients	1824	22540	4.5	-0.9		-0.5

Company	P/E Ratios			Div	EV/EBITDA			Price/
	2011	2012	2013	Yield	2011	2012	2013	Book
Ingredients								
Kerry Group (KYG ID)	12.5	11.6	10.8	1.1	9.1	8.1	7.2	2.4
Givaudan (GIVN VX)	18.3	15.5	13.9	2.6	11.9	10.3	9.3	2.2
IFF (IFF US)	14.2	12.8	11.8	2.2	8.9	8.2	7.1	3.4
McCormick (MKC US)	17.2	15.4	14.2	2.3	11.4	10.1	9.7	4.2
Sensient Tech (SXT US)	14.6	13.7	13.7	2.4	8.6	7.9	7.6	N/A
Ingredients	15.4	13.9	12.7		10.1	9.0	8.2	2.7

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			Count	Percent
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