Tuesday 9 September 2014

Hilton Food Group plc

Interim results for the 28 weeks to 13 July 2014

Building for the future

Hilton Food Group plc, the specialist retail meat packing business supplying major international food retailers in Europe and Australia, is pleased to announce its interim results for the 28 weeks to 13 July 2014.

	28 weeks to 13 July 2014	28 weeks to 14 July 2013	Percentage growth	52 weeks to 29 December 2013
Volume (tonnes)	121,832	116,942	4.2%	223,568
Turnover	£592.3m	£593.8m	(0.3)%	£1,124.8m
Operating profit	£13.6m	£13.4m	1.1%	£25.8m
Profit after tax	£10.2m	£10.0m	1.8%	£19.4m
Free cash (outflow)/inflow before dividends and financing	£(2.8)m	£8.7m		£17.0m
Net debt/(cash)	£5.6m	£1.6m		£(4.9)m
Basic earnings per share	13.1p	13.0p	0.8%	25.0p
Interim dividend to be paid on 28 November 2014	3.8p	3.65p	4.1%	12.75p

Highlights:

- Further volume growth achieved in Western Europe, despite continuing weakness in consumer spending, with UK volumes building following the start of the Tesco contract and recently introduced products performing well in Holland

- Turnover growth held back by currency movements and lower raw material prices. Growth in underlying profitability similarly affected by currency movements, together with start-up costs incurred in Australia and the UK

- Continuing progress achieved with our joint venture in Australia

  conversion of Woolworths' Bunbury facility in Western Australia to expand retail packing completed

  construction of a new purpose built retail packing facility for Woolworths in Victoria on schedule, with operations expected to commence in the second half of 2015

- Strong cash generation has enabled major capital reinvestment programmes in the UK and Sweden with only a limited increase in net debt

- Robust balance sheet with the interim dividend increased from 3.65p to 3.8p, an increase of 4.1%

Commenting, Robert Watson OBE, Chief Executive of Hilton Food Group plc said:

"There is good underlying momentum in the business. During the year we are progressing a major expansion of

our UK facilities, the re-equipment of our facilities in Sweden and the development of a new facility in Victoria, Australia. Our aim is to extend the geographic reach of the Hilton model and we continue to look for new opportunities".

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Financial review

The Group is presenting its interim results for the 28 weeks to 13 July 2014, together with comparative information for the 28 weeks to 14 July 2013 and the 52 weeks to 29 December 2013. The interim results of the Group are prepared in accordance with IAS 34 as adopted by the European Union (EU).

Hilton's underlying trading performance has remained positive, despite significant currency headwinds and competitive retail grocery markets, with weak macroeconomic conditions persisting across most of our European markets. Volumes increased by 4.2%, reflecting the start of the new contractual arrangements with Tesco in the UK and the introduction of new product lines in Holland. Turnover fell by 0.3% to £592.3m (2013: £593.8m), impacted by adverse exchange translation movements (reducing turnover by 3.6%) and lower raw material meat prices. Further details of turnover and volume growth by segment are detailed in the Review of operations below.

Operating profit for the first 28 weeks of 2014, at £13.6m, was 1.1% ahead of the corresponding period last year, despite the impact of start-up costs in Australia and the UK and adverse exchange translation movements.

The operating profit margin was 2.3%, in line with the corresponding period last year.

Net finance costs, at £0.5m, were in line with last year (2013: £0.5m) with net debt increasing towards the end of the period and sterling and euro inter-bank offered rates remaining close to historically low levels. Interest cover was 30 times (29 times in 2013).

The taxation charge for the period was £2.9m (2013: £2.9m), representing an effective underlying rate of tax of 22.2%, as compared with 22.6% last year. Profit after taxation, at £10.2m, was £0.2m (1.8%) above last year (2013: £10.0m) with higher operating profit and a slightly lower effective rate of taxation.

The share of profit in our joint venture of £0.2m (2013: £0.1m) comprises the Group's 50% share of the post-tax profits of our Australian joint venture company (£0.6m after tax in the first 28 weeks), less start-up costs recharged to the joint venture company of £0.4m. Start-up costs are always incurred in advance of the start-up of new facilities, such as the new build underway in Victoria.

Basic earnings per share in the first 28 weeks of 2014, at 13.1p, were 0.8% ahead of those for the first half of last year with a 2.1% increase in net income being offset by an increased number of shares in issue, following executive and sharesave scheme share option exercises.

The Directors will declare an interim dividend of 3.8 pence per share, amounting to £2.8m (compared with an interim dividend of 3.65 pence per share in 2013) to be paid on 28 November 2014, to shareholders on the register at close of business on 31 October 2014.

In the first 28 weeks of 2014 the Group experienced a £2.8m free cash outflow, before dividends and financing (after incurring £21.3m of capital expenditure), as compared to an inflow of £8.7m last year (after capital expenditure of £7.2m). Group borrowings, net of cash balances of £19.6m, were £5.6m at 13 July 2014 (£4.9m net cash at 29 December 2013), reflecting the start of the major capital investment programmes in the UK and Sweden

At 13 July 2014 the Group had undrawn overdraft and loan borrowing facilities of £64.4m (£18.3m at 29 December 2013).

The principal risks and uncertainties facing the Group's businesses

Hilton has well developed processes and structures for identifying and then mitigating the key risks which the Group faces. The most significant risks and uncertainties faced by the Group, together with the Group's risk management processes are detailed in the review of Risk Management and principal risks on pages 22 to 24 of the Hilton Food Group plc annual report and financial statements 2013. The principal risks and uncertainties identified in that report, which remain unchanged, were:

- The Group is dependent on a small number of customers who exercise significant buying power and influence;

- The Group’s growth potential is dependent on the success of its customers and the future growth of their packed meat sales;
- The Group’s business is dependent on the macroeconomic environment and levels of consumer spending in the countries in which it operates;
- The Group’s business is reliant on a number of key personnel and its ability to manage growth and change successfully;
- The Group’s business is dependent on maintaining a wide and flexible global meat supply base; and
- Outbreaks of disease and feed contamination affecting livestock and media concerns can impact the Group’s sales.

These risks and uncertainties are expected to remain unchanged with respect to the last 24 weeks of the 2014 financial year, over which the economic environment across Europe is expected to improve, but potentially only gradually.

The risks and uncertainties outlined above had no material adverse impact on the results for the 28 weeks to 13 July 2014, beyond the continuing effects of the difficult macroeconomic environment across Europe on consumer spending levels, as identified in this interim management report.

Forward looking information

This interim management report contains forward looking statements. Such statements are unavoidably subject to risk factors associated with, amongst other things, economic, political and business developments which may occur from time to time across the countries in which the Group operates. It is believed that the expectations reflected in these statements are reasonable, but all forward looking statements and forecasts are by their nature predictive, speculative and involve risk and uncertainty, quite simply because they relate to events and depend on circumstances that will occur in the future.

Going concern

The Group’s bank borrowings are detailed in note 9 to the condensed consolidated interim financial information and the principal banking facilities which support the Group’s existing and contracted new business are committed until 2019. The Group is in compliance with all its banking covenants. Future expansion which is not yet contracted for, and which is not built into internal budgets and forecasts, may require additional or extended banking facilities and such future expansion will depend on our ability to negotiate appropriate additional or extended facilities as and when required.

The financial position of the Group including its cash flows, liquidity position and borrowings are described above, with its business activities and the factors likely to affect its future development, performance and position being covered in the Review of operations, below. As at the date of this report, the Directors have a reasonable expectation that the Group has adequate resources to continue in business for the foreseeable future. Accordingly, the condensed consolidated interim financial information has been prepared on a going concern basis.

Review of operations

The broad spread of the Group’s operations across Europe and the Asia Pacific region represents a clear strength, in terms of reducing Hilton’s dependence on the state of any one national economy, particularly during less certain economic times.

With 67% of Group’s sales in the first half of 2014 made in currencies other than its reporting currency, its results reported in Sterling have, however, inevitably been influenced by the relative strength of Sterling against these currencies. Over the 28 weeks to 13 July 2014 the various overseas currencies in which the Group trades have all depreciated against Sterling, compared with the corresponding period in 2013, the Euro by 3.5%, the Danish Krone by 3.6%, the Polish Zloty by 3.4%, the Swedish Krona by 8.1% and the Australian dollar by 16.5%.

Western Europe

Operating profit of £14.8m (2013: £14.6m) on turnover of £545.8m (2013: £543.5m)

Volume growth of 5.4% was achieved in Western Europe, driven by the start of the new Tesco contract in the UK, product innovation and range extension. Turnover growth was, however, only 0.4%, reflecting both the effect of lower raw material meat costs on our cost plus contracts and the impact of unfavourable exchange rate movements. Major capital expenditure programmes are currently underway in the UK, to modernise the Group’s Huntingdon site and extend its capacity to service the new Tesco contract, and at Vasteras in Sweden, to modernise the site and improve operational efficiency.

Consumer spending has remained weak and to offset the impact of this we have continued to work diligently with our customers on product and packaging development, extending the range of products supplied and maintaining our unremitting focus on product quality, integrity and traceability.

Central Europe

Operating profit of £1.2m (2013: £1.3m) on turnover of £46.5m (2013: £50.3m)

Our facility at Tychy, in Southern Poland supplies Ahold stores in the Czech Republic and Slovakia, Tesco stores in the Czech Republic, Hungary, Poland and Slovakia and Rimi stores in Latvia, Lithuania and Estonia.

In the first 28 weeks of 2014 the business faced extremely competitive markets characterised by a high degree of consumer price sensitivity. Volumes were consequently 2.6% lower than in the corresponding period last year and turnover reported in sterling fell by 7.4%, reflecting unfavourable exchange rate movements and lower raw material prices.

Central costs and other (including Australia)

Net operating cost of £2.4m (2013: £2.5m).

This segment includes the profit net of start-up costs from Australia of £0.2m (2013: net loss £0.5m) and central costs of £2.6m (2013: £2.0m and £2.8m in 2012).

In Australia the Group is involved in a joint venture with Woolworths, under which it earns a fifty per cent share of the fees charged by the joint venture company for operating certain meat processing and packing plants for Woolworths, based on the volume of retail packed meat delivered to Woolworths' stores.

In May 2013 the joint venture company took over responsibility for the operation of Woolworths' Western Australian meat processing centre in Bunbury, near Perth. The conversion of this facility to enable a substantial increase in retail packed meat production is now completed with subsequent sales of retail packed meat reaching targeted levels.

In August 2013 the building of a purpose built retail packing facility near Melbourne in Victoria was announced which will be operated by the joint venture company. Construction is now in progress and the facility is expected to commence production in the second half of 2015.

Investment in our existing facilities

Hilton continues to invest in all its European facilities to maintain the state of the art levels required to service its customers' growth, extend the range of products supplied to those customers and deliver both first class service levels and further increases in production efficiency. This investment ensures that we can achieve low unit costs and competitive selling prices at increasingly high levels of production throughput. Capital expenditure in the period was £21.3m (2013: £7.2m) reflecting the start of the major capital expenditure programmes at Huntingdon and Vasteras referred to above.

Our Staff

The progress made by the Group in the first half of 2014 against a retail environment and economic backdrop which remained challenging is once again attributable to the quality of the workforces and management teams we have in each country. On behalf of the Board, we would like to thank them for their continuing commitment, enthusiasm, professionalism and support.

Outlook

Hilton has continued to deliver year on year volume growth through difficult and uncertain economic times. It is expected that consumers' drive for value will continue, but with up to date and well invested facilities, a broad geographic customer spread, flexible procurement capabilities and a constant focus on product quality, integrity and traceability, the Group remains well equipped to meet such challenges and deliver growth.

Looking ahead to the remainder of 2014, currency headwinds could well continue along with pressure from constrained consumer expenditure in Europe. With higher start-up costs the Group is likely in 2014 to deliver levels of profitability similar to those achieved in 2013.

Hilton continues to explore further opportunities for geographical expansion and growth in its existing businesses through new product development and range extension.

Sir David Naish DL
Non-Executive Chairman

Robert Watson OBE
Chief Executive

8 September 2014

Statement of Directors' responsibilities

The Directors confirm that, to the best of their knowledge:

(a) the attached condensed consolidated interim financial information has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union;
(b) the Financial review and Review of operations which constitute the 'interim management report' include a fair review of the information required by DTR 4.2.7R (indication of important events during the first 28 weeks and description of principal risks and uncertainties for the remaining 24 weeks of the year); and
(c) the attached condensed consolidated interim financial information includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and any changes therein).

The Directors of Hilton Food Group plc were listed in the Hilton Food Group plc annual report and financial statements 2013 on pages 32 and 33 and there have been no changes in Directors since 29 December 2013, a list of which is maintained on the Hilton Food Group plc website at www.hiltonfoodgroupplc.com.

On behalf of the Board

Robert Watson OBE
Chief Executive

Nigel Majewski
Finance Director

Income statement

Continuing operations	Note	**28 weeks ended 13 July 2014 £'000**	28 weeks ended 14 July 2013 £'000
Revenue	4	**592,305**	593,821
Cost of sales		**(521,526)**	(522,797)
Gross profit		**70,779**	71,024
Distribution costs		**(5,881)**	(5,188)
Administrative expenses		**(51,488)**	(52,495)
Share of profit in joint venture		**160**	80
Operating profit	4	**13,570**	13,421
Finance income		**49**	74
Finance costs		**(499)**	(542)
Finance costs – net		**(450)**	(468)
Profit before income tax		**13,120**	12,953
Income tax expense	5	**(2,909)**	(2,927)

Profit for the period		**10,211**	10,026

Profit attributable to:			
Owners of the parent		**9,463**	9,270
Non-controlling interests		**748**	756
		10,211	10,026

Earnings per share for profit attributable to owners of the parent			
- Basic (pence)	7	**13.1**	13.0
- Diluted (pence)	7	**13.0**	12.9

Statement of comprehensive income

	28 weeks ended 13 July 2014 £'000	28 weeks ended 14 July 2013 £'000
Profit for the period	**10,211**	10,026
Other comprehensive income		
Currency translation differences	**(3,006)**	2,063
Other comprehensive income for the period net of tax	**(3,006)**	2,063
Total comprehensive income for the period	**7,205**	12,089

Total comprehensive income attributable to:		
Owners of the parent	**6,675**	11,118
Non-controlling interests	**530**	971
	7,205	12,089

The notes form an integral part of this condensed consolidated interim financial information.

Balance sheet

	Note	**13 July 2014 £'000**	14 July 2013 £'000	29 December 2013 £'000
Assets				
Non-current assets				
Property, plant and equipment	8	**63,283**	56,290	58,876
Intangible assets	8	**8,916**	2,963	2,660
Investments		**572**	73	405
Deferred income tax assets		**1,199**	1,110	1,313
		73,970	60,436	63,254
Current assets				
Inventories		**22,461**	23,351	23,837
Trade and other receivables		**111,228**	126,428	124,356
Current income tax assets		**2,882**	1,247	745

Cash and cash equivalents		**19,586**	29,764	34,642
		156,157	180,790	183,580
Total assets		**230,127**	241,226	246,834
Equity				
Share capital	10	**7,244**	7,157	7,216
Share premium		**6,396**	3,849	5,885
Employee share schemes reserve		**996**	1,321	857
Foreign currency translation reserve		**(366)**	3,947	2,422
Retained earnings		**66,862**	58,063	63,989
Reverse acquisition reserve		**(31,700)**	(31,700)	(31,700)
Merger reserve		**919**	919	919
Capital and reserves attributable to owners of the parent		**50,351**	43,556	49,588
Non-controlling interests		**4,133**	4,040	4,670
Total equity		**54,484**	47,596	54,258
Liabilities				
Non-current liabilities				
Borrowings	9	**18,035**	20,430	18,616
Deferred income tax liabilities		**1,371**	2,076	1,459
		19,406	22,506	20,075
Current liabilities				
Borrowings	9	**7,168**	10,958	11,104
Trade and other payables		**147,820**	159,700	161,397
Current income tax liabilities		**1,249**	466	-
		156,237	171,124	172,501
Total liabilities		**175,643**	193,630	192,576
Total equity and liabilities		**230,127**	241,226	246,834

The notes form an integral part of this condensed consolidated interim financial information.