Investment Analysis Report

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Company Analyzed: Kerry Group
Proposed Investment: €50 million

EXECUTIVE SUMMARY

This report evaluates the financial performance of Kerry Group in 2023 to assess the viability of a proposed €50 million investment. The analysis covers liquidity, activity, profitability, and gearing ratios, offering insights into the company's operational and financial health.

Key findings indicate that Kerry has strong liquidity and financial flexibility, stable operational efficiency, and a solid profitability profile, with significant improvements across several metrics. While there was a slight decline in capital utilization efficiency (ROCE), it reflects strategic investments aimed at future growth. Additionally, the company's reduced debt levels and high interest coverage demonstrate a low-risk financial structure.

The report concludes that the Kerry Group presents a sound investment opportunity with strong growth potential and sustainable financial practices. It is recommended to proceed with the proposed investment.

Contents

2.Analysis for Consolidated Income Statement of Kerry Group (2023 VS. 2022)

Investment Overview

Despite an **8.6% decline in revenue** in 2023 compared to the previous year, the company demonstrated resilience and operational efficiency by achieving improved profitability margins. This performance highlights **strong cost control**, **effective resource allocation**, and **disciplined financial management**, as summarized in the table below:

Table 2. (a) Common-Size Analysis: Income Statement (as a percentage of total revenue)

Item	2023 (€m)	2023 (% of Revenue)	2022 (€m)	2022 (% of Revenue)	Change
Revenue	8,020.30	100.00%	8,771.90	100.00%	**▼ 8.6%**
EBITDA	1,165.10	14.53%	1,216.10	13.86%	**▲ 0.67 %**
Depreciation & Amortization	299.1	3.73%	304.3	3.47%	**▲ 0.26**
Operating Profit	874.80	10.91%	765.60	8.73%	**▲ 2.18 %**
Finance Costs	**72.10**	0.90%	**72.8**	0.83%	**▲ 0.07 %**
Profit Before Taxation	822.6	10.26%	699	7.97%	**▲ 2.29 %**
Income Taxes	94.5	1.18%	92.5	1.05%	**▲ 0.13 %**
Profit After Taxation	728.10	9.08%	606.50	6.91%	**▲ 2.17 %**

Revenue (Change: ▼ 8.6%)

- Revenue decreased by **8.6%** in 2023, reflecting potential challenges in sales or market conditions.

EBITDA (Change: ▲ 0.67%)

- The EBITDA margin increased by **0.67 %**, indicating efficient management of operational costs before considering non-cash expenses.

Depreciation & Amortization (D&A) (Change: ▲ 0.26 %)

- D&A remained stable along with negligible increase as a percentage of revenue, reflecting consistent investment in assets or intangible resources.

Operating Profit (Change: ▲ 2.18%)

- The operating profit margin improved by **2.18 %**, indicating effective cost control in core operations despite the drop in revenue.

Finance Costs (Change: ▲ 0.07%)

- Finance costs remained low but showed a slight increase as a percentage of revenue, potentially reflecting higher borrowing or financing expenses.

Profit Before Taxation (PBT) (Change: ▲ 2.29 %)

- PBT margin increased by **2.29 %**, demonstrating stronger profitability after accounting for operational and financing costs.

Income Taxes (Change: ▲ 0.13 %)

- Tax expenses remained consistently low, reflecting effective tax management.

Profit After Taxation (Net Profit) (Change: ▲ 2.17 %)

- Net profit margin improved by (9.08-6.91) **2.17 %**, showcasing enhanced overall profitability and the company's ability to convert revenue into earnings.

2.(i) Profitability and return on investment

The profitability ratios highlight Kerry's ability to generate substantial returns for investors through operational efficiency, strategic capital management, and consistent growth. Based on these metrics, the proposed €50 million investment aligns with a company that is positioned to provide strong and sustainable returns over time. The summarized table for ratios are as follow.

Table 2. (b) Profitability Ratios

Profitability Ratios	2023	2022	Change
Operating profit margin = Operating profit / Revenue	10.91%	8.73%	▲ 2.18
Net profit margin = Net profit / Revenue	9.08%	6.91%	▲ 2.17
Return on Equity	11.16%	9.75%	▲ 1.41
Return of Asset	6.23%	4.94%	▲ 1.29
Return on Capital Employed (ROCE) (EBIT/TA-CA)	8.95%	9.73%	▼ 0.79%

Operating Profit Margin (▲2.18%)

- The improved operating profit margin (10.91% in 2023) demonstrates Kerry's ability to efficiently manage core operations while maintaining profitability. This is a strong indicator of the company's capability to sustain operational growth, which directly supports stable or growing returns for investors.

Net Profit Margin (▲2.17%)

- The rise in net profit margin (9.08% in 2023) highlights that more revenue translates into bottom-line profit. For investors, this means Kerry is increasing its net earnings, which can lead to higher dividends, reinvestment opportunities, or share price appreciation over time.

Return on Equity (ROE) (▲1.41%)

- The increase in ROE to 11.16% signals that Kerry is generating more profit per euro of shareholder equity. This growth translates to a stronger ability to deliver returns to equity investors, making it a compelling case for investment.

Return on Assets (ROA) (▲1.29%)

- The rise in ROA to 6.23% suggests that Kerry is better utilizing its assets to generate income. This ratio reassures investors that the company is managing its resources efficiently, improving its ability to grow organically without unnecessary capital expansion.

Return on Capital Employed (ROCE) ▼ 0.79%)

- ROCE decreased from 9.73% in 2022 to 8.94% in 2023, showing a decline of 0.79%. This indicates a slight reduction in Kerry's efficiency in generating operating profit from its capital employed.

3.Analysis for Consolidated Balance Sheet of Kerry Group (2023 vs. 2022)

Investment Overview

The company exhibits a stable financial foundation with a focus on long-term growth through increased investments in non-current assets. Short-term liquidity has improved due to reduced liabilities, though a decline in current assets raises concerns about near-term operational flexibility. The stronger equity position reflects improved financial health and resilience, making the company a potentially attractive investment, albeit with some caution regarding its short-term asset management, as summarized in the table below.

Table 3. (a) Common-Size Analysis: Balance Sheet (as a percentage of total Asset)

Item	2023 (€m)	2023 (%)	2022 (€m)	2022 (%)	Change
Non-current assets	8,354.30	71.45%	8,087.70	65.84%	▲5.61%
Current assets	3,338.10	28.55%	4,195.70	34.16%	▼5.61%
Total assets	11,692.40	100.00%	12,283.4	100.00 %	▼4.81%
Current liabilities	2,013.50	17.22%	2,915.30	23.73%	▼6.51%
Non-current liabilities	3,156.10	26.99%	3,144.50	25.60%	▲1.39%
Total liabilities	5,169.60	44.21%	6,059.80	49.33%	▼5.12%
Equity	6,522.80	55.79%	6,223.60	50.67%	▲5.12%
Total Debt	2,469.70	21.12%	3,133.70	25.51%	▲5.12%

Assets

- **Non-current assets: (Change: ▲ 5.61%)**
  - Increased investment in long-term resources indicates a focus on sustaining growth.
- **Current assets: (Change: ▼ 20.45%)**
  - Significant reduction because the inventory levels, receivables and cash on bank and in hand have decreased in 2023.
- **Total assets: (Change: ▼ 4.81%)**
  - Overall, the asset base decreased, reflecting adjustments in working capital.

Liabilities

- **Current liabilities: (Change: ▼ 30.91%)**
  - Reduction indicates improved short-term liquidity and reduced pressure on cash flow.
- **Non-current liabilities: (Change: ▲ 1.39%)**
  - Stable, reflecting on manageable long-term obligations.

- **Total liabilities:** (**Change: ▼ 5.12%**)
    - A healthier liability structure aligns with improved equity levels.

Equity

- **Equity:** (**▲ 5.12%**)
    - Growth in equity showcases stronger financial health and retained earnings.

Table 3. (b) Changes in Current Asset (2023 Vs 2022)

Item	2023 (€m)	2022 (€m)
Inventories	1,100.20	1,354.40
Trade and Other receivables	1,279.00	1,423.80
Cash at bank and in hand	943.70	970.00
Other Current Financial Instruments	13.70	59.50
Asset Classified as held for sale	1.50	388.00
Current Asset	3,338.10	4,195.70

3.(i) Liquidity Ratio Analysis

The liquidity ratios provide a snapshot of Kerry's ability to meet its short-term obligations. These are crucial for assessing financial health and operational resilience.

Table 3. (c) Liquidity Ratios

Liquidity Ratio	2023 Value	2022 Value	Change	Standard Benchmark	Comparison with Benchmark (2023)
Working Capital (€m)	1,324.60	1,280.40	44.2	N/A	Positive improvement
Current Ratio (CAs/CLs)	1.66	1.44	▲0.22	1.5–2.0	In range (strong liquidity)
Quick Ratio	1.11	0.84	▲0.27	≥ 1.0	Above standard (good liquidity)
Cash Ratio	0.48	0.35	▲0.13	0.2–0.5	Within range (adequate liquidity)

1. **Working Capital (▲)**
   - It increased by €44.2m, reflecting stronger liquidity and ability to finance operational activities.

2. Current Ratio (Change: ▲0.22)

- The Kerry Group's current ratio has improved from **1.44 in 2022 to 1.66 in 2023**, indicating a stronger ability to meet short-term obligations using its current assets. It is nearing the upper range of optimal liquidity.

3. Acid Test Ratio (Quick Ratio) (Change: ▲0.27)

- The acid test ratio improved significantly from **0.84 in 2022 to 1.11 in 2023**, surpassing the standard benchmark of 1.0. The improvement in this ratio suggests better cash and receivables management in 2023. It reflects increased financial flexibility and reduced reliance on inventory.

4. Cash Ratio (Change: ▲0.13)

- The cash ratio increased by 0.13, nearing the upper limit of the standard benchmark range (0.5). While a higher cash ratio is positive for liquidity, ratios closer to the upper limit (or beyond) may suggest underutilization of cash that could be invested for growth.

3.(ii) Activity Ratio Analysis

Activity ratios examine Kerry's efficiency in managing its assets and liabilities to generate sales summarized in the following table.

Table 3. (c) Activity Ratios

Activity Ratio	2023 Value	2022 Value	Change	Standard Benchmark	Comparison
Trade Receivable Days	58.21	59.24	▼1.03	≤60	Within range
Total Asset Turnover (Sales/TA)	0.69	0.71	▼0.02	≥0.7	Slightly below
Working Capital Turnover (Sales/WC)	6.05	6.85	▼0.80	N/A	Declined

1. **Trade Receivable Days (Change: ▼1.03 days)**

- Trade receivable days decreased slightly from 59.24 in 2022 to 58.21 in 2023. This indicates an improvement in Kerry's efficiency in collecting receivables, as customers are paying faster. Maintaining or further reducing this figure will positively impact cash flow management.

2. **Total Asset Turnover (Change: ▼0.02)**

- Total asset turnover declined marginally from 0.71 in 2022 to 0.69 in 2023, falling slightly below the benchmark of ≥0.7. This suggests a slight decrease in Kerry's ability to generate sales from its assets. The decline may be attributed to increased investment in assets that are yet to generate proportional returns. Improving this ratio will depend on better utilization of existing assets or boosting sales.

3. **Working Capital Turnover (Change: ▼0.80)**

- Working capital turnover dropped from 6.85 in 2022 to 6.05 in 2023, indicating that the company is generating fewer sales per euro of working capital. While the drop could reflect higher working capital levels due to increased current assets, it also underscores the need for optimizing inventory, receivables, and payables to boost efficiency.

3.(iii) Financial Structuring and Gearing Ratio Analysis

Kerry Group demonstrates a stronger financial structure in 2023, characterized by lower debt levels and a robust ability to cover interest expenses. The reduced gearing ratios enhance the company's stability and attractiveness as an investment, as it signals a lower financial risk while maintaining operational flexibility.

Table 3. (iii) Financial Structuring and Gearing Ratios

Financial Structure and Gearing Ratios	2023 (€m)	2022 (€m)	Change	Standard Benchmark	Comparison with Benchmark (2023)
Debt to Equity Ratio	0.3786257	0.5035189	▼0.13	N/A	Lower gearing indicates reduced risk
Debt to Asset Ratio	0.2112227	0.2551167	▼0.043	N/A	Declining, showing lower leverage
Interest Coverage Ratio (EBIT/Interest Expense)	12.011096	12.524725	▼0.51	≥3.0	Well above benchmark, strong safety margin

Debt to Equity Ratio (Change: ▼0.13)

- The debt-to-equity ratio decreased from 0.50 in 2022 to 0.38 in 2023, reflecting reduced reliance on debt financing relative to equity. This signal improved financial stability and lowered gearing, reducing risk for investors. The decline suggests Kerry has either paid down debt or strengthened its equity position, both of which are positive indicators.

Debt to Asset Ratio (Change: ▼0.043)

- The debt-to-asset ratio dropped from 0.26 to 0.21, indicating a lower proportion of total assets funded by debt. This decline further reflects Kerry's focus on reducing leverage, strengthening its asset base, and enhancing long-term solvency.

Interest Coverage Ratio (Change: ▼0.51)

- The interest coverage ratio decreased slightly from 12.52 in 2022 to 12.01 in 2023. Despite the decline, the ratio remains well above the benchmark of 3.0, indicating Kerry's strong ability to cover interest obligations through operating profits. This underscores the company's financial safety and low risk of insolvency.

4.Analysis for Consolidated Cash Flow Statement of Kerry Group (2023 vs. 2022)

Investment Overview

Kerry Group demonstrates strong operational cash flow and improved working capital management, reflecting solid financial stability. The focus on debt repayment enhances long-term stability but may limit short-term liquidity and growth opportunities. While the company's cautious approach reduces risk, it could constrain immediate returns for investors seeking aggressive expansion as summarized in below Table 4. (a).

Strengths: Strong operating cash flow, Efficient working capital management, Reduced investing outflows

Risks: High financing outflows, Moderate growth investments

Table 4. (a) Common-Size Analysis: Cash Flow Statement (as a percentage of total Revenue):

Cash Flow Item	2023 (€m)	% of Revenue (2023)	2022 (€m)	% of Revenue (2022)	Change
Cash flows from operating activities					
Profit before taxation	822.6	10.26%	699	7.97%	2.29%
Depreciation (net)	219.6	2.74%	221.6	2.53%	0.21%
Amortization	79.5	0.99%	82.7	0.94%	0.05%
Finance Costs(net)	50.3	0.63%	66.2	0.75%	-0.13%
Changes in working capital	185.5	2.31%	-224	-2.55%	4.87%

Net cash from operating activities	1,037.80	12.94%	721.8	8.23%	4.71%
Cash flows from investing activities		0.00%		0.00%	0.00%
Purchase of assets	-281.9	-3.51%	-221	-2.52%	-1.00%
Proceeds from sale of assets	11.6	0.14%	38.1	0.43%	-0.29%
Net cash used in investing activities	-94.4	-1.18%	-583.1	-6.65%	5.47%
Cash flows from financing activities		0.00%		0.00%	0.00%
Dividends paid	-191.3	-2.39%	-173.6	-1.98%	-0.41%
Purchase of own Shares	-101.7	-0.01268	`-	`-	
payment of Lease Liabilities	-36.4	-0.45%	-35.1	-0.40%	-0.05%
Repayment of borrowings	-695.9	-8.68%	-3	-0.03%	-8.64%
Net cash movement due to financing	-986.8	-12.30%	-209.7	-2.39%	-9.91%

Strengths

1. **Strong Operating Cash Flow Growth:**

   Operating cash flow as a percentage of revenue improved significantly (from 8.23% to 12.94%). This increase, driven by higher profits before taxation and positive working capital changes, demonstrates enhanced operational efficiency and cash generation capability.

2. **Improved Working Capital Management:**

   The shift in working capital changes from a negative position (-2.55%) to a positive contribution (2.31%) indicates better management of receivables, payables, or inventory, supporting short-term liquidity.

3. **Reduced Investing Cash Outflows:**

   Net cash outflows from investing activities decreased markedly (6.65% to -1.18% of revenue), showing a cautious capital allocation approach while reducing pressure on cash reserves.

Risks

1. **Substantial Financing Outflows:**

   Cash outflows from financing activities grew substantially (-2.39% to -12.30% of revenue), driven mainly by large-scale borrowings repayment (8.68%). While this deleveraging strengthens the balance sheet, it severely impacts liquidity and limits funds for growth and shareholder returns in the short term.

2. **Higher Capital Expenditure:**

   Increased spending on asset purchases (-3.51% of revenue, up from -2.52%) reflects ongoing investment needs, which, while supporting long-term goals, might strain available cash.

3. **Reduced Returns to Shareholders:**

   The combination of higher dividend payouts and share buybacks signals a focus on returning value to shareholders. However, such commitments may conflict with the need to balance liquidity and reinvestment for growth.

5.Corporate Governance Structure

5.(i) Governance Framework

Kerry Group operates under a well-defined governance framework designed to ensure long-term shareholder value and compliance with regulatory standards. Key elements include:

- **Board Composition:** 14 members, including a non-executive Chairman, CEO, CFO, one other executive director, and ten non-executive directors, ensuring a diversity of expertise and independence.
- **Committees:** The Group employs specialized committees such as Audit, Governance & Nomination, Sustainability, and Remuneration Committees to oversee specific governance areas.

5 (i).2 Compliance and Evaluation

- **Code Compliance:** The Group complies with the UK Corporate Governance Code and the Irish Corporate Governance Annex.
- **Effectiveness:** Annual self-assessments and periodic external reviews confirm that governance structures operate effectively.

5(i).3 Key Initiatives and Highlights

- Formation of a Sustainability Committee to align with ESG priorities.
- Board diversity focus, achieving 43% female representation, with a goal of 50% senior management gender parity by 2030.
- Regular stakeholder engagement, including shareholders, employees, and the community.

Feature	Status	Comments
Compliance	Full	Aligned with UK and Irish Codes
Board Diversity	43% female	Goal: 50% by 2030
Stakeholder Engagement	Active	Includes workforce and communities
Risk Management	Effective	Regular reviews by the Audit Committee

5(i).4. Governance Strengths

- **Strategic Oversight:** Board-led strategic initiatives such as "Beyond the Horizon" demonstrate proactive sustainability alignment.
- **Risk Management:** Robust risk assessment and internal controls ensure financial and operational stability.
- **Culture and Ethics:** Embedded values of inclusiveness, integrity, and ownership, reinforced by a Code of Conduct and whistleblowing channels.

5(i).5. Governance Challenges

- **Directors:** Some non-executive directors have served over nine years, potentially raising independence concerns. However, their continued contribution has been justified through rigorous reviews.
- **Inflationary Impact:** Macroeconomic challenges, including inflation, require heightened vigilance in financial performance management.

5(i).6. Financial and Operational Context

While specific financials for 2023 were not included, highlights such as approval of strategic M&A worth €210 million and significant R&D investments of €301 million suggest a focus on growth and innovation. These factors, combined with improved supply chain and sustainability initiatives, enhance Kerry's market position.

5.(ii). Recommendation to proceed with Investment Decision

Rationale:

1. **Strong Governance:** The governance framework is robust, transparent, and aligned with international best practices.
2. **Sustainability Alignment:** ESG considerations are deeply integrated into corporate strategy, aligning with investor preferences for responsible investments.
3. **Growth Strategy:** Strategic initiatives in sustainable nutrition and market expansion position Kerry for long-term value creation.

6.Strategic Issues Impacting Kerry Group

6.(i)1. Industry Trends and Market Dynamics

- **Global Focus on Health and Nutrition**: Kerry operates in the food and beverage sector, emphasizing taste and nutrition solutions. The increasing consumer preference for plant-based, health-oriented, and sustainable food products strongly influences the company's strategy.
- **ESG Commitments**: Kerry's sustainability initiatives, such as carbon reduction and waste management, align with industry trends but also present cost challenges in the short term.

6.(i)2. Competitive Landscape

Kerry faces competition from large multinational corporations like Nestlé and Danone, which possess significant resources for R&D and marketing. Kerry's focus on ingredient innovation and functional foods differentiates it from many competitors.

6.(i)3. Supply Chain Challenges

- Post-pandemic supply chain disruptions and rising raw material costs have increased operational expenses.
- Kerry has invested in digital transformation to optimize supply chain resilience.

6.(i)4. Regulatory Environment

- Stricter environmental regulations and food safety standards, especially in the EU, could lead to compliance costs.
- Kerry has responded proactively with innovations like clean-label ingredients.

6.(ii)SWOT Analysis

Strengths	**Weaknesses**
- Strong innovation pipeline in taste and nutrition. - Global footprint with diversified revenue streams. - Proven expertise in functional ingredients.	- Dependence on developed markets for a large portion of revenue. - High R&D costs that pressure margins. - Exposure to currency fluctuations.
Opportunities	**Threats**
- Expansion in emerging markets, especially in Asia. - Growing demand for plant-based and sustainable products. - Partnerships and acquisitions to drive growth.	- Intense competition from both global giants and niche players. - Economic uncertainties, including inflation and fluctuating

	commodity prices. - Increasing regulatory costs.

Key Strategic Challenges

1. Sustainability Commitments and Costs

Kerry has committed to reducing carbon emissions and implementing sustainable practices. While this enhances brand reputation, it also leads to short-term financial strain.

2. Revenue Concentration in Developed Markets

A significant portion of Kerry's revenue comes from North America and Europe. Limited penetration in high-growth emerging markets like Asia and Africa poses a strategic challenge.

3. Innovation-Driven R&D Costs

Investing in product innovation is critical for Kerry, especially in clean-label and functional ingredients. However, maintaining high R&D expenditure can pressure profit margins.

4. Digital Transformation and Operational Efficiency

While Kerry has initiated digital transformation projects to enhance efficiency, the integration of new technologies poses risks related to execution and costs.

7.Comparative Financial Analysis: Kerry Group vs. Glanbia plc (2023)

7.(i) Liquidity Ratios

Metric	Kerry Group	Glanbia plc	Industry Median (2023)
Current Ratio	1.66	1.63	~1.50
Quick Ratio	1.11	0.91	~1.00

Analysis: Both Kerry and Glanbia surpass the industry median for current ratio, indicating good short-term liquidity. Kerry outperforms in the quick ratio, demonstrating better capacity to meet immediate liabilities without relying on inventory.

7.(ii) Profitability and Return on Investment

Metric	Kerry Group	Glanbia plc	Industry Median (2023)
Return on Equity (ROE)	11.16%	14.10%	~12.0%
Return on Assets (ROA)	6.23%	6.05%	~5.50%

Analysis: Kerry's ROA slightly exceeds Glanbia's and the industry median, reflecting efficient asset utilization. However, Glanbia outpaces Kerry and the industry in ROE, showing stronger returns for shareholders.

7.(iii) Financial Structure and Gearing

Metric	Kerry Group	Glanbia plc	Industry Median (2023)
Debt-to-Equity Ratio	0.38	0.49	~0.45

Analysis: Kerry maintains a conservative capital structure compared to Glanbia, with a debt-to-equity ratio below the industry median. Glanbia's slightly higher ratio suggests more reliance on debt for financing.

Conclusion

This report has thoroughly analyzed Kerry Group's financial position, strategic initiatives, corporate governance, and market standing. It is recommended to process the proposed the investment €50 million in Kerry Group.

Data Sources:

1. All financial data and metrics used in this report for the Kerry group have been sourced from Kerry Group's Annual Financial Report for the year ending December 31, 2023. This includes all figures related to liquidity, profitability, financial structure, and other relevant financial performance indicators.
2. All Data for Ratios of Glanbia Plc were collected from Glanbia (ISE: GL9) Financial Ratios and Metrics - StockAnalysis
3. Liquidity and profitability medians were cross-referenced from CSIMarket and sector insights published by Investopedia【26】【27】.
4. Debt-to-equity benchmarks were derived from Greenwich Capital Group's food and beverage sector reports【28】【29】.
