

# Kerry Group

## Annual Report 2013 Analysis



Module: Accounting Information for Managers

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## Introduction

This report will provide an analysis of Kerry Groups 2013 Annual Report. This paper aims to discuss key points of information from the firms' detailed report. This review will comment on Kerry Groups 2013 Annual Report under three main sections (requirements). The first section will pay particular attention to the management's statements regarding the company. The next section will focus on discussing key points from the business, financial and sustainability reviews and also the group's financial statements. The final section of our report discusses the groups accounting policies, financial position and performance which will be obtained through ratio analysis.

## Requirement one

### 1. Chairman's statement

- The results section would be one of the most important points from the Chairman's statement. It states that the company had revenues of €5.8 billion which is of vital significance to current and prospective shareholders alike. Even More important is the mention that the companies sales grew by 4.6% and that adjusted earnings per share increased by 10.2%. These points are important to the existing and prospective shareholders in equal measure. At first glance the results section makes the company seem like a very solid investment opportunity and that is why it is of significant importance.
- The second most important point would be the information provided with regard to the company's prospects. The overall impression of this section is one of optimism despite not stating any figures. It mentions that; "the group is well resourced to achieve its business objectives and deliver sustained value for all stakeholders". Again, as previously mentioned, this statement sends a resounding optimistic message to existing shareholders while also enticing potential investors into the company, which may help the company raise more capital.
- The final important noted point in the chairman's statement was the section on dividends. This section states that the board recommended a final dividend of 28 cent per share, an increase of 12% on the 2012 final dividend. This would be pleasing news to the shareholders of the company. It also sends out a strong message to prospective shareholders that the company is very generous with the dividend policy they have in place and this would entice investors into investing in the company.

## 2. Group CEO's review

- In the Consumer Foods section, it describes how Kerry Group is adapting and restructuring in face of the current market conditions. The company is investing in its technology and innovation and focusing on its market strategies and core offerings to deliver sustainable profitable growth. What is interesting is that the review goes on to highlight that the company is focused on “high quality”. This is very important as it confirms Kerry Group is not compromising on quality and is a very noteworthy point made in the Chief Executives review. This emphasizes that the company is capable of adapting to a difficult market whilst still ensuring growth which is a favourable achievement for its shareholders.
- The second important point in the Chief Executives Review in our opinion is the detail in the Finance section. Whilst the figures themselves are obviously important, the reasoning for these figures is both clear and concise. The manner in which they describe these numbers makes it understandable regardless whether you are International investor or a local farmer. It states how the Group achieved a free cash flow of €412.1 million compared to €344.5 million in 2012 which shows the business is a generator of cash.
- The final important point is the detail mentioned in the Future Prospects section. It ends on a positive note which would be to the delight of current shareholders and to the interest of potential shareholders. It states the company has made excellent progress and expects growth of to a range of 273 and 284 cent per share. This important point is strategically positioned in the Group CEO's review and helps end on a thoroughly positive note for all interested parties.

#### 4 (a). Auditor's Report

The Kerry Group auditor is Deloitte and Touche, Chartered Accountants and Statutory Audit Firm.

- The first key point to note in the Auditors Report is the statement with regard to the accounting standards used. It clearly states that Kerry Group was audited under Irish law and International Financial Reporting Standards (IFRS) as adopted by the European Union. By stating this, Deloitte and Touche are confirming that the auditing framework used is fully legitimate and internationally recognised. This verifies the audit was performed to the appropriate standards.
- Another point of importance to note was in relation to the paragraph on Directors' remuneration and transactions. Deloitte and Touche note that if any information specified by law was not disclosed regarding the remuneration or transactions made or received by the directors, they would include it in their audit of the company. We feel this information highlights that the auditors not only test the legitimacy of the company, but they also ensure the trustworthiness of the directors.
- The final point of importance to take from the Auditors Report was their opinion with regard to Kerry Group accounts. Without going into detail, the Auditors found the businesses accounts were prepared appropriately and gave a true and fair view. They also note how there did not exist a financial situation which would require an EGM of the parent company. This is a significant point for the auditors to make and once again confirms the legitimacy of Kerry Group.

#### 4 (b). The Consolidated Balance Sheet

2013 was a year of transformation for Kerry Group and the following key points will be outlined regarding the groups balance sheet.

- **Total assets** decreased €140.1m to €5209.6m. Non-current assets decreased by €219.9m (from €3780.4 to 3560.5). This is primarily reflected in a decrease to Property, Plant & Equipment (PPE) by €115.1 due to restructuring and selling of non-current business and assets and also intangible assets decreasing by €67.2m to €2392.7m due to a weaker year and exchange rates. Other non-current assets decreased by €37.7m from the previous year. Current assets increased by €79.8 which was largely attributed to increases to cash and assets held for sale respectively.
- **Total liabilities** decreased €93.2 to €3242.1. There was a major decrease in current liabilities from €1441.6m in 2012 to €1366.6m in 2013. This was mainly due to a significant amount of short term borrowing & overdraft being paid off. Non-current liabilities decreased broadly reflecting the decrease in retirement benefits obligation from the previous year.
- **Total shareholders' equity** decreased €49.9m to €1967.5m as profits generated during the year were offset by dividends and investments in foreign subsidiaries which were negatively impacted by a weaker year and exchange rates.

At year end the balance sheet would appear in a good position and that Kerry Group will be able to support its future growth plans.

#### 4 (c). The Consolidated Income Statement

- Firstly revenue for 2013 is reported as €5836.7m. This represents a slight dip on the previous year's revenue results but is still a very healthy figure. It states that this reflects a sales growth of 4.6%. This is an excellent result considering it was achieved in a "highly competitive" consumer foods market in the UK and Ireland. The revenue figure is important as it is top line and where the income process begins.
- The second piece of information to be taken from Kerry Group consolidated statement is its trading profit which represents the profit from buying and selling its goods without taking into account other expenses/revenues associated with the business. The groups trading profit rose by 9.4% to €611.4m from 559m in 2012. This shows management are effectively using labour and supplies in the production process.
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#### 4 (d). The Consolidated Cash Flow Statement

- The first point of note is the change in working capital in the region of approximately €28m to minus €34m. This drop in working capital appears to be associated with a substantial increase in inventories up to €789.7 for 2013. A negative working capital position means Kerry Group spent more cash out than it brought in. To us this represents a slight warning as it may leave the company unable to meet its expenses in running the company in the short run.
- The next key point of information in our opinion is the dividend paid of €65m in 2013 which is a slight increase on the previous year. This is of great interest to outside investors. This figure represents the payback per annum for those who bought shares in the company.
- The final point of interest in relation to the consolidated cash flow statement is the change in cash and cash equivalents for 2013 compared to 2012. The figure dropped by €21.6m which shows cash and liquid assets are not as valuable in 2013. This could be a problem as large amounts of cash may take a longer time to become available through refinancing.

## 5 (a). Surprising information

- The first thing we found surprising was the amount of opinions contained in the report. There are numerous pages of the report with future forecasts given by some highly ranked managers of the company. We would have assumed the report would only cover content involving the groups previous trading year.
- We were surprised to see such little analysis from the auditor. We understand that they verify the report is legitimate but we thought that the auditor would have gone into more detail with regard to their findings. We thought they might have for example included a detailed analysis of Kerry Groups balance sheet to verify the figures. Although we expected to see this, to be honest we would not have wanted to see this as it would have made the auditor's report very cumbersome indeed.
- Finally, we were surprised to find that Kerry Groups annual results for 2012 were restated. As a whole we found the report proved to be clear description of Kerry Groups Finances for the year. We did though have to investigate the 'restated results' for 2012 as we had not come across this before. An explanation was provided in the notes section which clarified that the change in figures was in relation to a change in accounting policy and reclassification regarding employee benefits.

## 5 (b). Other information we would like to see

- The first thing we would have liked to have seen featured in the report is the actual investment in each of the brands that come under the Kerry Group and their respective profits and losses. By this we mean finding out more about the performance of brands such as Dairygold, Low Low, Denny etc that are brands we all know.
- Another feature we would have like to have seen would have been a brief history of Kerry Group at the start of the report which would have been both interesting and beneficial for perspective investors to gain some background information on the business.
- We would have liked to have seen more market comparisons throughout the annual report. For example, if you take the 2013 results from the EMEA region. In our opinion, it would have been more beneficial if these results were compared with one the group's competitors. We understand why this is not included in the report but nonetheless it would have given one a greater comparative knowledge of Kerry Group. Also by doing this it would have allowed Kerry Group show of its impressive results and added extra motivation to achieving the best results possible.
- Other than these three points mentioned we would agree with the entirety of this report from an information delivery perspective. The report is well laid out with each section leading nicely into the next in a logical and organised manner.

