Creditreform Rating

28 Juni 2024 – Neuss, Germany

Rating Action / Update:

Creditreform Rating has confirmed the unsolicited corporate issuer rating of Kerry Group plc, at BBB+ / positive

Creditreform Rating (CRA) has confirmed the unsolicited, public corporate issuer ratings of Kerry Group plc and Kerry Group Financial Services – together referred as Kerry, Kerry Group, or the Company, as well as the unsolicited corporate issue rating of long-term local currency senior unsecured notes issued by the Company, at BBB+. The outlook has been changed from stable to positive. The unsolicited short term rating has been set to L2 (high level of liquidity).

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Current relevant factors for the rating

The following considerations were of specific relevance for the rating assessment:

- \+ Leading market position with well-recognized brands
- \+ Improvement in the result of the financial performance analysis in 2023
- \+ Growth in net cash from operating activities, EAT and improvement of EBITDA margin
- \+ Reduction of financial debt and improvement of net financial debt/EBITDA ratio
- \+ A slight decrease in volume in 2023 and volume growth in Q1 2024
- \+ A strong liquidity position combined with established access to the capital market
- \+ Further acquisitions and synergies
- \+ Innovations in product range

- \- Falling sales in 2023 and Q1 2024 impacted by relatively low consumer demand
- \- Price volatility with regard to raw materials
- \- Dependence on changing consumer trends
- \- Country risks
- \- Integration risks linked to future acquisitions

ESG factors are factors related to environment, social issues, and, governance. For more information, please see the section "Regulatory requirements". CRA generally takes ESG relevant factors into account, when assessing the rating object and discloses them when they have a significant influence on the creditworthiness of the rating object, leading to a change in the rating result or the outlook.

ESG-criteria:

CRA generally takes ESG factors (environment, social and governance) into account within its rating decisions. In the case of Kerry Group we have not identified any ESG factors with significant influence.

In October 2020, Kerry unveiled its 2030 sustainability strategy, ‘Beyond the Horizon’, along with a renewed brand identity. Customer and consumer demands remain at the forefront of Kerry's priorities.

As part of this strategy, Kerry aims to align its activities with the needs of customers to promote healthier and more sustainable diets, tailoring its activities to meet customers’ needs in in this area. Taking sustainability criteria into account, the Group plans to reach over two billion people through sales in the food industry by 2030. The Group’s targets, which are to be scientifically underpinned, are particularly oriented towards the areas of nutrition and health, emissions, energy, circular economy, raw materials and social considerations.

Kerry’s Scope 1, 2 and 3 carbon targets have been approved by the Science Based Targets initiative (SBTi). The Group has set itself the target of reducing its Scope 1 and 2 emissions by 55%

by the end of 2030 (2023: 48%), compared to 2017 as its base year, and in line with the reductions required to limit global average temperature increases to 1.5°C by the close of this century.

Against this background, we see this strategy as promising and forward-looking with regard to the general climate and sustainability goals. The Kerry Group has already created a sound foundation in the area of ESG factors, which must now be stringently pursued and implemented.

Kerry has published a comprehensive Sustainability Report for the year 2023, alongside its annual report, detailing Kerry´s progress against its sustainability strategy and targets.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

Rating result

Creditreform Rating has affirmed the unsolicited corporate issuer rating of Kerry Group at BBB+. This rating attests Kerry Group's highly satisfactory level of creditworthiness and a low-to-medium default risk.

Despite high cost inflation, a decrease in revenue, and a slight decline in volume in 2023, Kerry Group was able to achieve improved profitability, increased EAT and reduced financial debt. In addition, net cash from operating activities increased significantly in 2023, with a corresponding rise in free cash flow. Our stable rating assessment continues to reflect the Kerry's diversified product and brand portfolio, as well as its global presence. We assess the Company's favorable liquidity situation, which continued to improve in 2023, combined with its well-established access to capital markets, as a stabilizing factor for the rating. Kerry's ongoing initiatives in recent years to improve cost efficiencies, portfolio development and geographical expansion have yielded positive results with good margin growth and strong cash conversion.

Outlook

The one-year outlook for the rating is positive. Despite the decline in revenue with a slight decrease in sales volumes, and given the successful implementation of initiatives aimed at improving cost efficiency, we expect the Group to continue to gradually strengthen its financial performance with further moderate EBITDA growth. Our assessment is based on the leading market position of Kerry Group and its ability to compensate the decrease in volumes through efficient product portfolio and geographical expansion. The Company was able to improve its EBITDA margin, despite the overall subdued economic sentiment in 2023 and subdued consumer demand. The Company's solid liquidity position and ample financial facilities support our expectation of positive rating development in the near future. Also considering that the food industry is fundamentally less susceptible to expected negative economic effects than other sectors, supports the positive outlook.

Best-case scenario: A-

In our best-case scenario for one year, we assume a stable rating of A- against the backdrop of the current challenges and risks, assuming that the figures for the 2024 financial year will be essentially confirmed the figures of the financial year 2023, and that the forecasts are fulfilled. We also assume that the Group's balance sheet ratios will continue to gradually improve in the course of further expansion. Acquisitions do not cause unexpectedly high integration costs.

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

Worst-case scenario: BBB

In our worst-case scenario for one year, we assume a rating of BBB. In this scenario, we take into account a downturn in the global economy due to inflation, and geopolitical instability, and assume that the overall uncertainty in connection with elevated energy prices, heightened interest rates, and currency fluctuations persist. These factors may lead to an undermining of economic growth and a decrease in consumer demand. Accordingly, the Kerry Group's business would also be increasingly affected, leading to a noticeable decline in turnover, earnings, and profitability. The expected synergies from acquisitions will only come to bear with a delay, which will be reflected in the Group's operating performance.

Business development and outlook

Kerry Group is the world's leading taste and nutrition company for the food, beverage, and pharmaceutical markets, with a broad range of ingredient solutions currently reaching 1.25 billion consumers (2022: 1.20 billion consumers). Kerry's Consumer Foods division is a leader in its categories in the chilled cabinet, primarily in the Irish and UK markets. The Group was established in 1972 and has since grown, both organically and through strategic acquisitions. The Group operates in 55 countries with 137 manufacturing locations worldwide, sales in more than 150 countries more than 18,000 products and employs more than 21,000 staff.

The following table shows the business situation of Kerry in the 2023 fiscal year using selected key figures:

Table 1: Financials of Kerry Group I Source: Kerry Group plc annual report 2023, standardized by CRA

Kerry Group plc Selected key figures of the financial statement analysis Basis: Annual accounts and report of 31.12. (IFRS, Group)	CRA standardized figures[1]	
	2022	2023
Sales (million EUR)	8,771.90	8,020.30
EBITDA (million EUR)	1,069.90	1,175.80
EBIT (million EUR)	765.60	874.80
EAT (million EUR)	606.50	728.30
Total assets (million EUR)	9,408.95	8,751.50
Equity ratio (%)	40.40	45.45
Capital lock-up period (days)	70.97	69.88
Short-term capital lock-up (%)	13.51	5.65
Net total debt / EBITDA adj. (factor)	3.78	3.28
Ratio of interest expenses to total debt (%)	1.30	1.51
Return on Investment (%)	7.15	8.89

During the 2023 financial year, consolidated revenue fell by -8.6% to EUR 8.02 billion (2022: +19.3%) on a reported basis, largely as a result of the adverse impact of the disposals (-5.1%) and foreign currency (-2.9%) during that year. The Group volumes have reduced by -0.9% (2022: +6.1%) with a -0.7% decrease in price. The Group completed two acquisitions during 2023 for a

[1] For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally-generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt takes all balance sheet liabilities into account. Therefore, the key financial figures shown often deviate from the original values of the company.

total cash consideration of EUR 131 million (2022: EUR 377 million). All acquisitions are aligned with Kerry´s strategic priorities of enhancing the Group's taste and nutrition capabilities, while also expanding its presence in emerging markets.

The Group´s EBITDA margin increased to 14.5% (2022: 13.9%), Free cash flow amounted to EUR 701 million (2022: EUR 640 million), representing a cash conversion of 92% (2022: 82%).

Table 2: The development of business of Kerry Group plc I Source: Annual Report 2022 and 2023, reported information

Kerry Group plc				
In million EUR	2022	2023	Δ	Δ %
Sales	8,771.90	8,020.30	-751.60	-8.6%
EBIT	765.60	874.80	109.20	14.3%
EBITDA	1,216.00	1,165.00	-51.00	-4.2%
EBITDA margin, %	13.9%	14.5%	0.6%	60bps
EAT	606.50	728.30	121.80	20.1%
Net financial Debt	2,217.4	1,604.1	-613.3	-27.7%
Net financial Debt / EBITDA	1.8	1.5		

Kerry Group's two primary business units developed differently in 2023.

The Taste & Nutrition division reported revenue of EUR 6.975 billion or 87% of total sales (2022: EUR 7.4 billion), reflecting volume growth of 1.1% (2022: 7.8%) and a 1.1% pricing increase (2022: 8.7%), more than offset by adverse currency translation of -3.4% and the effect of disposals net of acquisitions of -4.8%. The EBITDA margin reached 17% (2022: 16.5%). The division achieved overall volume growth of 2.9% in the Europe, driven by robust performances in the UK and Ireland, and volume growth of 6.2% in the APMEA regions, driven by robust performances in the Middle East and China. The division reported a -1.8% decline in overall volumes in the Americas Region.

In Dairy Ireland volumes fell by -6.5% (2022: +0.2%), due to constrained supply conditions as well as elevated input costs impacting market demand dynamics. Reported revenue amounted to EUR 1.283 billion (2022: EUR 1.54 billion), reflecting a -9.3% reduction in pricing. The EBITDA margin decreased to 4.1% (2022: 4.6%) due to a sharp fall in dairy market sales prices.

Table 3: Figures of financial year 2023 I Source: Annual Report 2023, reported information

Kerry Group plc			
In million EUR	2022	2023	Reported changes
Net cash from operating activities	721.80	1,037.80	43.8%
Capex	221.00	281.90	27.6%
Free cash flow	640.00	701.00	9.5%
Dividends	173.60	191.30	10.2%
Cash and short-term investments	970.00	943.70	-2.7%

Despite the global economic downturn caused by inflation, geopolitical instability, and a decrease in the Group's volumes, the Company displayed solid performance through 2023, with good margin growth and strong cash conversion. Kerry´s EBITDA margin increased by 60bps following cost efficiency initiatives, portfolio developments, and geographical expansion in recent years.

In Q1 2024, revenue continued to decline with good margin improvement. Compared to Q1 2023, Kerry´s revenue decreased by -9.9%, reflecting volume growth of 1.9%, pricing deflation of -5.3%, the effect from disposals net of acquisitions of -5.1% and unfavourable currency translation of -1.4%. According to company information, consumer demand remained relatively subdued during the three months from January to March, given the recent inflation across a number of regions. At the same time, the Group's EBITDA margin increased by 140bps.

Nevertheless, the Taste & Nutrition division delivered good overall volume growth of 3.1% (5.2% in emerging markets) with a decrease in price of -3.9% reflecting the deflationary environment. In Dairy Ireland volumes for the first quarter slowed by -3% with good growth in dairy consumer products and a -13.7% decline in prices given reduction in dairy input costs year on year.

The outlook for 2024 is in line with medium-term plans: expected volume growth of between 4% and 6% with further EBITDA margin growth to 18%+. Given that the results of our analysis of key financial ratios, which form the basis of our rating assessment, have improved year-on-year, we believe that Kerry remains well-positioned for volume growth and good margin expansion, while also recognizing that consumer markets remain relatively subdued. The Group's consolidated balance sheet and cash flows remain strong, which will support the continued strategic development of the business. We see Kerry as fundamentally able to respond adequately to the current challenges and achieve its strategic objectives. The outlook has thus been adjusted to positive for the time being, given the Group's increase in net cash from operating activities and EBITDA margin growth, with little change in volume, despite continued high inflation, rising interest rates, and a weak economic outlook coupled with growing geopolitical tension.

Further ratings

In addition to the rating of Kerry Group plc the following Issuer and its issues (see below), has been rated.

- Kerry Group Financial Services

Kerry Group Financial Services ("the Issuer") is a public unlimited company, incorporated on 29 December 1995 in the Republic of Ireland. The Company is registered under company number 242662. The Issuer´s principal activity is the provision of treasury services to the Group. The Issuer is indirectly wholly owned and controlled by the Kerry Group plc. Its financial statements are fully consolidated in the financial statements of the Group.

Due to the corporate, strategic, liability, financial, economic and performance-related interdependencies of the aforementioned subsidiary (direct or indirect 100% subsidiary of Kerry Group plc and which have been consolidated into the group annual accounts) we derive the unsolicited issuer ratings of the subsidiary from the unsolicited issuer rating of Kerry Group plc and set it equal to its rating of BBB+/positive.

Based on the long-term issuer rating and taking into account our liquidity analysis, the short-term rating of Kerry Group plc and the above-mentioned subsidiary was set at L2 (exceptional mapping), which corresponds to a high level of liquidity assessment for one year.

The rating objects of the issue ratings are exclusively long-term senior unsecured issues, denominated in euro, issued by Kerry Group plc and the above-mentioned subsidiary, which are included in the list of ECB-eligible marketable assets.

Kerry Group plc is guarantor in respect of the issues that have been issued by the above listed group companies with the last basis prospectuses of of 18 September 2019, 16 April 2020 and 29 November 2021.

We have provided the long-term local currency senior unsecured notes issued by Kerry Group plc and the above-mentioned subsidiary with an unsolicited rating of BBB+ / positive. The ratings are based on the respective corporate issuer ratings.

Long-term local currency senior unsecured notes issued by Kerry Group plc and the above-mentioned subsidiary, denominated in euro and included in the list of ECB-eligible marketable assets, generally receive the same ratings as the current LT LC senior unsecured notes issued under the above mentioned issue prospectuses. Notes issued in any currency other than euro, or other types of debt instruments, have not yet been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Table 4: Overview of CRA Ratings I Source: CRA

Rating Category	**Details**	
	Date of rating committee	Rating
Kerry Group plc	28.06.2024	BBB+ / positive / L2
Kerry Group Financial Services	28.06.2024	BBB+ / positive / L2
Long-term Local Currency (LC) Senior Unsecured Issues issued by Kerry Group plc and Kerry Group Financial Services	28.06.2024	BBB+ / positive
Other	--	n.r.

Appendix

Rating history

The rating history is available under the following link.

Table 5: Corporate Issuer Rating of Kerry Croup plc

Event	Rating created	Publication date	Result
Initial rating	15.08.2018	21.08.2018	BBB+ / stable

Table 6: Corporate Issuer Rating of Kerry Group Financial Services

Event	Rating created	Publication date	Result
Initial rating	15.08.2018	21.08.2028	BBB+ / stable

Table 7: LT LC Senior Unsecured Issues issued by Kerry Group Financial Services

Event	Rating created	Publication date	Result
Initial rating	15.08.2018	21.08.2018	BBB+ / stable

Table 8: Short-term issuer ratings of Kerry Group plc and Kerry Group Financial Services

Event	Rating created	Publication date	Result
Initial rating	05.12.2023	www.creditreform-rating.de	L2

Regulatory requirements

The rating[2] was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

The present rating is, in the regulatory sense, an unsolicited rating that is public. The analysis was carried out on a voluntary basis by Creditreform Rating AG, which was not commissioned by the Issuer or any other third party to prepare the present rating.

The rating is based on the analysis of published information and on internal evaluation methods for the assessment of companies and issues. The rating object was informed of the intention of creating or updating an unsolicited rating before the rating was determined.

The rating object participated in the creation of the rating as follows:

With Rated Entity or Related Third Party Participation	No
With access to Internal Documents	No
With Access to Management	No

A management meeting did not take place within the framework of the rating process.

The documents and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

[2] In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

The rating was conducted based on the following rating methodologies and the basic document.

Rating methodology	Version number	Date
Corporate Ratings	2.4	July 2022
Corporate Short-Term Ratings	1.0	June 2023
Government-related Companies	1.1	May 2023
Non-financial Corporate Issue Ratings	2.0	March 2024
Rating Criteria and Definitions	1.3	January 2018

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

Name	Function	Mail-Address
Holger Becker	Lead-analyst	H.Becker@creditreform-rating.de
Christian Konieczny	Analyst	C.Konieczny@creditreform-rating.de
Luca Olmes	Analyst	l.olmes@creditreform-rating.de

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Function	Mail-Address
Tobias Stroetges	PAC	T.Stroetges@creditreform-rating.de

On 28 June 2024, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 28 June 2024. There has not been a subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring, if crucial assessment parameters change.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description for Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

Creditreform Rating AG guarantees that the provision of ancillary services does not cause a conflict of interest with its rating activities and discloses in the final rating report which ancillary services were provided for the rating object or for third parties associated with it. The following ancillary services were provided for this rating object or for related third parties:

No ancillary services in the regulatory sense were provided for this rating.

The final list of rating-related and credit services can be viewed on the Creditreform Rating AG's website.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report

2. Website

3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating

2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website.

An explanatory statement of the meaning of Creditreform Rating AG's default rates are available in the credit rating methodologies disclosed on the website.

Disclaimer

Any rating performed by Creditreform Rating AG is subject to the Creditreform Rating AG Code of Conduct, which has been published on the web pages of Creditreform Rating AG. In this Code of Conduct, Creditreform Rating AG commits itself – systematically and with due diligence – to establish its independent and objective opinion as to the sustainability, risks and opportunities concerning the enterprise or the issue under review.

Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. This rating is therefore no statement of fact, but an opinion. For this reason, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at corporate or investment decisions. Ratings are not meant to be used as substitutes for one's own research, inquiries and assessments.

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