

## **The Business**

Based in Ireland, Kerry Group can best be described as a global leader in food science. Kerry works closely with its food and beverage company partners to create and deliver sophisticated ingredient solutions that work to improve the taste, quality, nutrition and sustainability of the products being manufactured and sold by its customers around the world. As an example, with consumers increasingly demanding food items with better nutritional offerings, be it reduced salt, enhanced protein, or a cut in sugar, Kerry supplies the ingredients and know-how to create taste and texture experiences to meet these demands.

From its modest beginnings in Irish dairy proteins, Kerry has evolved over the past 50+ years into a global leader in its field. Growing through select acquisitions, while expanding its capabilities across the specialty ingredient space, has allowed Kerry to increase its geographic footprint and grow alongside its globally focused customer base, including manufacturers such as Nestle, Unilever and PepsiCo. Kerry's deep expertise within the ingredient industry has helped forge a near impregnable bond with many of its customers – a partnership-type relationship that often sees Kerry co-creating taste and nutrition solutions, tailored directly to address consumer preferences and trends. Kerry's products typically represent a relatively small percentage of its customers' overall manufacturing costs and weight; however, its impact on end-product quality, nutrition, flavour and overall desirability is disproportionately large, helping cement those partnership bonds and provide Kerry with a healthy level of pricing power.

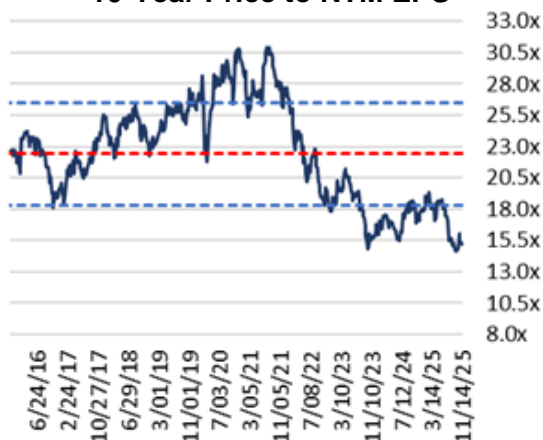
Kerry is now purely focused on 'Taste and Nutrition' after effectively selling its legacy Ireland dairy products business at the end of 2024. The go-forward business is currently generating €7+ billion in annual revenue and growing at levels that comfortably exceed the pace of global GDP expansion. Future growth opportunities are meaningful for Kerry as it looks to further penetrate the growing €85 billion global market. As Kerry's customers increasingly look for new and innovative ways to deliver nutritional enhancements across their product offerings, Kerry is well positioned to benefit given its proven expertise and deep capabilities on the research and development front.

## **The Opportunity**

Food and beverage stocks, long a stable, consistent growth area of the market, have been poor performers in recent years as food price inflation moved higher and consumer finances became stretched. Multi-decade high valuations for this group of stocks heading into the COVID-19 pandemic didn't help their cause when the challenges surfaced, and growth became less consistent and less predictable. Add on to these concerns the proliferation of prescription drugs such as Ozempic that are often associated with appetite suppression, and it's not difficult to see why growth has been challenged and competitive pressures have increased within the sector.

Working closely alongside the food and beverage companies, Kerry has been perceived as a business also dealing with the aforementioned industry challenges. This view has helped compress Kerry's stock valuation to decade-plus lows (as the following chart demonstrates) and given Sionna an opportunity to build a stake in this quality business at a healthy discount to what we deem its fair value to be.

### 10-Year Price to NTM EPS



*Source: FactSet and Sionna Investment Managers.*

We believe the concerns are misplaced. In fact, the current industry challenges play right into Kerry's strengths – providing innovation and product reformulation opportunities for its customers who are fighting hard to attract an end customer with nutritional offerings in a rising cost environment.

Market penetration opportunities alongside on-going efficiency initiatives should see Kerry growing its earnings somewhat consistently over the coming years at a pace near 8%- 10% per annum. We believe this underlying business growth, coupled with the prospect of an expansion in the valuation multiple accorded to Kerry's stock makes for an attractive long-term investment opportunity.

Stephen Jenkins, CFA  
Co-CIO & Portfolio Manager  
Sionna Investment Managers

---

Sionna Investment Managers Inc. (Sionna) has taken reasonable steps to provide accurate and current data. The data has been gathered from sources believed to be reliable, however Sionna is not responsible for any errors or omissions contained herein. This material has been provided by Sionna and is for informational purposes only. It should not be construed as a recommendation to buy or sell. The foregoing reflects the thoughts, opinions and/or investment strategies of Sionna and are subject to change at their discretion and without prior notice, based on changing market dynamics or other considerations.



Sionna Investment Managers