Cloetta

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Presentation

Jacob Broberg
Thank you very much, operator. Jacob Broberg, Head of Investor Relations here. As usual, I have Henri de Sauvage-Nolting, our CEO; and Danko Maras, CFO, with me today. I will ask Henri to start. Please go ahead, Henri.

Henri de Sauvage-Nolting
Thank you, Jacob. Here to talk about quarter three, which was a tough quarter for Cloetta with many short-term challenges. If you look at our net sales, we see an increase of 17%, which is all due to the Candyking acquisition now being in our figures, coming to a total of SEK1.5 billion. This was including a negative impact of foreign exchange rates of minus 0.4%, and the organic growth was disappointing at minus 2.8%. About half of that was caused by out of stocks due to the Turnhout fire.

If we look at the adjusted operating profit, it came to SEK169 million. And also, the operating profit amounted to SEK169 million, and Danko will go into a little bit more detail over there. Profit for the period, in the end, came to SEK153 million, and cash flow was up to SEK135 million. On 5th September, we concluded the divestment of Cloetta Italy with the closing with the new owner.

If we go a little bit more into the markets, we can see that the confectionery market is showing positive development in all markets but in Denmark. So, that’s a very good thing for us to have, also given the European climate. But as said, our organic sales declined with minus 2.8%, and it was quite affected by the out-of-stock situation coming from the factory in Turnhout, but also that we were not completely fully able to recover as we had planned in the other factories of Cloetta. And that is something, of course, which needs to be addressed as soon as possible. I will come back to that a bit later. We had sales growth in Sweden, although little, Finland and the Netherlands, and the other markets showed decline. Candyking grew with 4.4% which, of course, is very positive in the quarter, given their history of losing sales and the fact that we have positive growth in the Candyking business right now.

If we then look a little bit at pick & mix and Candyking, of course that is still a big focus for us to get the integration delivering on time and in full. So, we’ve worked in this quarter to set the new organisation, new integrated organisation, different phases, you could say, in the different markets. But we are in implementation phase across all markets. In Sweden, for example, the merchandisers of Candyking will start to take care of the merchandising of the, let’s say, ex-Cloetta pick & mix business. We can also see that products which used to be produced by third-party producers for Candyking are now slowly starting to get into the factory network of Cloetta. Of course, we had to re-focus a little bit, because we’re quite stretched in the moulded products as we say, so we’re looking more at products which are not coming from the moulded factories and start over there. We have strong and firm plans for 2018, where there will be a lot of progress in this area, but also 2019 we will need to make the next steps.

There's also, given the nature of this business, annual or bi-annual agreements with customers that have to be renegotiated. That work is ongoing in all the different markets where we are present. There are renegotiated contracts in Denmark, a new one and a renewed one. We also have contract negotiations going on further in both Norway and in Denmark, and also a central agreement in Sweden, which gives us the opportunity to approach a lot of independent retail groups with quite some volume.

In Sweden though, we had a bit of a setback on the Coop pick & mix business. You know we were the sole supplier over there, and Coop now wants to run this under their own Coop concept, together with Cloetta as their main supplier, but some of the non branded products might be bought by Coop themselves and not any more directly from Cloetta. We think this could be a loss in sales of about SEK130–150 million for us on an annual basis.

However, the synergies from the Candyking acquisition still stand firm on SEK100 million by 2020. And if you read the quarter reports, you can also see that we're still expecting about SEK175 million earn-out in the earn-out instrument, which is of course looking at the total volume of the pick & mix business of Cloetta and Candyking together. So, there's good progress over there.

So, having said that, I would like to hand over to Danko to tell us a bit more about the financial performance.

Danko Maras
Thank you, Henri. Good morning, everyone. If you will move into page 5, you can go through the regular tables. I will come back on top line a little bit, SEK1.5 billion, but a couple of points on the results for this particular quarter. You can see that gross profit increased with SEK33 million with the inclusion of Candyking, but you see a significant dilution in the gross margin of 340 points. Approximately 190 points of that relates to the inclusion of Candyking; we have yet to create synergies that will enhance this margin going forward. 190 points of that is a significant part that relates to Candyking. The other parts relate to the indications we have done earlier on supply-chain-related issues, which approximate about 90 points. And then also, we are being affected by FX in the quarter of about 100 points, and that relates to both the Swedish krona to the euro, but also the pound continues to affect us. If I take those three together, those are the main components that are diluting the gross margin, but also the gross profit in the end on a net basis, so that the impact and benefit from Candyking is actually reduced to SEK33 million.

That trickles down to SG&A, and I will explain that a little bit more. As Henri was saying, our operating profit was SEK169 million, both adjusted and our regular one. That means, did we not have any exceptional costs in the quarter. The reality is we did, but also what we managed to conclude on 5th September was the disposal or the sale of Italy. In doing so, the restructuring charges that we had year to date, or exceptional items related to Italy, have been moved down to discontinued items. So, the impact that you see on the netting of this is about SEK15, million and those SEK15 million are related to write-down of a brand that we had, a smaller brand; also, the actual incident in Turnhout where we are booking up SEK5 million of the deductible that we need to have in there; and then also, we are having Candyking integration items that are being booked. But the net impact of the reversal of the charges is zero, and that's why we are having SEK169 million. If you look at SG&A per se, you see there is a SEK59 million difference versus prior year. You could say, in principle, all of that is related to the Candyking merchandising costs that are higher than our regular business, and we are including them in this quarter but not prior years, of course.

So, the net impact of all of this comes down to an operating profit margin of 11.2%, and it's a little bit less negative than earlier indicted. Part of that is, of course, that we have been a bit conservative in the output of what we were indicating earlier, coming in a little bit better. And a couple of other positive points are also coming through in the full income statement. If you look at net financial items, we are SEK40 million better than last year, which actually has an effect of improving profit before tax, so that we are SEK14 million better than last year. Then, if you recall, those of you who were listening in a year ago, we did an earlier redemption of the corporate bond of SEK1 billion. We paid an early redemption fee of about SEK30 million, and we also released transaction costs related to the earlier refinancing agreement. So, this impact is significant in the quarter, and you will start seeing pretty good comparators going forward as we are now coming down to that 1% interest rate that we are effectively having approximately.

In addition to that, there's another – might be a complicating factor, but in page 24, you can actually see all the details of that: the discontinuation of Italy is now giving us credit of SEK45 million. And what can that be? You recall me saying that we have re-booked the costs from exceptionals down to discontinued items. But also, according to the accounting rules, we have also moved out all the currency retranslation issues related to Italy. As you know, Italy is a euro asset in our Swedish books, and the euro has been strong and therefore we have had approximately SEK102 million of benefit in our equity related to currency retranslation. And as of 5th September, Italy is out, and therefore we have to reverse that entry from the equity into the income statement, and it gives us this one-time benefit of SEK45 million when we look at profit for the period. So, the net financial items and the fact that we are now moving out Italy from the income statement means that our profit and loss for the period is SEK153 million; SEK45 million higher than last year, despite the operating challenges that we were indicating to you before.

If I then move on from the income statement, back to top-line sales: as Henri was saying, minus 2.8% on organic growth means minus 1.8% year to date. That's obviously not something we are happy with. In that respect, it's been a challenge throughout the year. The Candyking part is included for 20.3%, and we are seeing some softening of the euro, but that is predominantly – still on a year-to-date basis, you see the 1.2% coming from a stronger currency.

Moving into cash, it could be perceived as a bit tricky, but it's actually not. If you look at the results, we don't restate Italy on cash flow, because cash is cash. Last year, you have the full Italian business included; this year, you have two out of three months included. The September month was disposed, and therefore you have impact. We are not building up the seasonal in the month of September, because we no longer have Italy in our books. So effectively, what that means is SEK135 million coming from operating activities. It's actually higher than last year of SEK116 million, so that's good news, and the predominant contributor to that is the lesser increase of working capital due to the seasonals build-up in Italy.

On top of that, as Henri was mentioning also, the partial proceeds that we have received from Italy is SEK314 million, netted out to about SEK310 million. Those are two items bringing up the cash flow from operating and investing activities to SEK407 million in the quarter and this has then resulted in our lowest net debt ever. But also, because we are now excluding Italy from our EBITDA, our net debt/EBITDA ratio has gone to 2.63 times. The SEK275 million negative financing that you see there is the repayment of the revolver which is currently unutilised. Not under-utilised, but unutilised. I'm sure we can find ways to utilise it going forward. Meaning that the cash flow for the period is then SEK132 million related, also including the financing activities.

Coming back to the graph that you probably have seen now a couple of times, on the next page, you see a continuation of the reduction of our net debt/EBITDA. We were obviously below our target level, but now, with the exclusion of Italy, we continue to move towards the 2.5 times, which will be in the very near future. That is as much as I can say. With the cash flow that is coming from our fourth quarter business, we feel confident that the cash delivery in our business continues to be very strong.

And with that summary, I think I'll give the word back to Henri and we can take some questions later.

Henri de Sauvage-Nolting
Thank you, Danko. So, if we look at the current state of the business, what are the four focus areas for the business and for me, myself, to focus on? Of course, we have the short-term issue to deal with the out-of-stock effects which are being caused by the fire we had on one production line in Turnhout, but which also causes quite some effects on the other factories which are trying to help out to make up for the lost volume, and also third-party producers who have taken part of the volume we lack on that line. Managing this out-of-stock situation to the best possible way and trying to limit the impact, both on top line but surely also on bottom line, is priority number one.

The second one, of course, is the integration of Candyking. You saw the volume improvement we see over there with the growth, which is an important one for the Candyking integration, to keep that while we're integrating and going after the SEK100 million synergies which we have identified.

Then the third block is looking at cost and gross margin improvement. We have started a cost programme to find SEK50 million in SG&A costs, partly to be used to strengthen our brands, which is the organic growth challenge, which of course remains the overall longer-term goal, to get that right. But it's also partly to invest in the bottom line. So, that is a programme we will deliver next year.

Then as the last point, we have the organic growth, of course, within the strategic growth priorities, which we talked about in the last quarter, which still remains our number one overall challenge.

If we then look a little bit at what kind of products we have launched which is the bread and butter of this company; this is where consumers are buying our products. You can see that we did Jenkki, which is a chewing gum in Finland, with some very nice new tastes. The Jenkki brand is doing really well in Finland. Another one to call out is the Plopp product which you see there under Sweden. It's a very famous brand in Sweden, and it is sort of half a step into the chocolate tablet market. So far, reception of customers and also consumers is very positive. You can see the Crazy Face product in Finland, in Sweden; it was already launched in Norway. You can now also see that coming into Denmark. So, this is trying to innovate whilst launching in multiple markets. In the Netherlands, you can see an extension of the Lonka brand, which we bought two years approximately ago. We're now trying to modernise, but keeping the old values of the brand, even adding that it is produced since 1920. We think we understand the brand well and have a way forwards. And then on Nutisal, again, you can see that we're stretching the brand from just nuts which you eat as a savoury into nuts which you can use in your yoghurt and salad. And again, not launched only in one country, but in this case in Sweden and Denmark. Having said that, I think we open up for questions.

Q&A

Operator
Thank you. Ladies and gentlemen, if you have a question for the speakers please press 0 followed by the 1 on your telephone keypad. Once again, to register for a question it's 0 followed by the 1 on your telephone keypad. There will be a brief pause whilst questions are being registered.

Thank you. Our first question comes from Mikael Holm from Danske Bank. Please go ahead, your line is open.

Mikael Holm
Hi. First of all, on the organic sales decline, if you take a longer perspective on this, there seems to be a trend of you losing a bit of market share in the recent years. I also noticed that advertising spend as a percentage of sales has declined in recent years. Do you think that the company has historically under-invested in the brands, and that is what we now see with you losing some market share?

Henri de Sauvage-Nolting
I think first we need to see that the organic growth this quarter is poor. 50% of that growth, approximately, is coming from the out-of-stock situation and has nothing to do with the strength of our brands. But I think, to a certain extent, we have come to the conclusion that we need to strengthen our brands. Whether that is under-investment, that's a conclusion I cannot draw, but of course we need to modernise and bring those brands into the modern media channels in the most efficient way. That's, for sure, something you can be reassured of is the top one on my agenda when we talk about organic growth and our strategic plan going forwards. Our number one priority is brands and consumers, and that's absolutely something we are driving in many different ways. One small example could be the amount of working media which we are going to spend in the coming years is going to increase. And the non-working media, for the experts, and that's services we're buying in, we're going to decrease. So, more strengthening media towards the end consumer.

Mikael Holm
Okay, but is it a fair assumption that – I mean, you've identified SEK100 million of cost savings within Candyking, and now an additional SEK50 million of cost savings – that a large part of this will be reinvested into restoring organic growth for the company?

Henri de Sauvage-Nolting
No, that's not what we are saying. So, the Candyking synergy savings are needed to come to our 14% EBIT goal, and will play very heavily in the whole mix of the company by putting so much volume into our factory network. It will benefit the total Group and all the categories.

Then on the SEK50 million for next year: yeah, to a certain extent we're trying to run down the indirect costs by becoming more efficient. The goal is SEK50 million on a running basis towards quarter three. And part of that money we will invest when we see good investment opportunities, and part of that money will be going to the bottom line. I mean, that also gives us the flexibility between investing in brands and bottom line, because that's much easier to move between those two, rather than having these costs in indirect, which tend to be much more difficult to shed on a short-term basis. But there's also, within the media, within the A&P you're referring to, there's a lot we can do to make things more efficient so we actually get more bang for our bucks, you could say, from the pot of A&P money we already have

Cloetta

Mikael Holm
And my final question is regarding the Coop contract and the impact from the lost sales. You talked about SEK130–150 million of top line; what kind of contribution margin have you had on this top line?

Henri de Sauvage-Nolting
Danko, you want to take this?

Danko Maras
On the reference that we have made in absolute numbers, if we just pull it together: of course, it's affected by the mix that we have, what we've sold and what we've built up, but it's approximately somewhere around SEK10–15 million on contribution basis that we are losing. It's difficult to be totally exact on that, but we're about SEK10–15 million, which is slightly below the 14% margin that we had said it would contribute to. There are different reasons for that, but if we talk about materiality, the important part is perhaps more about the concept per se than the actual profitability, which is less material as might be perhaps expected.

Henri de Sauvage-Nolting
Yeah, and I think it's also fair to say that we're still discussing with Coop what kind of help they want to expect from us in driving their concept on many different elements; not only the products, but also racks or distribution or merchandising. But we felt it was important to put it into the Q3, even though it's not 100% clear how and when it exactly is going to pan out somewhere in 2018.

Mikael Holm
Okay, thanks.

Operator
Thank you. Our next question comes from Niklas Fhärm from SEB Equities Please go ahead, your line is open.

Niklas Fhärm
Thanks, operator, and good morning, everyone. My first question goes to you, Henri, on being new to the company and having had a brief look, I'm sure, at the past acquisitions and the history. Given the balance sheet situation, given what has happened in Italy and your net debt targets etc., what are your thoughts on dividends and focus on organic growth as opposed to any potential acquisition list that you may have on your desk at this stage, please?

Henri de Sauvage-Nolting
I think there's no change in our financial goals, and we have the dividends policy, which is very clear, and that is not going to change on the long term. And then of course, on the proceeds on Italy, that's a question for the board and we will enter that discussion soon with them.

Then on acquisitions: of course, we are a medium-sized company at the moment. We want to focus fully on the integration of Candyking, and that will take us in 2017 and 2018. That is our prime focus, to really make that work and also deliver against the synergy benefits which we have put in the business case, and which we have communicated. After that is finished, of course we will be looking at potential acquisitions, because that's always a good value driver, as we have been showing as well in the last couple of years, I would say; in particular, given the big dependency of the business on volume and a way to create value in our factory network. So, it is both, and there is no change to the strategy or the way we have been working so far.

Niklas Fhärm
I think it could be fairly true to say that the Italian venture has not been that successful in terms of creating positive cash flow in that present value. But if I interpret you correctly, your key focus for the coming year or two at least will be to integrate what you have today and focus on organic developments. Is that fair?

Henri de Sauvage-Nolting
Well, I think you want to be in a company which is growing, right? I mean, something which grows is healthy. So, we are going to put a lot of focus on that; that is, in the end, the best way to create value. And then I see Candyking also as a part of Cloetta, of course, and we're working very hard on the integration. And with those two things, we are quite occupied for at least the next 12–16 months. Then if an interesting acquisition would come by during that time period, of course we would be foolish not to look at that and, of course, we have a very active way of working with acquisitions. We know what's happening in the market. At the moment, we are not actively pursuing certain attractive acquisitions, but if they would come to the market, we would certainly be involved in that.

Niklas Fhärm
Thanks, thanks for clarifying. Could we go back to the organic growth developments? I appreciate you've had the fire in Belgium and that has created a lot of problems, both on sales and under-absorption costs, etc. Could you give us some idea of to what magnitude the production disruptions have actually impacted the organic growth rates of 2.8% in this quarter, please?

Henri de Sauvage-Nolting
Of course, it's not science, so you need to make certain assumptions and estimates. We have also gone out and done some benchmarking, and looked at when an out of stock is more than five days out of stock, does that constitute lost sales? But with all that knowledge, we say approximately 50% of the organic sales decline in the quarter has come from the out of stocks which we have seen.

Niklas Fhärm
Thank you. Thank you so much. Could I also ask you: on the lost contract with Coop, could you share some opinions on the negotiations and the rationale behind Coop's decision? And also, could you share some light on what other more material contracts you actually have today, please?

Henri de Sauvage-Nolting
Yeah, I mean, it would be quite dangerous, of course, to start being too open about negotiations we are having with customers in certain markets, because it would be fantastic for our competitors to call in in the future and get a fair idea of where we are with which customer and how long these contracts are signed for. So, that would be difficult. We cannot give more information than what we are saying now. But of course, the nature of this business is that you sign contracts for one, two or three years; that is the kind of duration of these contracts. And depending also on whether they are new contracts, which tend to be a bit longer, or renewals of contracts, which tend to be a bit shorter, as a broad indication.

Then if you go back to Coop, I think this is a more difficult decision to really get into a lot of detail, but I think what you could say over-arching is that the concept in Coop did not perform good enough towards the shoppers of Coop. So, the shoppers of Coop didn't like the concept enough for this concept to grow on an annual basis. And there are multiple reasons for that; part of them aligned with Cloetta not being very experienced, because this is all pre-Candyking acquisition, and part of it was choices we made together with Coop in this way. We say now we've lost the contract, but it is not a lost contract; Cloetta remains the prime, key supplier towards Coop. That's something else than completely being out of a contract. And of course, Coop is an important customer for us, so we are also helping them going forward to do this in the best possible way to get shoppers back to the concept.

But I think it underlines how important it is that we are, together with the Candyking acquisition, investing in knowledge about shoppers, what they like in pick & mix and how to drive that concept. Because in the end, that's the added value we can bring to our customers across the countries where we are operating with pick & mix.

Niklas Fhärm
Thanks. And are there any other major contracts that you could – even if you don't want to name them, maybe you could put a number on them in terms of magnitude here?

Henri de Sauvage-Nolting
No, we can't do that.

Niklas Fhärm
No. Thank you so much. I may come back at a later stage. Thank you.

Jacob Broberg
If I may just follow up on a question from Thiemo Bischoff from Robus Capital on the earnout, this was a question posted on the web: 'Given the fact that you're now losing the Coop agreement, will they be part of the earnout definition or not? Because the fact that Candyking is growing 4.4% in the quarter, that should actually take you above the SEK175 million earnout threshold, so please can you share some light on the earnout mechanism?'

Henri de Sauvage-Nolting
Do you want to do that, Danko?

Danko Maras
Obviously, one common denominator in the acquisition of Candyking, together with the bondholders and the owners of the former Candyking, was that we would, together, work towards a solution of growing the business and sharing the benefit of that. And that's why we have decided to collectively have the volume, both from Candyking and Cloetta, as a combined effort. And that is both good and bad, of course, depending on where you have the effects. So, if you look at the earnout calculation and the estimate that we've done for the payout next year, we're actually at 100%. So, even though you are, of course, rightfully getting anxious about the effect on Coop, there's also benefit, as you explained, from Candyking, but also elsewhere within pick & mix in Cloetta. And in totality, I think it's a very good reassurance that we are starting at this level. It gives me some comfort that we are trailing on a level which is good for both the buyer and the seller. And obviously, we will update this; so, this is the preliminary number that we are using, but every quarter there will be an update that you can actually see where we are on the pick & mix concept in total, which for us is sort of the best solution, both from a buying and a selling point of view.

Any further questions?

Operator
Thank you. As another reminder, to register for a question it's 0 followed by the 1 on your telephone keypad. The next question comes from Mikael Löfdahl from Carnegie. Please go ahead, your line is open.

Mikael Löfdahl
Hi, yes. Most of my questions have been answered, but a final question on the Coop contract. I guess you have some costs related to handling the concept for Coop, so even though you're going to continue to deliver candy, you might have some overcapacity in terms of individuals here. Are you foreseeing any lay-offs here as part of the integration with Candyking? Is this something we should expect in the coming quarters?

Henri de Sauvage-Nolting
What you should realise is that the whole merchandising for the Coop contract was done by a third party, so that's at a slightly higher cost, you could assume, than doing it in-house. And also, timing wise, this is happening next year, when we're also integrating the former Cloetta pick & mix business with the Candyking pick & mix business. So, there are savings and synergies to be made when we bring those two organisations together on all levels, I would say, and in all functions. That is part of the SEK100 million savings which we have identified overall, and that figure stands firm even with the lower Coop volumes.

Mikael Löfdahl
Okay, so no initial costs related to losing the Coop contract?

Henri de Sauvage-Nolting
No, no.

Mikael Löfdahl
Okay. Regarding Belgium also and the damaged production line there, could you say something on the current status? I mean, you have obviously used the inventory initially and then moved production and so on; where are you right now, and where were you at the end of Q3, and a run rate here on the effects for the Group up until the new production line is –

Henri de Sauvage-Nolting
In a qualitative way, I can describe a little bit what we did. Of course, when the incident happened, we looked at our own production capacity. And that is not in all factories fully utilised, so in the moulding factories, which can make the same products as on that one line in Belgium, and also in the other line we have in Belgium, we went to a five-shift operation, which actually took a little bit more time to get there, because it was in the middle of the holiday season, so a bit more time than we initially planned. Then there was a part of the volume which we could produce in our Italian factories, which of course was a little bit more complicated because now we have sold them to the new owner. But still, we're getting the products from them, but it gives us a bit of a financial impact. And lastly, we lined up already in the summer, during the holidays, a number of third-party suppliers, which all started actually a few weeks later than initially committed to. This has meant that during that Q3 period we have been running on really low stocks on the products affected, and that we start now to see, from this month onwards, that we are starting to slowly recuperate the stocks.

Of course, it is in our interest to bring back both the shift patterns but also, of course, the third-party production as soon as possible back in-house, and that's why we're working full speed ahead to install a new line in the factory in Belgium, which will happen somewhere in quarter two.

Cloetta

Mikael Löfdahl
Okay. Final question: on raw materials, could you give an update here where you are in terms of pushing this forward, raising your own prices and so on?

Danko Maras
We have made a reference to the fact that there some costs of raw materials that are increasing for us this year, also being an effect in our EBIT during the year. And as you know, we've said before that we are not having any hedging strategy per se, but we have replenishment strategy, making sure that we have six to nine months going forward. So, even though you might have heard or seen that there's some ease of some raw materials, others are going up. And also, if we're adding the fact that we're having currency effect, this is the combined picture whereby we are not seeing a significant movement, either up or down, on a material level going forward. We will come back on that when we are a bit more clear on it, but for the actual quarter and where we are year to date, we have had some increases in our raw materials that have affected also our EBIT.

Mikael Löfdahl
Okay. Because this was an issue you spoke about around this time last year, or by the end of 2016, and you were very confident in managing to raise prices and that there wouldn't be any effect. Then now in Q3, obviously there were effects on your gross margins.

Danko Maras
Yeah, and let me just be clear on this: the Cloetta Group has positive price. So, without disclosing too much, we are having a positive impact on pricing, but we are not getting full pricing through. And unfortunately, if we are adding the component of FX to it, which in a way is a commodity that we have to deal with, with our retailers and customers, it's very difficult to get pricing through in the full effect of that. As you know, this quarter I was highlighting that we have approximately 100 points of FX effects coming through because of both Sweden but also the UK market. So, in our negotiations with our customers, it's a fine balance to talk about price increases, both with raw materials and FX included. And we do get an effect, but we don't get the full effect that we were expecting to get, also exacerbated by the fact that currency's moving in the wrong direction, and that was not clear at the end of 2016.

Mikael Löfdahl
So, going forward, how should we look at your gross margin, if we exclude Candyking now and synergies coming through from that? You're now, obviously, saying that there is a positive price component in your growth, but still organic growth is negative, so that means that volume growth is even more negative than what you are reporting.

And then on top of that, you need then to gain back potentially some lost market share, while you at the same time need to raise prices: how should we look at your focus on either gross margins or getting growth up in volumes?

Danko Maras
That's a lot of questions in one go there, but let me give it a try. We have positive price; it's not material, but we have positive price. I wanted to highlight the fact that it's not negative. But if we're including FX, it's negative.

On the volume mix or the volume component that we were referring to, a lot of it is absorption related, as was previously asked from someone else who was asking the question. It's not that we are losing significant volume out in the markets; the 50-50 that Henri was referring to is the out of stock, and that is a problem. But a key component of the volume is absorption related from our supply chain, which is not producing what we normally would produce. So, in short, if we look at ex-Candyking, the whole point is to come back to the gross margin where we've been before, which has been trailing approximately around 39–40%. And those short-term issues that we're having now, if we do the right things on the production part and we are getting the absorption in the normal level again, we should recover, coming back to the levels we were on gross margin before.

On input costs generally, what we have said is more on the 14% EBIT margin target. If prices go up, we do pricing; if prices go down, we also give back on pricing, so that we are unaffected by input cost. That has been the principle of a longer term, but of course you will have time lags and effects on that. Hence the impact we were talking about, six to nine months of replenishment.

The short answer would be we should recover and come back to the gross margin where we have been before. So, the dilution that you've seen, caused by Cloetta, should recover. And then Candyking and the integration of Candyking should contribute to the 14% margin, and the whole insourcing component of that should also improve our gross margin.

Mikael Löfdahl
Okay, thanks.

Operator
Thank you. There appear to be no further questions. I'll return to the conference back to you, speakers.

Jacob Broberg
Okay, thank you, everyone. Thank you for today, and speak to you next time. Have a good day. Thank you and goodbye.