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Presentation

Jacob Broberg
Good afternoon and welcome to Cloetta Q4 conference call. My name is Jacob Broberg, I am Head of Investor Relations and with me today are Henri de Sauvage Nolting, our CEO and also Frans Rydén, who is our new CFO. But I'll give the floor to Henry to start with.

Henri de Sauvage Nolting
Yes, welcome to this call on Friday afternoon. If we look at Quarter 4 I am pleased to show yet another quarter where we have our branded business in growth four quarters in a row. And if I listen to the people who have been around for a long time this hasn't happened for multiple years. We also today are deciding on proposing an increased dividend to one SEK.

If we look at the underlying performance we can again see that the net sales is up to SEK 1.646m but we tend to look only at the organic growth, which was -3.2%, all driven by negative growth in pick & mix like we have been carrying with us during the other three quarters as well.

Operating profit adjusted was SEK 174m and the operating profit SEK 159m, driven by marketing spend as we already talked about last quarter but also the abolition of the increased sugar tax in Norway and higher production cost. Profit for the period SEK 159m, last year was exceptionally low and cash flow at SEK 288m. Our net debt at SEK 2.31, again well below the two and a half, and then the proposed dividend of one SEK, up from the 75 UR that we had last year.

There was some confusion I think already in the media, but last year we had a SEK 0.75 dividend coming from the continued operations and then the special dividend of SEK 0.75, which was due to the sale of the Italian business that we gave the cash coming from that transaction back to the shareholders. So we see this as a step up from SEK 0.75 to one Krona.

Then if we look at the markets, the branded, what we call packaged confectionary we can measure through Nielsen and those objective external figures are showing a growth in all markets, so that's positive having looked at the summer at some negative development, but they have all bounced back.

Pick & mix market where we don't have a single source, we think that there was growth in most of the markets but it is our own estimate based on different sources, supplier databases or POS data from one customer. But we think there is still an aggregate across our markets growth and the growth levels are very different market-by-market.

I already commented on the -3.2% fully driven by pick & mix. If we unpack that a little bit, total pick& mix declined with 13.5% and it is still the same as before, so it's the lost contract in Sweden, which is by far the number one, but also the weak sales in Norway. We had no promotions due to the sugar tax but also the government has decided to abolish the increase in sugar tax they took last year, which also then means that customers are refraining from buying the full amount in December because then if they buy in January it becomes a lot cheaper.

And it doesn't mean that the no promo policy is immediately gone from the customers in Norway, because that was much more related to PR rather than to the sugar tax itself. And then there is a third bucket, which we are preparing the pick & mix business in general but in particular the old Candyking business to be ready for growth by cleaning up and focussing, not only on volume but also on profitability.

Now that counterbalancing that, as I already said, package, the branded growth with 1.4%, really nice because it's coming from Northern European markets with little to no volume growth and more price growth. And that shows in our market share evolutions along aggregate level Cloetta is taking market share, outgrowing the market on aggregate level. So that is very positive because that is a clear fourth quarter where we do that. It is also for the full year and, as I said before, we haven't seen that for many years. And let me remind you, I mean the growth margin of this business for the time being is in the branded business.

If we look at the strategic focus, these are the three pillars we've been talking about. So where do we drive our growth? So it is still very much the focus on growth on the branded business, delivering superior growth margins.

Another area where I'm really pleased to see the progress is the move towards working media. Now you remember the working media is the money we spend, which is actually being seen by consumers, and the non-working is all the production costs or agency fees or research fees. And we have been able to move this up with 15%, which is a big impact actually if you look at it on absolute numbers. That there's more of our spend going into activities, which the consumers actually can see, be it either traditional or new media.

And the last one is on integration in our innovation process to get much more leverage between the markets or across the markets on the kind of innovations we are doing. So moving from single market innovations to cross-market innovations. A good example of which we showed last time is the lower sugar launch, which is now going in in all the core markets of Cloetta, so fewer innovations but bigger.

So three important things also for 2019 to keep on driving and also as a next step in innovation we are looking at more long-term innovations, getting more focus over there versus short-term tactical innovations.

Then the second pillar is then how do we facilitate the growth. One Cloetta is to get much more benefits of the knowledge and scale we have buy combining countries and functions to work more together. And that can be from working as one HR, where we have just implemented a cloud-based HR system called Workday, where we have much more transparency on organisations and cost, but also things like customer boards, where all the sales directors of the different countries are coming together to really look at common challenges.

The second point is branded category management. So, again we were very de-central in the way we were working in marketing. We have now a common marketing forum under the leadership of the Chief Marketing Officer to really define long-term plans, get a great vision as to where you work with the trade, common innovation platforms.

And then third but not least is a CAPEX proposal to de-bottleneck our drying capacity so that our production lines in the, we call it moulding, but it's basically the wine gums, the candy portfolios, so that we can reap the benefits of the Lean programme by getting more of the increased output also right and giving hence more possibilities to keep on influencing, but also to keep the branded growth volumes, which are added in the portfolio into our own factories.

And last but not least is then the funding the growth and we are looking at preparing the pick & mix and particularly the previous Candyking business for future growth and there is still some cleaning up to do. These are long-term customer negotiation contracts, with run times of several years, so we need to break those open. We don't want to do that all in one go. It's an negotiation contract-by-contract.

And cost efficiency, we call it internally the value improvement plan, also with the new CFO coming from Mondelez was very much involved in looking at cost and tools like zero-based budgeting were going to make a step up over here to get funds from the cost. We have brought part of the savings in the supply chain and in the head office into marketing support and part of that into EBIT improvement.

And then last but not least is the continued journey of Lean. So we move from lean into something we call Perfect Factory. We could call that Lean plus, really now working on getting our operators and engineers in the factories, on the shop floor, involved in how to improve the lines they are responsible for.

If we then go over to Frans and tell us a bit about the net sales.

Frans Rydén
Thank you, Henri. This is Frans speaking. Happy to be here with everyone on the call this afternoon. So picking up from Henri's comment on the organic growth, which you see on this slide, which is, as we said, completely driven by the short fall in pick & mix. That is then offset by favourable FOREX rates for a basically flat development quarter-over-quarter. I just make a note also on the full year, you see there the upside from the structural changes result of the Candyking acquisition as well.

Now, however, zooming in on that packaged product growth and this visually represents now something Henri mentioned earlier, which is that we are happy to see four quarters of consecutive growth, the first in a long time. It doesn't mean that we necessarily have turned a full year corner but it is a promising sign and we have to remember that 70% of our business, not only where the profit is coming from.

The other side, so the remaining 30% is down, the pick & mix and of course the grass looks very different here with the decline over this year as a result of the loss of the Coop contract as well as the challenges in Norway. I would also point out here that when we look at this business we have to remember that you get really significant swings when you gain or lose a contract. So the 2016 growth you see there, which excludes Candyking, was driven by big contracts gained in Bergendahls and ÖB.

Moving then on from the net sales to the gross profit, it is in line with prior year as the impact that we have in Norway and with Candyking and the higher production costs we've had in this quarter were offset by the retranslation FOREX that I mentioned earlier.

Moving then to the operating profit adjusted for items affecting comparability, you can see that unfavourability that we have in gross profits is flowing through but it is offset by favourability from retranslation in FOREX. That has now been netted off with unfavourable retranslation of FOREX, the lower gross profit. So this decline that was surprised here is also driven by the increased investments in advertisement and promotion that Henri mentioned. And all of this is partially offset by other savings that we've had on indirect, driven by the cost control programmes.

Continuing down on EBIT, we can see that we had net SEK 15m in items affecting comparability. This primarily relates to restructuring in Norway with Candyking, as well as in Sweden and takes us from SEK 174m to SEK 159m, so this is SEK 20m less of such items than we had in 2017, so that reduced the variance versus prior year to SEK 12m.

We are then having less net financial items impact. This is because again FOREX, these favourable exchange rate differences on borrowings and cash and that reduces the variance versus prior year when it comes to profit before tax to just one million SEK as you see on the second row from the bottom.

And then finally we see a significant favourability versus prior year from profit from continuing operations or if you will after tax and that is on account of two things. First we have a negative tax rate in this quarter. This is the result of several countries revising their tax rates. And we have an effect as a result on our deferred tax liabilities.

And secondly in quarter four 2017 the tax rate was unusually high because of the valuation allowance that we did that year relating to deferred tax assets in Slovakia.

So, moving on to the cash flow. Here I would like to start at the bottom of the table and the cash flow for the period, so SEK 240m. This is of course a healthy cash flow, especially if you keep in mind that the EBIT was SEK 159m for the quarter. This is nonetheless SEK 80m less than the SEK 320m we generated in quarter four last year and the explanation for that you can find first and foremost towards the middle of the page, under the heading for cash flow from other investing activities. Here you can see a cash receipt of SEK 69m in 2017, which was the final payment related to the sale of the Italian business. So that basically explains SEK 69m of the SEK 80m.

And the remaining of the variance you can see under the change in working capital, we have SEK 77m generated from favourable working capital in the quarter, which again is good but it is nonetheless less than the SEK 105m we generated in quarter four 2017.

So that concludes my part of the presentation. I hand back to Henri.

Henri de Sauvage Nolting
Yes, so if we go back to a summary of 2018: very good to see that the branded business is growing. It forms a strong cornerstone of the strategy we are executing to get our base business to grow, and particularly the base business where the margin is, so that is really important. Of course we also are working on total top line growth and of course we realise that we need to get the pick & mix business, the integrated pick & mix business into growth as well.

On the other hand we are also preparing the business for growth, because growing a completely non-profitable business is something that is not a good idea either.

EBIT and EBIT adjusted have both improved, coming from Candyking synergies, more production volumes, good cost control, that’s the journey we are on towards the journey of 14%. And if we want to grow the branded business during 2018 we have been focussing very much with the markets and the marketing community. To get the working media up 15% is a very good first step. We are not at the target where I want us to be but at least we’ve taken out quite a chunk and also proven that we can invest this in a wise and a good way.

Also if I look at the results I will try to also share a bit more of that on the Capital Markets Day when we have a little bit more time to go into the whole area of marketing and vending.

The Candyking synergies are coming in. As we have communicated the indirect chunks are that we have the same offices, the same field sales forces, one system, and most of that has been coming through in 2018. The biggest chunk of the insourcing is also well on its way and will come in the time periods we have communicated. We make business decisions on what is the best insourcing and we have to balance that of course also with our own organic growth in the branded business.

So, we feel confident that the one SEK of dividend lies well between the policy of the 40-60% that – that is a good step up, also showing the health of the business. And that was it. Yes, it was a turbulent year. A lot of change programmes, which have been gone into the company. Also things, which are too detailed to discuss here today, but a lot of transformation work going on. So we're not there yet.

I am also pleased that my team is in place, the last one to join, Frans, being really able then to drive this change agenda through the whole company in all different functions.

Jacob Broberg
Yes, and with that we open up for questions.

Q&A

Operator
Thank you. And ladies and gentlemen if you do have a question for the speakers please press zero one on your telephone keypad now and please hold until we have the first question. The first question is from the line of Stefan Stjernholm from Nordea, please go ahead your line is open.

Stefan Stjernholm
I've got a question regarding Norway, the question is have you already seen volumes coming back after the destocking in the fourth quarter?

Henri de Sauvage Nolting
Yes, of course. And so we are quite used and prepared for this. Of course we discussed this with customers because we quite often work in collaboration with customers when it is forecasting and when they expect certain volumes. We have seen this exact same behaviour in Finland before when the same thing happened, so yes we see volumes coming back, both on the branded and the pick & mix.

Stefan Stjernholm
Is it possible to quantify how much that…

Henri de Sauvage Nolting
No.

Stefan Stjernholm
No, okay. And regarding marketing investments in 2019, I understand that they will be up but how much and what about the timing throughout the year?

Henri de Sauvage Nolting
Of course we are also prudent right, so I don't want an enormous increase in the first quarter and then nothing in the three quarters to follow. So the way we do this is we spread this evenly across the quarters. It is an investment so we also need to see the result or the continued result. I would say we will show you a bit more on the Capital Markets Day on how we are investing and how we make our decisions, so the increase is evenly spread across the quarters and then, as we said before, the goal or

the target is to get cost savings in the indirect sphere to offset investments in marketing, but a little bit too early to say a statement here how much we will increase.

And again it's on both sides, it's an absolute investment but we also think we can make a further step on the reduction of the non-working media, which also will help then on the growth levels in the branded business.

Stefan Stjernholm
Okay, thanks and my final question, can you at this early stage kindly help us to understand the potential Easter impact given that Easter falls in Q2 this year.

Henri de Sauvage Nolting
Yeah, so I mean the full Easter is in Q2 versus 2018, so that is for sure going to be there. It is a big impact on pick & mix, but also remember last year in Q1 we still had Coop in Q1 for about half the business because they started to rebuild the Coop stores let's say on the 1st January and that ended more or less at the end of Q1. So, on average we had half the business there. But then we also had the Easter effect in Q1 so like-for-like that hurt us a little bit more than we would like of course because now we do not have the Easter in Q1, so the comparator of the Coop/Easter effect, those two together I would say are a bit maybe higher than we would like it to be.

I mean there's nothing in the underlying business, which is different and we also try to of course compensate for that with a huge activity in Sweden for those with the Melody Festival, but that effect will be there.

Stefan Stjernholm
Yeah, but it's not possible to give a range for the Easter impact on EBIT is it?

Henri de Sauvage Nolting
We will always said that the Coop effect was around SEK 150-160m, so SEK 40m in a quarter, so you could say well if then one quarter is SEK 40m and you have half of it in Q1, you're talking about SEK 20m but then there is an upside in Easter and, you know, how much that exactly is also for us very difficult to estimate that because there were so many moving parts during Q1 last year.

You know, Coop started with the bigger stores first and then the smaller ones, so it wasn't by region, so it was very difficult to get that picture from them. So, but it will be an effect, it obviously will.

Stefan Stjernholm
Yeah, I see. I even tried to estimate it myself but…okay, thank you.

Operator
Okay and the next question is from Nicklas Fhärm from SEB Equities, please go ahead, your line is open.

Nicklas Fhärm
All right, excellent. So good afternoon. My first question relates to your comments in the report on the integration of Candyking. You are writing that you expect necessary investments to further increase insourcing, right? And I'm a bit stuck on the word further, how does that relate to your original plans when guiding for…I understand the end…

Henri de Sauvage Nolting
In line with the original plan. So there what we said was that we would insource about half of the volume of Candyking and that we would have about SEK 175m of cost about with restructuring but also investment to be made in the factories in order to do that. And we have, we've started of course

with the insourcing already in ’17 and in ’18 and we now need to make this investment to unlock further, yeah, or to continue the journey in the insourcing of Candyking. And that will come out of the SEK175m.

And then on the SEK 100m of savings, the majority of that is the insourcing and a smaller part is the, as I said, the indirect savings in systems and people and back office and things like that. I mean that has, mostly, apart from the UK, that has mostly been put in place in ’18 but not all on the 1st January so there will be some benefit still coming through in ’19. And the insourcing is of course an continual journey, where we follow and track ourselves as well quarter-by-quarter the volume, which is coming in from the insourcing. So we express it as, you know, the percentage of the volume being produced by ourselves or the absolute amount of volume, which is still outside.

And the only caveat of course is that we are also growing our own business and of course that is also important to be able to cater for that and then there are also some other third parties like the Italian business, which are interesting to insource if that gives us more. So we make, you know, what is best for the business financially, those trade-offs.

Nicklas Fhärm
All right, so just, if I may just so I get this right what you’re saying, what you’re saying to the market is that there are no changes to the sort of synergy, not in terms of amounts or in timing. But for 2019 it sounds to me at least that you expect to incur the costs more or less to get the savings in 2020, is that fair?

Henri de Sauvage Nolting
I mean what is fair of course is we need to make an investment in the drying capacity, so nothing to do with our lines. We will just have the same number of lines, but to get the drying capacity expanded we will need to make a CAPEX but I don’t think we’ve communicated the exact timings of the CAPEX when we did the Candyking acquisition. But they will now come in ’19 and I would expect a part of it in ’20 but I don’t know yet if that is 50:50 or 25:75 or 75:25. We will make that investment and then, I mean the good thing with the drying chambers is at the moment they are in store so you can more or less start to use them. But that capacity unlock will then of course always come later than when you make the investment.

Nicklas Fhärm
And in terms of OPEX, just to be clear, I mean you talk about increased wage and production costs, right, to improve insource and volumes in this quarter. How should we sort of model that from a timing perspective in 2019? Should we expect…

Henri de Sauvage Nolting
I will ask Frans to answer that but there was quite a big chunk of one-off cost in there in the comparator, but maybe you will give…

Frans Rydén
No, but that is exactly correct Henri. I mean the increase in production costs that we see, about half of that are one timer variances that won’t repeat themselves going forward and then, of course, Henri spoke earlier also about the need to drive this lets say lean plus, the perfect factory programme, to address where costs have been maybe higher than what we have hoped them to be.

Nicklas Fhärm
All right. Then my second question if I may is if you could somewhat elaborate a bit on your view of M&A in 2019 versus dividend focus in the company please?

Henri de Sauvage Nolting

Yes, the first thing is that M&A has been let’s say redefined. I think we talked about that. So we are saying well we are interested in M&A when it meets a certain threshold in size. So we are not interested in small M&As because I can also see that the small M&As are taking disproportionate amount of time and focus, which is then not being spent on the base business or the core business, so rather bigger than smaller.

The second one is that we want the M&A first and foremost to be in our core categories. So we’re not going to venture out in new categories, so that is a bit of a bridge with the maybe old philosophy that we would buy a lot of different consumer occasion categories. No, we will stick with what we know best. So, core categories and then predominantly in our core countries, being the four Nordic countries, plus the Netherlands.

And then target group number two, again core categories. We have synergies in production, in technology and innovation, in marketing, et cetera, but then the core categories in adjacent markets, yeah. And adjacent markets are markets like the UK and Germany, where we are present with our own organisations but maybe not having the market share as we have in our other core markets, so establishing ourselves there and being able to bank on the scale benefits of Cloetta is potentially a good acquisition case. And adjacent could also be Belgium and the Baltics, maybe even Poland.

And that’s where for the time being we will stay and we will focus on and not venture out yet in other parts of Europe or the world until we have our new international division clearly established, working with the hubs we have now out there in a different geography.

So if I say that, you know, you could also conclude a case that there may be fewer acquisitions but ones that will come through when they come through will be slightly bigger and that, yeah I think answers your question. And also on the dividend that we will be looking really at acquisitions, which can strengthen the core business of Cloetta and there are fewer of them.

I think we talked about popcorn last time we met. Popcorn business in the UK would have fit perfectly in the old Munchy Moment acquisition strategy. But you know, we have no capability in popcorn, nor do we have factories where we can produce popcorn, or we have marketing or sales people who understand popcorn. So clearly we said no, not of interest. So we will stay within the categories that we have.

Nicklas Fhärm
And, but I guess my question was actually leaning more towards the dividend, your view, your view, not the board but your view on dividends. So if you had the opportunity to make one of these acquisitions that you’re talking about in 2019 would you prioritise that ahead of paying out extra dividends? I guess that is my question.

Henri de Sauvage Nolting
I think each business case needs to be judged on its own, right? So I am not blank signing a cheque for an acquisition. I think an acquisition that’s also something that, it needs to be able to deliver value to Cloetta, maybe not on day one, but maybe after month six shall we say. If it is a very interesting acquisition, which can strengthen the core business we have in one of our core markets, that would be interesting, particularly if it comes with a light-manufacturing network so we can produce more in our existing factories and there is not too much restructuring costs. If there are some really strong brands where we can build on, then we would be interested in that.

But of course we need to balance that with our dividend policy and the, yeah, the continued stream of dividends. We want to be a stable company also in the amount of dividend we pay out.

Nicklas Fhärm

But if it is big…

Henri de Sauvage Nolting
We should look at it and judge it on its attractiveness.

Nicklas Fhärm
All right, thank you. I have a few more questions but I'll come back later in the call, thank you.

Operator
And just as a reminder, if you do have a question please press zero one on your telephone keypad now. The next question is from Mikael Löfdahl from Carnegie. Please go ahead your line is open.

Mikael Löfdahl
Yes, hi, just if you, if it's possible again on the Candyking synergies and what has been realised and what we can expect going forward, I mean if you look at since the acquisition and particularly in 2018, it doesn't seem that the synergies have come through at all if you look at only the numbers. If you look at SG&A to sales, partly maybe on gross margins, but definitely not on SG&A.

And also you did announce that you were going to make savings of SEK 50m, that was a new savings programme, which I guess lies beside the sort of back office, SG&A related synergies. So when you add those SEK 50m to another SEK 50m in realised synergies I struggle to get to your numbers for 2018.

Henri de Sauvage Nolting
So before I hand over to Frans, I mean the SEK 100m stands strong and we're delivering that over the time period communicated, also in the same kind of shape we have been talking around. The majority of that will again come from the insourcing and, of course, that will be spread across the whole portfolio, the benefit won't only lie on the pick 'n' mix and then on the indirect parts we have implemented most of that during 2018.

Remember that on 1st May we went live with our enterprise system in the four Nordic markets so only after that date were we able to start integrating back offices and processes, warehousing, etc. There is still a little bit more to be done over there.

The other remark you make is on the SEK 50m saving, correct. But what we communicate is that we would have that SEK 50m run rate in by Q4 2018. So that is a saving, which you should start to see coming through in the SG&A costs during 2019. And then that should indeed be seen as something, which is standing next to the Candyking synergies.

The progress we've made over there versus the communicated external report, I will ask Frans to allude us a little bit more on that with FOREX retranslations.

Frans Rydén
Yeah, thank you. So on the SG&A, if you recall when I spoke about the gross profit, you know, I mentioned that we had the upside there from the retranslation FOREX, but you have the flip side on SG&A. So when you see the increase in cost, that's sort of obfuscating the fact that we have these savings. You know, on the quarter it's the translation and on the full year you both have translation impact but you also have the Candyking structure, where we are comparing now for 2018, twelve months of Candyking SG&A versus eight months in 2017. So the savings are in there but it is obfuscated by these other drivers.

Henri de Sauvage Nolting

And then maybe last but not least, we said that we would make this run rate of SEK 50m of savings but that would also partly be reinvested in advertising to get the branded growth going and that is also of course something, which you need to take into account when you look at total SG&A costs. But nevertheless I mean we are on a journey, we, both Frans and I think we can find more costs to come out of the business. We have, Frans has a little bit done some restructuring costs.

We took in Q4 to re-organise both in Sweden and Norway with the aim to bring cost levels in SG&A down and that journey will continue.

Mikael Löfdahl
Okay, but if you only look at Q4, then all those savings that you are speaking about, the first sort of SEK 50m for Candyking and the other savings, everything is in there in the Q4 numbers I guess, since you said that it has come gradually during 2018.

Henri de Sauvage Nolting
Everything is in there but the SEK 50m savings programme, we've said we will have the run rate of SEK 50m by Q4 2018. So, that doesn't mean that that's SEK 50m savings in quarter 4. But the run rate, so the full year run rate, we should have at SEK 50m yeah.

Mikael Löfdahl
The quarterly impact should be there already in Q4 from those SEK 50m?

Henri de Sauvage Nolting
Yes, the quarterly impact should be there. I mean we have, we said in Q4…

Mikael Löfdahl
So on SG&A the only thing that sort of stands out in Q4 is the marketing expenses, let's say SEK 20m or so, but that's, that is what stands out in Q4 on SG&A is that fair to say?

Henri de Sauvage Nolting
Yes, we have the incremental investment in marketing. You have the translation impact on SG&A, which is unfavourable here, just like it's favourable at the gross profit level, it's unfavourable there. And then I mean there is, you know, bits and pieces. But the savings are in there. On a full year basis you see even less of this as I mentioned because of the structural difference with the Candyking with eight months of SG&A versus twelve months this year.

Frans Rydén
But if I have to make it simple, I mean the way that we communicate it organic growth as a clean sub-set from the P&L, we are also looking of course at our indirects, which are a break up of the SG&A and I think we can just say we are pleased with the progress we are making in the indirects costs, without the translation effect and without the increase in marketing cost.

Mikael Löfdahl
Just, just so we can understand where we are as we move into 2019, because obviously Q4 was, on a gross profit level was hit by the Norwegian tax inventory reductions and so on from the sugar tax and everything. But going forward from Q1 '19 the SG&A is not where we will see any particular savings going forward on a, let's say on a quarter-to-quarter basis. It will rather come on the gross margin side from more insourcing of Candyking's assortment.

Henri de Sauvage Nolting
Well if you talk about the Candyking part, the SEK 100m, the vast majority of that will come on the insourcing. A smaller part is coming from the indirects and then most of those indirects are SG&A cost savings have been put in place in 2018, with an important date, the 1st May was the go live. So,

that is also where we really could start to integrate processes and things like that, so there will be some benefit still in early 2019 from that. But I agree with you the bulk of it will, and has always been planned to come from the insourcing and the continued improvement of the performance of the factory network.

Mikael Löfdahl
Okay. And on a just for clarification, on the CAPEX side you have SEK 182m I think in 2018, that is up from SEK 134m in 2017. I guess that increase is partly driven by investments needed for insourcing of Candyking's volumes. So the first question, of those SEK 50m roughly in increase in CAPEX should we assume, should we take away that from the remaining CAPEX need that we should put in for 2019 and potentially 2020? Because from my point of view…

Henri de Sauvage Nolting
Frans will give you more on this also when we have the Capital Markets Day but of course we also have a continued operation we are running so we are also with the increased organic growth in our branded portfolio we are investing in chocolate production because we are coming to the close of the capacity over there. So there's more things than Candyking insourcing. And another part of course is the investment of putting the M3 system in place in all the countries in the Nordics for the Candyking business, which is not production related, a one-off cost, we then had in 2018. Frans anything more to add?

Frans Rydén
No, I mean on top of the, one of those would be the M3 implementation as an example.

Mikael Löfdahl
Because you said at the time of the acquisition you would have charges and investments of SEK 175m and I think I read between the lines that some 60% or so of that would be CAPEX and would be more back end loaded and that is what you are saying now as well. So let's say that SEK 100m or so of those SEK 175m are CAPEX related, and of those you have already taken a portion, but the majority of those SEK 100m will come in 2019 and 2020. Is that what you're saying? Okay.

Henri de Sauvage Nolting
Yes.

Mikael Löfdahl
Okay, good. A final question from me regarding Coop. Have you seen, because when they sort of insourced the concept as such, obviously you were still delivering candy to their pick 'n' mix concept. Has that, have those volumes been in line with what you expected or have they sort of replaced your assortment with something else or…?

Henri de Sauvage Nolting
That's a little bit dangerous because, you know, Coop is a customer for us and I don't think they would like us to comment on the development of their business because that could be competitive information, really interesting for their competitors. So that's not something I can really comment on in figures up or down or the same. We generally tend to say and also tend to see that depending on the strength of our brands in the market you get a certain share of the assortment and within Coop, we're okay with the share of assortment, which then is based on real consumer preference or consumer demand you could say depending on the number of brands we have impact in, or the pick & mix concepts. And whether then their concept is doing better than the old Cloetta one, or worse, I mean that is something I think you should ask Coop.

Mikael Löfdahl

And when looking at pick & mix in Sweden, is that business, has that stabilised excluding the Coop effect?

Henri de Sauvage Nolting
If you look at the total pick & mix business this is the country where we have most focus to prepare ourselves for growth. I mean I think you can, or at least I would conclude if I was you that if we lost the Coop contract after three years that also says something about how well we as a business have been managing that. And you also know that the Candyking business before we bought it was struggling in Sweden if you look at their reports. So that was basically two businesses together, which were not performing on the level where you would like it to be and certainly not on the level where you would like to get growth from that business.

And that takes more time to get that right than maybe initially thought but it’s my firm belief that with the people we now have in place driving this, looking at all the processes, and it is actually of course quite an operation with the merchandising, bringing these products into store that we will sort this out. But again, you know, it needs to be healthy before you take it into growth, because otherwise it would be just diluted. So it’s not at any cost that we want to drive top line growth in pick & mix Sweden. That’s maybe the best answer.

Mikael Löfdahl
Okay, okay, thank you.

Jacob Broberg
I have a couple of questions from the web too, one is related to delivery accuracy. We spoke about that in Q3, whether we should be able to come back on that, on product delivery? And the second question is related to Easter, whether I mean a lot of Easter is just two or three weeks into Q2, is it not so that some of the products actually will be delivered in Q1 or will it mostly be in Q2?

Henri de Sauvage Nolting
Well let’s start with Easter. I think, we always need to look at Easter versus last year, and the majority of the sales will go into Q2, that’s a significant, there will be a significant effect versus last year. We tend to work with quite short lead times with customers, so I would say two to three weeks is long. I mean customers don’t want to have their stock sitting either in their warehouse or on the shop floor. We can push that a little bit, in particular with the field sales force in Sweden, with the more independent stores. But nevertheless the effect will be that most of the sales will be in Q2.

Then on customer service, we are constantly balancing of course the balance between getting more insourcing and, of course, still being able to produce flexible on consumer demands or customer demands going up and down. But there’s much, with every quarter we go on there is more processes in place, better forecasting also on the old Candyking business and less complexity in the portfolio where we are cleaning up as well in the pick & mix portfolio between the countries. So I can’t say that we are always 100% delivering on time in full but we have, yeah, we have a good balance over there. And also as from January onwards I can see further steps in the right direction.

More questions from the web? No?

Jacob Broberg
No, no more questions on the web. So operator please go ahead.

Operator
Okay, and the next question is from Nicklas Skogman from Handelsbanken Capital Markets, please go ahead Nicklas, your line is open.

Nicklas Skogman
Yes, hi. A question on the insourcing and so on. So, given the bottlenecks you had, which you name as one of the reasons for the declining earnings in the quarter, is it fair to think that they, the insourcing did not contribute to any synergies in the quarter but rather you had extra costs for this?

And then the follow up question on that is it appears to me you are now investing in more capacity, when do you expect to have that up and running in 2019?

Henri de Sauvage Nolting
Let me start with the last one. I mean there I'm also a little bit sensitive in discussing that so public over here because we also constantly work with third party producers and with flexible contracts, so if I now would announce exactly when we think we are coming online with that, even though I don't exactly know that would not be good for our negotiation position. But, you know, a further supply chain strategy update, let's call it like that, we will do in the Capital Markets Day, March, the 14th March.

And let's also again be clear, I mean we're talking here only about the moulds. So, the wine gum factories – rather we are not talking about jelly beans or chocolate or nougat products, so let's say the other 50% of the portfolio. Maybe Frans you can say something on the cost side.

Frans Rydén
On the cost side, I think it's important not to equate the increased costs with the insourcing. So obviously you know as we've been insourcing we have, it's a saving in that. We're able to generally speaking manufacture – you see this product at a lower cost than what we were buying them. However you know, as we've also increased the utilisation of the network, we have also had to in some cases bring in additional shifts but that's not only related to the insourcing, that is also because of the slightly different sort of mix of product that has come through the strong packaged product growth and that has necessitated additional costs. So I wouldn't equate these two things.

Henri de Sauvage Nolting
So there's no public, it's no secret that if you were to look at Nielsen, which is public information you can see that also in the branded business we have a lot of growth in the, well the wine gum segment, so that's where we see the shares across markets going up really quite, well I wouldn't say dramatically because it's positive, but quite forcefully going up. And that is of course volume, which is coming from the same factories as where we do the investment for the drying capacity.

Nicklas Skogman
Okay, but do you see a need for additional shifts also in Q1 and Q2 and Q3 next year or is this completely difficult to forecast?

Henri de Sauvage Nolting
No, that's not so difficult to forecast. I mean again we make business decisions, you know, what is best? What makes financially the most sense to produce it ourselves with the extra on costs of the shifts. We want our shifts to be flexible so that we can also take them away versus sourcing or staying outside with more volume, and that can be done, with Candyking's volume and also with the ex-Italian volumes, which we can take back in over a five-year period.

So on average I would say that it is something we will see in Q1 as well but you know, it is still cheaper than the alternative, to keep more of it outside. And in general I would say, you know, it sounds maybe strange, but it is a luxury problem to have the factories where we can really produce as much as we want and then we can further optimise the running of those lines and take, and not only then the less hours produced as a variable benefit but we can immediately fill it up with even more volume to produce even more.

So I’ve been all too often in situations that your factories are heavily under-utilised and here we have three plants, which are fully utilised. But it is not that all of them are running seven days a week because we make the trade off between benefitting cost quite consciously.

Nicklas Skogman
But do you see the need to invest in capacity for these product categories where you have had to bring in additional shifts?

Henri de Sauvage Nolting
I am not going to spell out the shift patterns of all the factories, that is probably not the purpose of the call, but in the moulded network you would say maybe half the lines we have are running on seven days a week and the other half on five days a week. And you know demand can fluctuate or the customers have late changes and if we then have to react at, maybe with three weeks’ notice, we can’t ask a third-party supplier to suddenly produce that because they are also trying to plan their factories at a 100% level, because their margins are so thin.

So then we have to indeed put extra costs on to produce extra shifts over a weekend and those are expensive shifts. But hey, we also have a customer service reputation we want to work up to, and it still makes sense to produce that business. And then, of course, we need to become better in planning, more collaborative forecasting with customers. But as I say, it’s a better situation to be in than that you have ample capacity and you never have to add shifts, because then your fixed costs for volume produced will be much higher than what we have right now.

Nicklas Skogman
But in the short-term I mean it seems very clear it’s hurting profits?

Henri de Sauvage Nolting
As Frans explained, I mean there are several aspects in the production costs and some of them are of a nature that are one-offs and some of them are of a nature of extra shift costs, and they are temporary. But of course if we get another 400 tons of products because a customer really wants to do a big promotion with us and we have the capacity with the machines but not the people and we have to ask people to work overtime or to do a number of months of extra shifts, we will probably say yes to that because long-term that is value creation, even if there’s then an impact on a quarter with higher costs.

I mean the end of, the business that is being generated of course by consumers and if those consumers are then being more able or more consumers are being able to buy Cloetta products with whatever 30% less sugar and Venco re-launch we’re doing with TV and Digital, which goes extremely well and long-term that generates value for Cloetta because those people don’t buy only then for 2018 but they will continue to buy those products going forward. So when we make those decisions we take a longer-term view than just the impact on that quarter. And that is what I stand for and I think that is what the shareholders as well, that is a better decision given the long-term nature of the business.

Nicklas Skogman
Okay, thank you very much.

Operator
And there are currently no further questions registered on the telephone lines, so I will hand the call back to you speakers.

Jacob Broberg
So thank you very much for listening and calling and now I would just like to remind all of you of our Capital Markets Day in Stockholm on March 14th, so thank you and have a nice weekend.