



Transcription: Cloetta acquires Candyking

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Speakers: Jacob Broberg and Danko Maras

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Presentation

Jacob Broberg

Good afternoon and welcome to Cloetta Conference Call. It is a beautiful afternoon here in Stockholm. My name is Jacob Broberg, Head of Investor Relations, and with me I have Danko Maras, our CFO and outgoing Interim CEO who will present our acquisition of Candyking today. Please go ahead, Danko.

Danko Maras

Thank you very much Jacob and good afternoon everyone to this somewhat late Friday afternoon call. But thanks for joining in. We're quite a few people I understand and it will be nice for me to go through the acquisition of Candyking in a short presentation for you.

Let me just start by talking about Cloetta and our strategy. If you just turn the page, you see Munchy Moment. This is right in the middle of the Munchy Moment territory of in between meals bringing that indulgent moment for a consumer to acquire something as a snack or as an energy boost between the meals. This acquisition for us strengthens Cloetta. It's in line with our strategy to drive pick-and-mix. Pick-and-mix is an important, and in many countries, growing part of the confectionery market. It will significantly strengthen Cloetta's position in Denmark, Norway and the United Kingdom and it will strengthen Cloetta's Natursnacks pick-and-mix offering within the very nice Parrot brand. Also Cloetta will continue to develop the Candyking brand and product offering in order to offer an even more attractive customer and consumer experience. It's very important for us. Also this acquisition will create substantial synergies and the synergies are within administration, procurement, logistics, sales but not the least in sourcing of production. These sort of synergies will be gradually realised within – and reach a full run rate in 2020. Now, a lot of numbers but we are intending to revert with information regarding expected synergies, non-recurring cost in due time. Also giving a bit more indications on timings. However, this acquisition means that Cloetta's 14% EBIT margin target remains intact.

Now, if we look at Candyking, for those of you who do not know Candyking it was founded in 1984 and it is a concept supplier of pick-and-mix in the Nordic region, the UK, Ireland and Poland. In



in addition Candyking is a pick-and-mix supplier of natural snacks in Sweden and Finland under the Parrot's brand. It has more than 8,000 points of sales and offers stores a turnkey concept that includes products, displays and accompanying store logistics service so a full service provider of the concept which is absolutely great. There's sales of approximately SEK 1.3bn and Candyking has no own production, source all products from suppliers. I'll show you some pictures on both customers and product concept. But if I move into the Candyking in-store concepts, there's a few of them but the absolute biggest majority of concept in store is the core Candyking or in Swedish Karamellkungen. And this one was the one was launched in 1984. And this represents 93% of Candyking sales and this concept is available in all of Candyking's markets around 7,000 points of sales. And within there is a consumer offering of about 500 items including chocolates, jellies, hard boiled, foam and liquorice confectionery, anything that we can produce. And there's a consumer mix who create their own bag or cup of confectionery from a display offering between 16-200 different items depending on the size of the – on the consumer offering that is on store. And in addition to that you also have Parrot's which I'm sure Swedes will recognise. The concept is originally acquired from OLW in 2009 and offers dried fruit, natural nuts, flavoured nuts and snacks. And that concept is currently available in both Sweden and Finland at 1,600 points of sales. The concept has been revamped a couple of years ago and the Parrot's is currently the only pick-and-mix snack brand with no palm oil, UTZ certified and only natural flavouring. A really great brand proposition.

Now to finish off the transaction details here, Cloetta will acquire all the shares in Candyking as well as 100% of Candyking's outstanding bond and other debts. The majority of the purchase price will be allocated to the holders of Candyking's SEK 750m bond. Candyking's bond will be delisted from NASDAQ Stockholm. An initial cash payment of SEK 325m on an enterprise value basis will be paid at the closing of the transaction. An additional cash payment of a maximum of SEK 225m will be payable in Q1 2019 depending on the combined volumes sold of pick-and-mix at the end of 2018. So this is a form of earn-out. Cloetta will issue an instrument to the current bondholders that will entitle them to a future potential additional purchase price. This transaction is conditional upon approval by the Swedish competition authority and that was it for the presentation.

I would like to remind you all who are asking me good questions I'm sure that we will come back to you with more details regarding synergies and non-recurring costs so that you can get a better idea of the benefit for us purely financially. But Cloetta's long-term strategy of 14% EBIT margin remains firm. So with that note, I leave over to any Q&As.

Q&A

Operator

Ladies and gentlemen, if you have a question for the speakers please press 01 on your telephone keypad. And please hold on till we have the first question.

Our first question comes from the line of Mikael Holm from Danske Bank. Please go ahead, sir, your line is now open.



Mikael Holm

Yes, hello. The first question is on the sales level in Candyking. First of all, how much sales do Cloetta have to Candyking today? And given that there's been a quite negative trend in Candyking sales in at least recent quarters what do you believe is a good run rate of sales entering 2018 [inaudible] is based on. That's the first question.

Danko Maras

Hi Mikael. First of all the sales that we have indicated SEK 1.3bn is also including a Danish sugar tax and the impact of that, I am not entirely sure of what that will be. We will restate it because we don't include the Danish sugar tax on that top line but it is about SEK 1bn of course but what the actual amount is I will come back to. The other part is that I don't do any forward-looking statements on the development of volumes but of course we have an earn-out instruments incorporate any potential issues. On the other hand we believe that this announcement today will strengthen both Cloetta and Candyking in the marketplace in terms of provide an offering security and stable future. And to that extent our intention is not that volume will decline but that we will build the whole concept and drive this concept to a better level. And in addition to that you might be specifically thinking of a specific country but we will double our turnover in Denmark, Norway, the UK where we don't have a strong hold on pick-and-mix and that will give us an already-existing business for Cloetta and even stronger establishment which I think is fine as a perfect opportunity for us to grow in the Nordic market.

Mikael Holm

And – okay. And also just longer term, how much of this volumes do you think you could insource in your own production facilities and what kind of investments would you need to be able to take on those volumes?

Danko Maras

Yes. And maybe I should just come back to your question, you were asking how much share Cloetta was selling to Candyking and I just want to say it is immaterial. It is really an incremental affair between ourselves and obviously, as you know, we have 13 factories with a variety of technology so we believe that we can find good opportunities to insource. Too early to tell how much but a lot of this is the candy segment in the enjoyment segment where we have very, very good capabilities. So we are very excited about this opportunity. At the same time it's important to have strategic partners in the different offerings and the timing for all of this and the incremental investment I would want to come back to. But it fits very good – well for us in timing considering that we have done a manufacturing strategy where we had optimised our opportunity for capacity utilisation where we could take no more volumes without necessarily investing a lot more.

Mikael Holm

Okay and my final question is regard – I guess the – you say that you need the competitive authorities to say okay to this deal. I guess it's related to Sweden. Could you just remind us what will be the market share in pick-and-mix and what would be the market share in the whole confectionery market in Sweden following this deal?



Danko Maras

That's a little bit too early for me to say Mikael. We will file the competition filing in a few days and all the information, our preparations that we have done have suggested that everything will be okay. In Sweden if you think about pick-and-mix as such, it's a very competitive market with a lot of established own-concept including ourselves and others. But in total we talk about 30% of the total confectionery market in Sweden is pick-and-mix. So I would like to wait a little bit with that when we have done – let's do our filing and I have every reason to believe that this will be passing fast through. And we'll deal with it from there on.

Mikael Holm

Okay, thank you.

Operator

Our next question comes from the line of Mikael Löfdahl from Carnegie. Please go ahead, sir, your line is open.

Mikael Löfdahl

Yes, hi, most of my questions have been answered but first of all the timing here, could you say anything more on when will we get a closure of this and also then when we – when can we get some more details on the synergies and so on?

Danko Maras

Hello Mikael. Well, those two questions belong together a little bit. The timing, as you know in Sweden you have competition filing. There are different stages there, phase one, phase two depending how deep they want to go into it. We of course would like to have this closed as soon as possible and we have to respect the time that the competition authorities would need. And the first force one could be six to eight weeks and then if it goes to force two it'll take another two months or three months. It's difficult for me to say. But as we are coming closing – coming closer to the actual closing and clearance we will come out in that time period round that level about more details on the synergy realisation and the timetable and the cost required to implement this.

Mikael Löfdahl

Okay. And could you say something about your funding here and the cost for that?

Danko Maras

Yes, absolutely. The – this will become EPS accretive immediately considering the fact that if you look at their EBIT it is higher than our incremental cost of borrowing and tax. The effective tax rate that we are referring to is about 22% and the capital cost that we are having is just below 1% so the interest cost is within the existing [inaudible] bank arrangement. This does not affect our existing facilities. It's just the drawdown of the revolver. We don't need any acquisition financing for this. This is completely within our capabilities of – you know, it's self-financing, the actual deal itself. And the effective interest rates will be below one per cent.



Mikael Löfdahl

Okay. Final from me then. The natural snacks, the Parrot's part of Candyking, could you say something about how big that is?

Danko Maras

You mean in size of market share or in turnover or...?

Mikael Löfdahl

I guess both.

Danko Maras

Well in total out of the Candyking sales we talk about 5% and as you know it's complimentary to an existing product portfolio we have within the snack segment which is Nutisal. And they are really complimenting each other, both Parrot's who is a little bit of a wider snack segment offering where Nutisal is just simply nuts. You can combine these in a very exciting way we think. Also with the latest development that I talked about on the UTZ and the palm-oil free offerings within Parrot's. So this for us is tapping into strategy of, you know, consumers really liking the naturalness into their munchy moment territory and growing this area is important for us. But let's not forget where we belong. It's a complimentary strategy that's growing between 5-8% per year so in that respect we're very excited to bring this along and grow further in that segment.

Mikael Löfdahl

Okay. Well I guess that's – that was it. Just one more clarification, on – you said that it was immaterial, your part of Candyking's sales but of Candyking's offerings if you go out in the stores, I mean, how big portion of Candyking's offering includes Cloetta products? I mean, you could speak about – one way of looking at it is volumes being sold at the selling price and the other portion is of course how much of the volumes that they buy come from you.

Danko Maras

Yes. I mean, it's virtually – I was almost about to say it's zero but it – there are a few hundred tonnes out of the context of a combined tonnage of almost 50,000 tonnes so we are talking about a situation where Candyking's offering in store has a very small assortment of Cloetta products. It has a history of having declined over time. But that's also what's making this business, in bringing it together, such a beautiful combination because we can bring our Cloetta brand offerings together with the Candyking offerings and also increase the quality of the assortment into full branded product in the Candyking portfolio. So to us it is really a perfect combination of incremental volume that will be introduced.

Mikael Löfdahl

Okay. And you think your customers, I mean the retail chains and so on, they will think that this is okay? I mean, the competition authorities are one thing but do you think they want this to be more or less one actor?

Danko Maras

Well I wouldn't say there's one actor. There are multiple actors but we want to be category captains and, you know, develop concept and making the concept very attractive for the consumer and



therefore also the customer. So there's a lot of things we can do in making the whole pick-and-mix experience in a better way. And I think that is to the benefit of anyone who are into enjoying the pick-and-mix assortment today. There's no reason to assume that we want to create any obstacles. On the contrary, we want to grow this category. We want to have modest – consumers should be consuming our products with modesty but we want to increase the consumption of course in the offerings where we have them. And if you think about the total territory, perhaps not only singling out potentially Sweden, this is a great opportunity for us to expand in the Nordic region but also in the adjacent territory around UK, Poland etc. So we see that as a – you know, a really good concept development opportunity.

Mikael Löfdahl

Okay. Thanks very much.

Danko Maras

Alright.

Operator

Our next question comes from the line of Devdeep Chakraborty from Nordea Markets. Please go ahead, your line is open.

Devdeep Chakraborty

Hi, afternoon, just the one question really. Could you clarify exactly what's the payment the Candyking bondholders would receive and also the timeline on that? Because there's – yes, there's part-payment now and part later and there's instrument involved, so.

Danko Maras

Yes. Okay, I didn't catch your name but I will come to you on the question. The initial price that we will pay will be paid at closing and it's SEK 325m. We will pay it in cash to the bondholders who will then allocate that out further to those – I think there are some residual payments that need to be made in terms of net debt adjustments and so on, small details. And then the other part is in all intents and purposes a real earn-out composition, meaning that there are criteria that need to be fulfilled and if those criteria are being fulfilled in terms of achieving a certain volume assumption there will be a full payout. And assuming that volume assumption is reached, SEK 225m will be paid out to the bondholders. And that will then mean a total consideration of SEK 550m. If their volumes are less there is a linear equation that just simply calculates out what the earn-out will be and it goes down to a certain level where the payout will be zero. So an earn-out is a great instrument to de-risk I think an acquisition but it's also a great opportunity to share the composition when it goes well. We have an interest to pay full earn-out. That will be in both bondholders and ourselves will benefit tremendously from this deal and the synergy realisation will be substantial for us. So it simply is a de-risking opportunity if you choose to look at it like that but also sharing the benefits going forward.

Devdeep Chakraborty

Sure. Actually my name is Devdeep. I'm sitting with Nordea Credit Research.



Danko Maras

Okay. Hi Devdeep. Hi Devdeep.

Devdeep Chakraborty

Hi. Just to follow up on that, so basically the simple maths is that 43% is the upfront – if the deal closes 43% is the upfront recovery for the current bondholders, a little less than 43% if you have to adjust for other stuff, right? And then the ceiling is 73% if there is a full – yes, it go up all the way to the volume target. Is that correct?

Danko Maras

Yes, yes, 43%. If you are talking recovery rate which I believe that you bondholders are doing, it is 43%.

Devdeep Chakraborty

Yes.

Danko Maras

I think there's some smaller residual payment that needs to go out as well but let's approximate it to 43%.

Devdeep Chakraborty

And that's on deal closing, right? So it's contingent on the when you close the deal.

Danko Maras

Yes. Yes.

Devdeep Chakraborty

Yes.

Danko Maras

There's some smaller adjustments that will be made which is agreed with the bondholders and then a maximum payout then for – if we say SEK 550m then you're up for 73%.

Devdeep Chakraborty

73%.

Danko Maras

Yes.

Devdeep Chakraborty

Okay.

Danko Maras

So that's the potential upside.



Devdeep Chakraborty

That's the potential upside. And that's 2019, is that right? First quarter.

Danko Maras

So then based on the calculation will be the full year 2018, 31st December and then the payout will be in the first quarter 2019.

Devdeep Chakraborty

First quarter 2019. Okay. Any interest included in this calculation? Any kind of accumulated interest from the previous years and the following years when you're paying out?

Danko Maras

No.

Devdeep Chakraborty

Nothing?

Danko Maras

No.

Devdeep Chakraborty

No. Okay. And what – sorry, just to catch up, what's the instrument called? It's called a...?

Danko Maras

It's a debt instrument only. That's what we call it.

Devdeep Chakraborty

Okay. Alright. And on this net – the small residual payment, just if you have any idea how much would that be? 10%? 5%? 3%?

Danko Maras

That's difficult for me to answer because it really depends on the regular closing mechanics of the deal which sort of correlates the cash positions and working capital position and net debt. It should not be material, that's all I can say. It's just a regular residual arrangements that needs to be done. And it can move in any way. So it's better to come back to that when we know at the closing and I don't know if the bondholders will disclose something more from their part but on our part we consider this one being sort of residual part in the closing.

Devdeep Chakraborty

Okay but this has not anything to do with the advisory costs or the financing costs.

Danko Maras

No. No, nothing.



Devdeep Chakraborty

Okay, alright. Alright, thank you very much.

Danko Maras

Thank you.

Jacob Broberg

We have a couple of questions from the web here, so operator I'll take them in between. There's one from Daniel Harlid at Cicero Funds where he asks, what's your take on the fact that Candyking was purchased at a substantial lower price than if it had been acquired before the loss of the Coop contract?

Danko Maras

I have no views on that. We think that the situation as it lies forward today is of great interest for us. I'm very pleased that we have managed to find an arrangement between the owners of Candyking, the bondholders and ourselves and this is really what I'm looking at, at this point in time. And for us we're very excited to build this concept going forward. We are industrial players as you all know and we think this is a great industrial fit for us. And that has been my driving force in making this deal happen.

Jacob Broberg

We have another question from the web that actually not is related to today's deal. It's Chris Redding who's asking about what's going on in Italy and I guess it refers to our strategic review of Italy.

Danko Maras

We will come back to you on Italy as well. Perhaps you can put it in context now that we've been a little bit busy in dealing with a couple of activities. But Italy and the strategic review is also a very important priority for us and the alignment of the direction of Italy we will absolutely come back to you. A lot of good work is being done at the moment and let me come back to you on that in due time.

Jacob Broberg

Okay operator, if you have any more questions?

Operator

We have a couple of more questions in the queue. The next one comes from the line of Simon Ström from Carnegie. Please go ahead sir, your line is open.

Simon Ström

Hi, thank you very much. So just a follow-up question on how the purchase price is allocated. So if I understand you correctly, the SEK 325m less a small residual will be paid to the bondholders but does that mean that you will not pay anything for the shares or for the mezzanine loan?

Danko Maras

There will be absolutely – the mezzanine is written down, but there will be a payment to the owner of Candyking today and there has been arrangement that has been done between the bondholders and the



equity owners. So from our perspective the purchase price is SEK 325m. How they will be distributed is something that you will have a discussion with Candyking and the bondholders. But you are right, there is one portion that actually goes to the owners as well of course.

Simon

Alright, thank you. That's all from me.

Operator

We have a follow-up question registered from the line of Mikael Holm from Danske Bank. Please go ahead, sir, your line is now open.

Mikael Holm

Just a follow-up on the earnings level in Candyking. Could you say – I mean, you've given us adjusted EBIT and EBITDA. Could you say something about the gross profit, the run rate of gross profit in Candyking?

Danko Maras

Mikael, can I come back on that one because the gross profit is not the same as our gross profit, as you know? We produce, we have warehouse and distribution. It's somewhat different because they have merchandises and definitions that are not the same as we are doing. So let me come back to that and talk about that in our terms and definitions when we have a little bit of a better grip of the, let's say the Cloetta definitions. But in the meantime I'm sure there's information that you can ask with Candyking, absolutely.

Mikael Holm

And over time do you believe this segment will have different types of gross margins than you have in your other type of business?

Danko Maras

Well, important to say is that we can utilise vertical integration in our Cloetta network and therefore our concern, our Group EBIT margin – and when you look at this, the 14% is firm. When we look at individual segments and we have quite a few of them, they can vary up and down. This is what does the Cloetta total group EBIT margin – and for that I'm comfortable in our ability to deliver 14%. Even though it's – the segment itself might be a bit lower.

Mikael Holm

Okay.

Operator

And our next question is another follow-up question from the line of Devdeep Chakraborty from Nordea Markets. Please go ahead, sir, your line is open.

Devdeep Chakraborty

Yes, hi, thanks. Sorry, I think somewhere I heard that the SEK 325m payment you're talking about will be decided by Candyking how much of it goes to bondholders and what happens to the mezzanine



loan and the owner. So it's not guaranteed 43% minus the small residual debt payments will go to the bondholders.

Danko Maras

It's a little bit difficult for me to talk on behalf of the selling part. And I am sure that that information will be available on the Candyking part and the exact recovery rate etc. From our point of view the purchase price, that's what we are focusing on, will be SEK 325m. And then if the recovery rate on the initial part is 43% or 41% or whatever it might be, it's difficult for me to outline and I ask you to go to the selling part.

Devdeep Chakraborty

Alright. Thanks.

Operator

And I remind you that if you want to ask a question you will have to press 01 on your telephone keypad now. As there are no further questions registered I'll hand back the conference to the speakers.

Danko Maras

Okay, thank you very much everyone for calling in. I wish you all a nice weekend and please do not remember –

Jacob Broberg

Forget.

Danko Maras

Yes, do not forget to buy some good candy for the weekend. Have a nice weekend, thank you and goodbye.

Jacob Broberg

Goodbye everyone.