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Presentation

Jacob Broberg
Thank you. Welcome. My name is Jacob Broberg. I am Head of Investor Relations, and with me I have Danko Maras, the CFO, and Henri de Sauvage Nolting, our CEO. So, I will ask Henri to start. Please go ahead, Henri.

Henri de Sauvage

Thank you, Jacob. Good morning, everybody. Quarter two has been a transformational quarter for Cloetta. Two main events have happened. As from 28th April, we have integrated Candyking in our business, and also in our financial reports. And as you have read last week, we have also an agreement to sell our Cloetta Italy business. And therefore, we have put Cloetta Italy on one line as it's held for sale and taken it out of the rest of the P&L.

So, those two things impact the P&L for the quarter, which saw our sales improving with 15.8%, but 13.2% was coming from acquisition, and another 3.1% from ForEx. Our organic growth was -0.5%, which obviously is not where we want it to be. Operating profit adjusted amounted to a SEK 115 million; lower than last year, mainly driven by lower volumes in supply chain, and we'll come back to that later on in the presentation. Operating profit came in at SEK 90 million and profit for the period amounted to –SEK 329 million due to the write-down on the Italian business. Cash flow from operating activities amounted to SEK 117 million. And as such, we acquired Candyking on 28th April and on 6th July we signed an agreement to divest Italy.

If we then go and look at our business, we could see that in most of our markets, the Confectionery market is showing growth, most of it being value growth. Our sales though declined with 0.5%, which is not good enough. If we look at our core markets in Sweden, Finland, the Netherlands, but also our joint exports market, we were growing sales. But unfortunately, this was offset by two smaller markets in Denmark and Norway. In Denmark, we could see that our number one customer had a conflict last year with one of our biggest competitors. And that conflict was resolved and this competitor's products were back in shelf, which were bringing our sales back to more normal levels.

In Norway, we have a category and a brand issue. We can see that the Pastilles category in Norway is going down and also that our brand, Läkerol, is losing market shares in a declining category. This has to be addressed by better brand positioning and brand strength and also focussing on the core of that brand. We can see that the quarter was predominantly driven by pick-and-mix growth in many of our pick-and-mix markets. We also could see the positive news that Candyking had a positive growth quarter in Q2, which has not happened for many years. So, that was good signs of that business.

Cloetta

If we then go to the acquisition of Candyking, we have spent the last two months with the Candyking – or the former Candyking – management team, because now they are Cloetta employees, to prepare an integration plan. And our first priority on this quite volatile business with different maturity contracts is to stabilise the volume and to get volume growth. We do this by jointly focussing on the development of better concepts, and also looking at assortment. But of course, we also have to focused a lot on identifying synergies, and so far we have been able to identify a SEK 100 million for synergies which are in execution. Those synergies will come over a time period up till 2020, but most of them will come in 2018 and 2019. And already this year, we start with the first production in-source synergies, which is the majority of it.

We also have a one-off cost and capital expenditure expected to amount to around a SEK 175 million, and we will update you accordingly.

We also have a big decision in the divesture of Cloetta Italy. And Danko, who led that whole process, will take you through the impact on Cloetta of that divesture. Danko, over to you.

Danko Maras

Thank you, Henri, and good morning, everyone. You've seen the press release we've put out the last week on 6th July. In short, in terms of the numbers, enterprise value defined as SEK 450 million. There is a positive net cash effect of about SEK 415 million. Those proceeds are expected to come in Q3. We are anticipating a closing in the third quarter. We think that will work in terms of the final arrangement that needs to be made. And obviously then, that the remaining part we had of our intangibles in our books and looking at the proceeds, there is this additional impairment of SEK 365 million.

So in terms of the reporting, we've done all the restatements last week. And also, when you are looking at the numbers in this report, we are having asset held-for-sale or discontinued business. And obviously then, the comparators from last year and this year are out. So, when we talk about business performance, Italy is no longer included.

The impairment of Italy recognises a challenging business performance of the time. You know, it's been a long journey and not always easy, but I think we have eventually made the right decisions here. We are happy with the industrial player Katjes International acquiring Italy. It is good for our colleagues in Italy. There is probably a good calibration synergy both between Cloetta and Katjes, where they will find an opportunity to grow their business in the South part. So all in all, I have to say we feel that we are in a good position of finally making a decision that has led to this. And with that, I will move on into the quarter and talk about sales.

So on page six, we thought we would put in a graph because it is a very transformational quarter. We have never done this kind or size of acquisition with Candyking, but also not done a disposal of this size. So, all the restatements might confuse you a little bit. Despite all the numbers that you have there, it's a very short notice from the release we made this morning at 08.00. But if you look at it from 2016, you see that 1362 was the number. We now take out Italy, which is the discontinued business of SEK 141 million. So, the restarting position here would be 1221.

And then we add Candyking. And it's not the full quarter as Henri was alluding to it. It's only May and June that we are adding. And please remember this also when I go through the profitability in Italy where we have just put on Candyking on May and June performance. And clearly, as you have seen in the past, it hasn't been in the best of shape. So, what we need to do is obviously to start working on the in-sourcing and the synergy realisations. But what you are seeing now is just a pure consolidation of the Candyking results for May and June, and that is SEK 161 million.

And then, the Cloetta business. Excluding Italy and excluding Candyking had a slight negative of – SEK 6 million, that's the 50 basis points that Henri referred to. And we continue to have these positive effects from the retranslation of the euro continuously becoming stronger to the SEK. So, this is now the third year in a row we have this benefit on the topline. That results in 1414, meaning a total growth of 15.8%.

Now, coming into the operating profit, a couple of points that I just want to make sure that I make. There are many moving parts, of course. But now, you could see this 15.8% growth on the net sales. But then, you see a gross profit of SEK 519 million versus SEK 512 million. So in absolute profit terms, we have a contribution of SEK 7 million in this quarter. But in gross margin, you see a very significant decline of 520 basis points. It's so much that I have to say 5.2%. Those movements are significant. However, to remember now, the add-on of Candyking to the Cloetta Group results have a dilutive effect of 3.1%. And it's not only the fact that Candyking is selling at a lower margin than our Group average, it is also a consequence of the acquisition that we have to allocate something called purchase price allocation, which is the IFRS requirements on the acquisitions that we do.

The real dilutive effect that we are having by just simply adding on Candyking is 2.1%. The purchase price allocation effect in percentage terms is 1%, and that is a one-off that will go away obviously as we start working. And also, obviously as we start realising synergies this will have an effect that will improve our gross margin going forward. But this is just simply the consolidation effect of adding Candyking. But that's not all out of the 5.2%, 3.1 being Candyking. The remaining part is the real underlying issue in the quarter which relates to supply chain. And here it is production volumes in the second quarter that were quite high last year and quite low this year. And the delta between these two had at almost 2% effect on our gross margin in the quarter.

Some of that is driven by demand, but a large part of it is phasing issues also that are occurring in the specific quarter. These things might happen. You might have also read that we had a bit of an issue in one of our factories, and that also is affecting the output. But overall, I would say the disappointment that we saw in the quarter is something that we have seen coming through in the production planning, but to that effect there is also an additional effect of the Easter sale of pick & mix that did not occur in Q1. It occurred in Q2, and therefore the balancing between our packed business and our pick & mix business also had a negative mix effect. But overall, that is the 2% that I'm referring to on the gross margin. And we have to learn a little bit to work a little bit more on understanding the consequences between the pack and the pick & mix going forward. But hopefully as we are driving through the synergies, this will improve going forward. That explains gross profit contribution coming from Candyking because in absolute terms we got gross profit at a lower margin offset by the supply chain effect, still getting us plus 7 million in gross profit, with this dilutive effect in the margin.

Coming back to operating profit adjusted there, you see a decline of 41 million. If you clean out the Candyking effect, it really is bought back to the supply chain structure that we were relating to in the discussion that I just made. So if you look at the variants versus last year it comes down to the production volumes and the mix that we had. It's exactly that reason for why we had the decline.

Operating profit is 58 million negative and the difference here is simply that we have taken restructuring costs in this quarter which is 17 million higher than last year. And those restructuring costs are related to Candyking, but also to the Italian divestments where we have booked a cost in the second quarter. And if you net all of this together, the incremental increase versus last year is about 17 million. That's the only difference between the adjusted and the operating profit.

You will also see a significant increase in SG&A. And the sole reason to that is also that we are adding Candyking's merchandise just as an indirect cost structure to that. If we were to exclude it, our indirect structure itself that is actually coming down with very small numbers, but it's actually lower than last year. So even there you have this might confusing effect of adding only two months of Candyking with no comparator.
That was a lot in one go, but maybe I'll just take two more things on the P&L. We continue to have a good benefit from the financing, the refinance that we've done so you can see an 11 million benefit on the net financial items, and then profit before tax is then 71 million versus 118 last year though, 47 million difference. And then we have to add in the end the discontinued business, and that is the net number of the results and impairment that we've done with Italy at 372 million meaning that the results for the period will then be negative 329.

Okay and then I move on, and I'll not spend more time on the changes in net sales. You can see there is a negative organic growth 13.2% Candyking. There is nothing else. It's Candyking and then 3.1 is the ForEx; that gives you the total.

On the cash flow, which is a positive, if you look at it we're actually better than last year: 117 million. The composition of this is obviously as we are doing a lower EBIT or EBITDA, that's the drain and the cash flow generation in the quarter, but on the other hand very positive development in the working capital movement. So if you compare those two between each other it's a 60-70 million difference between the last year and this year. So they are in practice offsetting each other on the individual lines and the total 117 million versus 114 is a good delivery in the quarter. No particular issues on CapEx. Obviously, we are paying now for the Candyking acquisition. That's the 244 you're seeing there.

And with that I'll stop on the cash flow part and I go down to the financial leverage. So what you are seeing now is a little uptick, and obviously in the quarter we paid dividend of plus 200 million. We also have acquired Candyking, and but we also generated some cash so the net debt EBITDA level that you see now has gone up to 2,77, which is still below last year's quarter, and please keep in mind that we will have proceeds of cash coming in, in the third quarter, and that I can give you as a forward-looking statement because that's for sure if the deal is closing. And that will take us down to a net debt EBITDA level, which is very close to the pre-dividend pre-acquisition levels.

And with that I just want to make a little short acknowledgement to the team in finance who have been able to do the acquisition account for the disposal and put the consolidation together under such a short time, so thank you for the great job you've done.

And now over to you again Henri

Henri de Sauvage

Yes, so under the last two months the group management has been working hard to develop a strategy into execution modus to underpin our financial targets. And it's a longer-term strategy with eight components which are important for this year and for next year. And I thought I'll take you through the highlights because they are important to get us back to organic growth. So the first one is the Candyking integration with main activities to develop the concept and assortment even more to be the most attractive concept for both shoppers and customers. There's also a lot of people and organisation work going on, and of course we now have to realise the identified synergies.

The second part is the Lean 2020, which is our programme to drive efficiencies in our factories. Of course, we have four factories less after the closing of Italy. We want to increase the efficiency in order to create space or capacity for the insourcing of the Candyking volumes.

The third block is to grow the core. It's very obvious that we have some very strong brands in our core markets, but that the brands need to be strengthened and also that there are some issues in competitiveness in certain categories in certain countries so to restore competitiveness and to strengthen the brands in the core is utmost important to get organic growth. In order to fund some of these restorations of competitiveness, we have started a programme or a cost savings initiative to fund this growth. And this is both SG&A cost looking at factory indirect and the most effective way to organise ourselves.

The fifth block is that we have identified a small number of brands where we think we have a repetitive model to bring them into international markets through distributors. And that is the interesting margin. It's also interesting growth levels in those markets, so we'll expand some international hubs to bring those brands into the international markets.

Then the six points are integrated category and brand plans. And group management has seen that we are working too much on a local for local business ways in our markets, and we've decided that we will go for integrated brand and category plans across the markets, and also more aligned with the global category plans we have. This will unleash the synergies of growth markets, and also with global, by working much more in common platforms I'll show you one on the next slide, but also more common media developments, more efficiency in media buying and also more common innovations across the markets.

And the seventh bullet is that Cloetta has made a fantastic journey in digitalisation of the media. We want to step this up even further because we can see the effect of that, and we have decided to establish a small central team to become really better in the e-commerce area and that is e-commerce both in business to consumer, but also business to business very important for the future.

And then last but not least, of course, there's a sugar debate going on in the society. On the one hand we have many consumers who love our brands and our products and we also are really proud of the products we are selling, but we think it is also our obligation to offer consumers choice. So we will – next to our fantastic current products, we will develop also a choice for consumers who want to have either lower sugar or no sugar at all in these products in order to remain competitiveness in the – competitive in the markets.

If we now go forward on the focus, the focus still is the organic growth which should be underpinned to drive our strategic priority. So those eight strategic priorities executed well should bring our organic growth to levels where we wanted to be, so that is priority number one.

Of course, we have an agreement with Katjes International, but we now need to work on all the practicalities of the closure of the divestment of Cloetta, Italy which is a big piece of work. The third one is to really step up the integration of Candyking both in growing the business, bring the organisations together, but not least also to start working on the implementation of the identified synergies. And last but not least, focus on cost and gross margin improvement in order to create the space for us to grow.

So these are the four areas for the next quarter. And if we look at this quarter and at the product launches, there are a few things I would like to pick up. I mean one is Grillbilar. I think a very entrepreneurial idea. Bilar is one of the most liked candies in Sweden and the Swedes also like to Grill. And Grillbilar is a product which you can actually use when you have grilled your dinner to bring basically this product into a different consumer occasion, which I think is a very good example. Another one would be the Kick Bites from Norway. Kicks is a famous product. It's a stick, and we brought it now into smaller bites which is giving us a lot of success. And the last one I would like to highlight is Crazy Face which is the product portfolio on the right bottom hand. That is the one of the first times that we are actually developing a platform across our markets, across different brands and with one product range, but also with one activation idea, with one media campaign through Snapchat with only one agency developing that and also executing this in the same way across those markets. And it's a product very much in tune with teenagers who like to have more sour-y products.

So with having said that, we go to the Q&A session and we can ask the operator to open up for questions.

Q&A

Operator

Thank you. Ladies and gentlemen, if you do wish to ask a question, please press 01 on your telephone keypad. If you want to withdraw the question again, please press 02 to cancel. Once again, that's 01 on your telephone keypad. We'll have a brief pause while questions are being registered.

We have our first question from the line of Mikael Holm from Danske Bank. Please go ahead. Your line is now open.

Mikael Holm

Yes hello. Yes, first of all a question on Candyking. You mentioned the impact on the gross margin, but I missed what was the impact on the adjusted EBIT levels on Candyking if you look at it from a year-over-year perspective? That's the first question.

The second question is more of related to the financial targets. You have an operating margin adjusted over 12.1 now. If you look at the latest 12 months, you basically indicate a margin on Candyking of slightly below that. So what should – add those extra 2% up to the financial targets roughly 100 million of EBIT, what would that come from? So that's my two quick questions.

Danko Maras

Okay good morning Mikael. On your first question, I think I understood it, but let's make sure that I got your questions right. The impact on gross margin from Candyking by adding May and June is a dilutive effect on a group level of 2.1%. So simply adding those two months with the gross margin from Candyking results in a diluted effect of 2.1%. But that's not all. That's another 1% that comes to the dilution effect because of the acquisition booking we have to do on the purchase price allocation and that will go away again.

And that's obviously also something which I was alluding to before, which is addressing your second question. We just simply consolidated Candyking. We have not created any benefits yet in our consolidation. We are preparing for an integration that will drive synergies across the time period we alluded to. So simply consolidating Candyking this particular quarter is also – and I don't – we have disclosed – I don't think we have disclosed it, but it's not making any profit, as you know from before. It's a very slight decline of a few million and obviously that's not we were had in mind in the acquisition in case when we did the calculation. So the contribution of the synergies from the insourcing and the overhead of 100 million that we are indicating now as a preliminary identified synergy, that will contribute to the overall gross margin so that the acquisition per increment will drive the 14% EBIT margin for the total group.

It is not Candyking that is causing a bit of an issue in our EBIT margin currently. It's the rest of the business which is causing the issue. So we stand firm on the 14% EBIT contribution coming from the Candyking acquisition in all. And then obviously we have to address that the impact on EBIT margin we've had compared to last year where we have had a slight erosion because of the issues we talked about on production and the topline. Did I address that well enough for you Mikael?

Mikael Holm

Yeah thanks. That's fair enough. Thank you for that. Could I just also do a follow-up then on this insourcing of production in Candyking? How has the suppliers of Candyking reacted to this? I mean, is there any short-term risk of them raising prices ahead of – of though the products you buy from them being insourced? Is that a short term risk for you?

Henri de Sauvage Nolting

Well the first the first thing to say is that we are developing a strategy for the insourcing which puts the consumer and therefore also the customer at the heart of this decision. So we're not bluntly going to insource everything which we can because we want to keep an attractive assortment for the shoppers and the consumers out there in the market. Yeah, so that is the first and foremost importance. This is driving then the insourcing programme which takes into account that there are certain suppliers who will play a strategic role for the combined business going forward, and some other suppliers who are more, let's say, tactical-based also in the old Candyking world who have – who are interested to keep supplying us as long as we can. So, so far we have not seen any suppliers reacting in a negative way. It's actually more the other way around that suppliers are reaching out to us and trying to see if they can become a strategic supplier to the joint business of Cloetta and Candyking, and this is all being taken into the strategic sourcing plan which we are developing or already have developed to quite a large extent.

Mikael Holm

Okay thank you.

Cloetta

Operator

The next question comes the line of Mikael Löfdahl from Carnegie. Please go ahead. Your line is now open.

Mikael Löfdahl

Yes hi. First of all, follow up on the former question. Could we get a number on the EBIT level for Candyking? How much they contributed or hampered the earnings and EBIT margin in the quarter?

Danko Maras

Yeah, it's between – I can give you a range: between -5 to 10 million.

Mikael Löfdahl

-5 to -10 or -5 to +10?

Danko Maras

I wish. -5 to -10. So they came in with a negative EBIT result so that of course we have to address, but it is in that range. And I want to be saying that range because it is important for us not to give you a fixed number given the way they do the accounting and the way we do the accounting, there's a little bit of discussions. But that range is absolutely comfortable to use in your calculation.

Mikael Löfdahl

Okay, and coming back then to accounting, first of all you mentioned PPA, but is there PPA in the cost of goods sold here so that hampers also the gross profit contribution? Shouldn't that be below?

Danko Maras

Yeah, that's the way it apparently works. And I have to rely on two auditing firms, but I've also experienced that in prior acquisitions. What you have to do when you do an acquisition is to value your inventory at a fair market value, and to me that is in a normal operation you have it at cost of goods value. But when you sell the product you have a sales value. And that difference is what we have done. You value your inventory at sales value, so you pick up the margin of course and that is booked in cost of goods sold as well. So you have this diluted effect of the purchase priced allocation where all new inventory is now acquired at sales value according to the accounting, and that's why you have this effect in the cost of goods sold.

Mikael Löfdahl

Okay, and that number will not appear anywhere else. So it will be in the cost of goods sold. You won't specify that in our taxations or anything else.

Danko Maras

It's a bit that still – perhaps in a later stage. But when I look at it now there is a gross profit contribution from Candyking, as I mentioned before, which is offset by this purchase price allocation. And the net number is the contribution on our growth profit now, and it is considerably less than the gross profit contribution we got from Candyking, that I can say, but it is a 1% on the gross margin overall. And that's as far as I would go this time.

Mikael Löfdahl

How long will that remain as the straight line amortisation of those PPAs or?

Danko Maras

No, this is the way you booked the total value of the acquisition price we paid. As you recall, we acquired Candyking at 325 and now we've done the final adjustment. It is a one-time impact only in Q2, so that disappears immediate. It is just how you distribute the values. And when we go into Q3, you will have the true underlying gross margin from Candyking for three months. And if we haven't done any synergies until then that's the true reflection of the dilutive effect of Candyking margin to the overall growth.

Mikael Löfdahl

And there won't be any other amortisation of acquisition-related intangibles, other PPA-related amortisations going forward?

Danko Maras

That's a good question. A very small part will come into the A of EBIT – EBITDA which is the customer contracts that we have also allocated a certain value on. It is very marginal, a couple of million 3, 4, 5 million around that range. But we have to get accustom with that now we didn't have any A in our EBITDA previously. And that's why we always talked about EBIT, but a very small part that should not affect your models significantly.

Mikael Löfdahl

So we're talking of 3 to 4 million annually?

Danko Maras
Per quarter.

Mikael Löfdahl
Okay thanks. And when you look at the accounting and the gross margins, and the gross margins that one could see from Candyking's old calculations standalone, is are those numbers not comparable to how they end up in your accounts now?

Danko Maras
I want to validate that. And even if it's only two months, we've done a major task, as I mentioned to you, to secure that the definitions are exactly the same between Cloetta and Candyking. I would say we are 95% there, but that might be something happening in the classification of things. The net sales is defined in a certain way, but you have gross sales or you might have merchandising costs in overheads and not in the cost of goods. All of that we have sorted out then you should feel that the big picture is correct, but I need to have a little Safe Harbour statement on the ultimate definition. Then it might change a little bit, but I – my anticipation is that we are basically done.

Mikael Löfdahl
Okay. Then also follow-up on the 14% margin target. That target you stood by when you announced the acquisition of Candyking, but that was also when you were supposed to continue owning Italy even though you were entering into a divestment phase. Now that you have divested Italy, given that Italy has much lower margins than the group, one could argue that the 14% should be higher.

Danko Maras
I think that's a very logical point and may be a good point. And I think you have seen when we did the restatement that last year's EBIT margin was 13.7% excluding Italy. And that's coming back to the same point that we are saying that I said before about the contribution from Candyking is also an effort. We need to insource. We need to create the synergy, and that in itself is an effort that we will embark upon and make sure that that happens so that the share of the contribution from Candyking reaches the 14% for the overall group. But the 13.7% last year has been diluted by performance issues this year, and that we need to get back to. And it's not something that you just press the switch on. You just have to make sure you get back to that. At the same time you have to realise the synergies with Candyking.

And overall, gross profit will be higher if you think about it, the discontinuation of Italy in turnover is lower than the add-on on Candyking. And if we get all of this right we both will get a good margin, but also a higher gross profit at the end of this journey. But it's not that easy to just press the button and say let's go up to 60 and let's just first make sure we do 40.

Mikael Löfdahl
Okay. One more on this, on the synergies, or rather the integration costs and investments, you're mentioning 175 million. Could we get a split of that how much we will be restructuring charges going into the P&L and how much, because I guess part of that is also CapEx?

Danko Maras
Yeah, and we're a bit careful here, but we will take 40-60 at this point. So that – that's the reference point on what hits the P&L is about the 40 and then 60 on the investments, but it's a bit too early to be hard fact on the exact number at this point. It's a little bit depending, but use that reference point for now.

Mikael Löfdahl
Okay, and then to follow-up on Italy, how much were – what kind of CapEx need was there for the Italian business from an annual basis?

Danko Maras
It's in line with our 3% that we do on turnover also in Italy. So obviously you take out the turnover, you take out the CapEx, so we're still at the same place. But some of the metrics, and you will see that going forward when we take out Italy; it's a completely different asset base. So our working capital will significantly improve as a percent of [inaudible] because the working capital was disproportionately high in Italy compared to our group level. Our return metrics will also obviously improve, but all of that is because of the disposal. We then need to take that restatement to make that better, of course, but I won't say that there's more Capex again because we have now taken out Italy. We still have to invest in racks in Candyking and things like that.

Mikael Löfdahl
Okay, and could you get – could we get a guidance on the tax rate for the group as you see it going forward now excluding Italy, but including Candyking?

Danko Maras
Yeah, that's also an interesting point. We have a horrendous tax rate in this quarter as you've seen, over 30%, but that's because of non-tax deductibles related to the acquisition and the disposal. So that's the primary reason for why you see it being high. But it is conceivable now that part of the

international rate differences that we had and non-tax allowable expenses, they were in Italy. And going forward we will be more homogeneous in our region around somewhere around 24%. And in Sweden, we are 22%; we are lowering it. We are finding a competing environment in the operations where we are, but for now will use still the 24% as a guiding principle, and we will keep working it down as much as we can.

Mikael Löfdahl
Okay, final question for me. Given the pick & mix and that business you've grown quite large now. What, have you received any thoughts or anything from your customers, primarily then in Sweden where you are becoming a very large market leader? Anyone arguing that you have become too large is the risk for contract losses perhaps? And secondly on the same subject, the Coop contract that you did win from Candyking. I guess that is up for renegotiation. Now could you get a timing on that and your hopes on that?

Henri de Sauvage Nolting
So the first thing I think, not only on Sweden, but in all the markets where we are working, I mean it starts with having the most attractive concept and assortment for shoppers, because if the shoppers are happy and rewarding the concept with more sales, you can also see that customers are reacting by wanting to work with us. So that is the number one priority, and also therefore we are reaching out. We have reached out to customers in all markets to show what kind of concept development we're doing which kind of new ideas do we have, and the way this works is that you try to manage the category together with customers. And that is something we have been doing in all markets and that will, I think, puts us in a good position to keep building on that business.

If we look at the Coop contract specifically, Coop has indicated they want to have more impact and more influence in that business. That is also something they've stated publicly, which could well mean that there is going to be a different way of working for Coop, but of course with Candyking Cloetta being an important supplier with a lot of knowledge at their different models going forward with Coop, or we might see Coop taking more responsibility in managing the pick & mix category together with Cloetta. But I don't want to say much more on that right now because that is also a customer who makes their own decisions and competitors who are also listening in of course on what we are commenting.

Mikael Löfdahl
Okay thanks. Thanks from me.

Jacob Broberg
I have a question from the web here from Jose Berros from Financiere de l'echiquier, and he asks about organic growth. That is obviously disappointing, and what are the big picture level explanation why growth is so low? Is it market issues, internal issues, competition pressure, sugar debate and so on that he would like us to elaborate on, Henri?

Henri de Sauvage Nolting
Yes. No, I don't think the sugar debate is an issue. I actually see it more as an opportunity. Everybody all – or everybody – all consumers know that sugar is part of our product, so we're very open and transparent about that. And we already have quite a nice part of the portfolio being sugar free, and we're launching sugar free and lower sugar products. So that is not the issue. It's quite specific to certain market, to certain categories. So we can see across Cloetta that we are being challenged, that the pastilles category is being challenged. Of course we are so big in pastilles. We need to turn that

around coming from multiple sectors like self-scanning in the supermarkets or less people going into a petrol station with the payment being done at the petrol pump or electric cars.

Now those are just understandings of consumer behaviour. We need to then build plans which we're doing on how to meet those consumers in other channels, and we are having success in finding new channels for this kind of pastille products. And there are also some competitive issues where our brand strength is not strong enough, and we have a lot of brands with certain big brands in one of our core markets need sharper definition and more support. That's why we also started the big programme to look at our media spend, and how we can move from towards more working media spend. And that's more or less it, together with the eight priorities, strategic priorities, I've talked about, which should be enough to address these organic growth levels we have been seeing right now.

Henri de Sauvage Nolting
Over to you operator?

Operator
As a reminder, if you wish to ask a question, please press 01 on your telephone keypad. We'll have a further pause while questions are being registered.

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

Mikael Holm
Hello again. I have a question on the price on the Italian business. I mean you got 450 million for a business that generated 63 million of the EBIT last year. I mean it's a multiple of seven times. That's almost half the level I mean Cloetta has been trading at yourself. I mean do you really see this transaction adding shareholder value?

Danko Maras
It's a perspective of where you are coming from Mikael. We have to look at it from the past history and also where could we take the Italian business going forward. And sometimes you find – as I said before, you find synergies in calibrating your focus. And I think both the buyer and the seller are happy because of their ability to calibrate their focus in a better way. So if you take at one point in time, you're absolutely right. It's traded at a multiple which is lower than the Cloetta Group. But if you look from the past and also what could be done going forward, I'm actually not unhappy with where we ended up. Both the seller and the buyer are pretty unhappy with the price, and that probably means that it's a good price.

Henri de Sauvage Nolting
And maybe to add on that, I mean we have done the strategic review and we've also looked at the business performance and the EBIT development over the last couple of years, and I think it's no surprise to say that the Italian market is not an easy market, and then the out of home markets are also at the supermarket channels there had been a steady decline in consumption not only for Cloetta, but in general which is putting a lot of pressure on that whole wholesale model. And then next to that we have four factories in Italy where we're not fully utilising those factories, with all the associated inefficiencies and issues with that. So I think it's not the right calculation I would say to look at Cloetta Group and take that multiple to define the value of Italy. We would have had – as an alternative, had to invest significantly to keep those kind of EBIT levels.

Mikael Holm

Because I read something on – I think it was like Mergermarket – that there were plans implemented for the Italian business actually improved earnings this year, but wasn't that correct?

Danko Maras
I don't comment on what you're reading in the newspapers, but just like Henri was saying, underutilised factories can now be completely approached in a different way with a new buyer. And essentially what we're doing in our strategy of manufacturing, we have eight remaining factories going forward. And if we utilise them in the right way you get that leverage on profitability that we are seeking, and rather than having a forced decision to do certain things with factories. They will now continue or the buyer will have to decide what to do with those factories. We don't have any significant investments we have to do in that area. We have to focus on our eight factories and make sure that they run smoothly.

Mikael Holm
Okay thanks.

Jacob Broberg
So I think we need to conclude with that, unless there are no other questions. I would like to say thank you very much on behalf of Cloetta for this Q2, and speak to you next time. Thank you and goodbye.