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Presentation

Jacob Broberg
Good morning and welcome to the Cloetta conference call. Jacob Broberg, Head of Investor Relations here. Actually my 25th quarterly report from Cloetta and with me today, I have Danko Maras, our CFO and also Henri de Sauvage-Nolting, our CEO. Now, please go ahead Henri.

Henri de Sauvage-Nolting
Yes, thank you Jacob. So quarter one, important quarter for us. We had a good EBIT delivery and also very good Easter sales, if you look at the net sales, we of course see the Candyking effect which takes us up to just over 1.5 billion SEK. Organic growth was 1.1% coming from Easter effect with also very good performance in the packed business which is less affected by Easter. If we then look at the operating profit adjusted 164 SEK, again, a good mix, good sales from the packed business which is delivering above average profit. Synergies coming in, production volumes back on track and also good cost control. That leaves us with the operating profit on 166 and the profit for the period of 95 million. Then cash flow important, Danko will explain more in detail, but Italy is still in the comparator of last year and of course the Easter sales in the last two weeks of the quarter also mean that we sold a lot and that have to be collected. Net debt EBITDA target is in line.

If we then go to the markets and the sales, as already said good growth of the branded packed business. If we start with the packaged confectionary market, so again important to say that is where we have market share figures measured by Nielsen. We don’t have that on Pick & Mix. So, the packaged confectionary market was growing or was unchanged in all markets, except Denmark. And we saw our sales across the board growing if we look at the few highlights, I mean Sweden, we of course saw the Easter effect and also the packed business did really well in Finland, the packed business grew and we were able to compensate also for the very strong first quarter of last year with the abolition of the confectionery tax as from the 1st of January. In Denmark, we are back in that customer where we had some issues last year. Of course, that helps us and then we have Norway, where there is a sugar tax as from the 1st of January, which is impacting the business, I will come back to that later.

So, we also said that from this year, we would start to report the two - I would call divisions, separately on sales. So the branded packed business actually grew with 2.4%, very important for our EBIT again and Pick & Mix went down with 3.3%. That's mainly Norway and what has happened over there is not only the sugar tax, because of the sugar tax introduction, a big discussion topic across categories and all retailers decided that during the Easter period, they did not do price promotions on Pick & Mix. And that's a very important part of the Pick & Mix business, on not having those price promotions has really impacted us quite heavily. And we also have it strong compared to the last year again in Finland and we also of course had to cope with the Coop business going out in the first quarter. That is actually now completely gone, so the Cloetta concept sales to Coop is gone, we are still delivering our branded products to Coop for their own assortment.

Then Candyking, as previously said, very important for us, a lot of value creation coming from that if we do that well. Overall, integration is in line with the plan. Our Cloetta ERP system is going into the Candyking business during quarter 2, so a lot of work on that and of course if we have that implemented, then also back office functions are easier to integrate, so very important step and then we will do the UK, which is then another big Candyking market later in the year. Depending on the markets, we are either fully integrated or are just on the combined leadership, but sales and merchandizing integration is done. Insourcing of all the production is on plan. And also, with the Turnhout line coming on stream now we are getting more capacity to do that. Then on the 1st of April, we appointed a very good Cloetta employee as the new Pick & Mix officer in order to really leverage the scale and the learnings across all the Pick & Mix markets we now have. Which is an important step to reach that, particularly in growth but also in cost synergies. And the identified savings of a 100 million are still standing firm and we are following up on that quite regularly. Danko, over to you.

Danko Maras
Thank you very much, Henri. And good morning everyone. If we go into Page 5 and we look at the income statement on highlights, if I leave sales for second and enter into the profit immediately, you can see gross profit of 560 million in the quarter. It is 106 million more than last year. That's a nice contribution. About two-thirds of that is actually the inclusion of the Candyking business. So, a good contribution in gross profit from Candyking, but also as Henri was alluding to a good production, good sales of tax, giving us a good mix. So really, a good quarter in the total delivery of the gross profit.
It comes back to the same discussion we have had before if we look at the gross margin. There is still a dilution of 1.3%. Had we only had Candyking in there, it would be twice as big. So, the dilution effect from Candyking is still quite high, but we are actually offsetting it in this quarter with good production in the packed business that is going so well. And moving down to operating profit adjusted, there is a 50 million contribution versus last year, the 164 million and that's coming down to the fact that we are including the merchandizing cost of Candyking in the business model. That is of course costing us a bit more and taking away part of the gross profit. Now, again, offset by good cost control in the quarter and also some Candyking synergies, so even there a good contribution on the operating profit adjusted.

A little anomaly is that our operating profit is actually higher than the adjusted one and that relates to an earn-out adjustment we have done on the Candyking and Pick & Mix volumes that will be paid out by the end of December this year. It is a slight adjustment, not a major one, but that actually has a credit effect in the income statement. So for this quarter, we have approximately 6 million of restructuring only, very small restructuring charge, but an offset of a credit of 8 million being the earn-out release. Nice to see the operating profit margin adjusted being at double-digit, 10.5% versus last year's 9.3%.

The net financial items have impact of a revaluation, the negative 42 million versus 11 last year. Our third-party interest costs is 8 million so it is below last year, but we have monetary assets that are not included in our hedge accounting principles and a lot of negative Euro balances had to be revalued at 10.28%, which was the closing rate. So, you have a 22 million impact of revaluation of cash balances in Euros that comes and goes as you know, it is unrealized throughout the period as we are revaluing them. On the other hand, 63 million of revaluations are captured in other comprehensive income, which is then also a part of our hedge accounting. So, the total effect we had in the quarter of 85 million, you will see 22 million in the income statement. Profit before tax is 124 million and then profit for the period is 95 million. Meaning we have a tax charge of approximately 23.4%, which is equal to what we had last year and also in line with what we had indicated as our focal tax rate target.

With that, moving into sales on Page 6. As Henri was mentioning, good organic growth of 1.1%. Also, having an Easter impact of course and then Candyking 24.5%. I would like to just inform you that as of Q2, you will from May onwards have organic growth in Candyking. That is the time when we acquired Candyking, so you won't have this high digit numbers in the quarters to come. So, be prepared for the like for like comparative that is coming now in Q2. The Euro continues, as you can see in all of you being very strong and 2.2% contribution of top line is coming from a strong Euro.

Now, just finishing off with cash flow on Page 7. Very strong contribution from operating activities under 90 million. Lesser impact on interest in tax is contributing also to the EBIT, so a very nice delivery from our income statement. However, on the working capital movements, there is a 300 million kronor swing and two key parts to highlight here. We have not restated the Italian cash flow. That is not what we do with discontinued items. Therefore, you have a comparator of Italy, where they traditionally collect all their cash from the seasonal sales in the fourth quarter the year before and that is approximately half of the total impact, a little bit more than half of the total impact. On the other hand, Italy was also not cash generating in other quarters. So, when we look at it in total effect it is relatively minor. It is more to learn that we will have this impact going forward, that there will be no significant cash flow impact from Italy in the go forward statements for Q1.

The other part is also the timing of the Easter that has given us good sales, but then also what you see is receivables going up significantly because of this very late sales pattern coming in from these Easter period and that is essentially the other part of that negative 300 million. And the good news for that is on from a cash point of view, that is all going to be collected. We have good payment disciplines in the Northwest and European region as you know. So, I feel very confident that this imbalance will come through in the second quarter and going forward and that is the key issue for the quarter on the cash flow. With that, I will give the word back to Henri.

Henri de Sauvage Nolting
Yeah, so what is the focus in general of course getting the business right in all the markets whilst we are integrating Candyking. But if you look at the four big things, it is of course growing the base, grow the base business, making stronger where we are already strong. Very important because we have quite an effect from the lost Coop contract which we need to mitigate and now on top of that, this consumer impact on the sugar tax introduction in Norway. So, we need to compensate that with growth in our base business. So, very important. And the second one is the cost and the gross margin improvement. Cost coming both from synergies but also good cost control on the existing business and gross margin, both through supply chain and portfolio. And why it is so important, well we have the Swedish kronor really weakening fast. We have methods to do a price increase but there is already a lag, so we need to compensate that partly with the cost and gross margin improvement action. The third one is in the Candyking integration as already said. It is a big goal in quarter 2 on the ERP system, but it is also something we are really looking forward to because it will give us much more insight into the combined business and make our life also easier to steer the combined Pick & Mix business. And then, last but not least, we have the new line in Turnhout coming in operation over the last week. It is running, although it is still in commissioning phase meaning that we were trial running. But everything is working, and we are ramping up the production during the quarter 2, which will also then give us the space and capacity, particularly in the moulding network to go to the next phase on the insourcing. Be it Candyking, be it third party or be it some holdings, we are still having in our previous Italian business. So, those are the four areas.

Then like what we did last time, a little bit every time and an update on one of the strategic pillars we are working on. And today, we chose The Jelly Bean Factory, however, moving on to make it a real truly global brand. So, we have put quite some effort into redesign the packaging and the brand promise all to make it look more premium, which again is quite important in a mix to sell more premium products, in particular when we go into new markets. Also, a very good piece of work is what we call a brand book. Which basically describes how does the brand stand in front of consumers, how do you introduce it, and on what kind of price levels do we want to do it at. So, when we go to distribute this in new countries that we have like a play book, a repeatable model on how to get into those markets and start to earn money from this fantastic brand.

And we are also really now with international markets leveraging our presence by introducing The Jelly Bean and combining businesses. And last, but not least, travel retail which is all the airports, a fantastic program, because quite often that is where we want to start introducing the brand into a market, again premium price and lots of visibility. Which we can show you on the next page. You see Budapest airport, so it is not a market where we are present. But travel retail are quite often big groups, so are running quite some airports along many geographies. And you can see for example over here with one of the companies we do a big activation across all their sites with The Jelly Bean that really sticks out. Another big thing we are finding out and really attractive is this whole notion of gifting. Of course, travel retail is quite often gifting, but there are other platforms like e-commerce where are gifting is more and more important and The Jelly Bean is one of these brands, which really fit well with gifting. And again, when we are talking about gifting, people are less price sensitive so again good for margin going forward.

And then, last but not least, of course is our purpose. This is what we do, day in and day out, so we have very nice jobs you could say. We are selling highly regarded brands to consumers to satisfy their munchy moments that is in the end all there is. How do we convince more consumers to buy our brands when they are standing in front of the shelves? That is what this business takes on and will make this business successful in the future. Jacob?

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

Q&A

Operator
Ladies and gentlemen, if you wish to ask a question, please press 01 on your telephone keypad. Please hold until we have the first question. Ladies and gentlemen, I remind you that if you wish to ask a question, you will have to press 01 on your telephone keypad.

Jacob Broberg
Oops, not a single question? Okay. With that then, I would like to say thank you from –

Operator
Yeah, sorry. We have our first question from Niklas Fhärm. Sir, please go ahead.

Niklas Fhärm
Thank you. I have been pressing like a lunatic. Good morning everybody.

Henri de Sauvage Nolting
Good morning.

Niklas Fhärm
So I basically, I have three plus detailed questions. Let's start with those and see if there is someone else trying to get in. My first question is now you had the kindness of reporting Candyking's sales contribution for the full year since the time of acquisition at slightly north of 1 billion Swedish kroner. Now, could you just help me sort out because in the previous set of results, the quarterly results, you have also guided us to pro forma sales contribution from Candyking. Would it be fair to just take the balance and say that Candyking contributed with 398 million as it happens in Q1 sales this year please?

Henri de Sauvage Nolting
First of all, good morning Niklas, I think if I understood your question right, then you want to know the contribution of the sales from Candyking out of the total sales of 1.562. Is that correct?

Niklas Fhärm
Q1.

Henri de Sauvage Nolting
Yeah, we don't disclose that number. But you can see from the growth that we are referring, you will see what the packed growth will be and what the Pick & Mix growth will be. And that's the definition that we actually think that we want to do going forward, giving you a good idea about the concept of the business models where you have the packed business being and somewhat different to the support structure for our Pick & Mix business. So, we find it very relevant to talk about Pick & Mix as a concept and therefore, you will see more of that. And obviously, in the information that we will give, we will also highlight specifics from our Pick & Mix and Candyking, but other than that, we did not intend to do.

Danko Maras
And I think to add on that, it also becomes more and more integrated where you know what I understand is the old Cloetta Pick & Mix business, what is the old Candyking business. And of course - so up till now, we can still see that through the Candyking ERP system, but that is from the 1st of May that will be even getting more close. So, I think it was better looking at the performance of both the Pick & Mix and not try to split out the Candyking contribution right now.

Niklas Fhärm
Sure. In a slightly different way, I respect that of course. According to my estimates, at least, it could be that Candyking has had a very good quarterly contribution this time around. Would you consider this quarter above in line or below your own expectations when it comes to Candyking sales in Q1 this year?

Henri de Sauvage Nolting
I mean if we – I have tried to allude to a little bit on the performance that gave to the different markets. So of course, in Sweden we saw good Candyking progress, a lot of course driven by Easter but also the customers we took – smaller customers we took last year, which we already talked about. But of course, Norway is a big market for Candyking and we don't disclose individual figures, but not having any promotions during Easter is a big negative hit we took over there. And then last but not least of course also the Finnish Candyking business. Last year, the sugar tax was abolished on the 1st of January. So, we saw a big uplift both in the Cloetta Pick & Mix concept, but also in the Candyking Pick & Mix concept and that uplift wasn't there, so it was more a normal year. So, you could say those three markets had a little bit of a mixed bag and then Denmark continued to let's say perform in line with last year. So, you cannot take that conclusion like that.

Niklas Fhärm
I hear you. So, would it be fair to say then that the Easter impact on the 1.1% organic growth rate recorded in this quarter has actually been slightly of less importance because of those reasons that you just mentioned Henri?

Henri de Sauvage Nolting
No, it is quite important, I mean in Sweden we still have a big Pick & Mix business. That of the combined Pick & Mix business in Sweden is of course also the biggest market, so Easter increase has a big impact. And as you know that the Coop concept was being scaled down during quarter one and it is now completely Coop as such of what that was an effect, we had to let's say compensate in Sweden.

And then again, depending on the market, Easter is more or less important. So, in Sweden and Norway, yes, Easter is very important. If we look at Denmark and Finland, Easter is less important. But of course, given the size of Sweden and also the size of the Pick & Mix business in Norway, that has a big effect.

Niklas Fhärm
And on that topic, you said previously or last year, that you expected the lost volumes from this particular contract in the order of 130 to 150 million and I think maybe you said slightly below that more lately. Would you care to give us some update on what sales you actually lost in Q1 with these all?

Henri de Sauvage Nolting
That's still the estimate holds. Of course, there's a lot of factors in there. We are happy with the cooperation on the Pick & Mix concept of that customer and the service we can deliver over there with our strong brands. But then of course there is a lot of other factors, how with this new concept that customer is going to perform in the market, how is that customer performing in the market and how is the market developing in general? And these are all uncertain factors after one quarter. So, we will have to see. And we are focusing on the concept, which are driven by Cloetta.

Niklas Fhärm
Okay. Would it be still fair to assume that the impact in Q1 was slightly less than sort of the annual run rate that we are talking about?

Henri de Sauvage Nolting
Yes, because we were – Coop started in December and it took them like the first quarter to wind down store after store, but at the end of Q1, it was completely done. So, you have an effect of that in Q1.

Niklas Fhärm
Perfect. And I said three questions, but I am going to take four while I am on the line please. Could you just give us some overview or an update on the Lean 2020 Program please?

Henri de Sauvage Nolting
Yes, so of course and we got the fire issue last year in the Turnhout factory, we have been focusing then a lot on mitigating that by stretching ourselves to full production on the already existing lines in the network. It is I think fair to say, that that had turned a little but over in effect also on the progress in the Lean 2020 journey, because then there’s very little spec capacity to make improvements on the line. But also, not with the new president operations, we’re now really taking lean to the shop floors. I mean all the tools are there, all the management is trained, the middle management is trained, and we can see very good progress in the plants where we are able to spend a little bit more time due to capacity on the Lean 2020 journey. Again, I was very impressed in the Belgium Turnhout factory, to see operators, quality people, engineers, really showing in the lean way how they had been working with presented of maintenance, or quality standards on the new line. So, it is a cultural change, and as always with a cultural change, that will take time. But we are progressing well, and of course we use the capacity now to ensure more product from the Candyking business.

Niklas Fhärm
Alright, thank you so much for taking all these questions.

Henri de Sauvage Nolting
You’re welcome.

Operator
Thank you. The next question comes from Mikael Holm. Sir, please go ahead.

Mikael Holm
Yes, hi. First, a question on the gross margin development when I adjust for this restructuring costs you include in the cost of gold sold. I mean, in early quarters when you had Candyking, it has declined by, I mean 300 after 460 basis points, now it was only about 150. What's the reason for this quarter having a much less drop in the adjusted gross margin, compared to the earlier fee when you had Candyking in the figures?

Danko Maras
Yes, good morning Mikael I eluded to it a little bit, but the dilution from Candyking is not less, it's still continuing, and you can see the restructuring is very small in gross margin. So, what is actually happening is the point about absorption and production volume are good, and we are recovering from what has been a very difficult period for us with the fire in turnup. And now our production volumes are increasing, and that's a good contribution, also in line with plan. The fact that we are also having good growth in packed, you have a great contribution of the gross profit from packed. So, in fact it's not the Candyking part that is diminishing, we are still to generate big synergies as we start introducing it in our ERP systems. It is actually good performance from the rest of the business that is driving this improvement.

Mikael Holm
Okay, and just also on the gross margin. I mean, impact from raw material and currency fluctuations. Was that a net negative in the quarter, and at the current, I mean spot rates and plans, price increases, where do you see this heading for? I mean, is it a net positive or a net negative for the full year?

Danko Maras
You have to be – also, this thing that there is a real issue in our Swedish business. We have a transaction exposure, the Swedish business is buying all their products, almost all of it, in Euro denominated currency, and this is causing a transaction exposure that needs to be dealt with, and that's what Henri had been referring to, and given the size of Sweden, it also has a disproportion that affects the rest of our business, which is also contributing in Euro. So, you have a positive retranslation benefit in the gross margin this quarter, but it's not offsetting the impact completely on the transaction exposure we have in the Swedish markets. And as you know, we deem performance in individual markets in their local currency. And Sweden has a profitability issue because of the Euro, and that needs to be dealt with. But in the quarter the impact was dampen a little bit by the re-translation benefit that comes from the rest of the Euro denominated countries, but overall, this is a business issue that we need to deal with from a transaction point of view.

Mikael Holm
And I guess that there are some delays from, I mean, when you purchase the goods and when you sell it, I mean, is it fair to assume that this will be more of an issue going forward?

Danko Maras
Well, we - in a way, having a weak Swedish krona is good for exports, but it's not good for imports. and we are continuously seeing strengthening of the Euro. So, this problem I think will remain for as long as the Euro lies around 10.30 - 10.40. If it continues the activities where we need to do, we will have to be further accelerated, depending on how the currency moves. But you're right, there is a lagging effect on all of these things are not easy activities. They have a time lag effect and we need to deal with them. So for instance, if there is a pricing coming through, that full year effect is not going to happen in 2018. We need to think of it more of overtime, we want to compensate our 14% debit margin target by recovering on pricing.

Mikael Holm

Okay, yes my final question. I mean from this Pick & Mix development. I mean, it seems like your sales dropped by 6 million organically in the Pick & Mix business, is that the Coop contract, or is it - I mean, Norway is that also included in that organic sales decline?

Danko Maras
Yes, so I mean the three big things which I already mentioned, one is Norway, which is a big one, the other one is the Finnish Pick & Mix competitor of last year, now we're back to normal level. That's another big one, and the last one is the Coop effect. So, those are the three big ones. And of course, partly offset by good performance in other markets. But those are the three main effects.

Mikael Holm
Okay, thank you.

Operator
Thank you. The next question comes from Michael Liptill[?]. Sir, please go ahead.

Mikael Löfdahl
Yes, hi. I think most of my questions have been asked, but not all of them had been answered, unfortunately. But coming back to the Easter effect, and I get it that you don't want to display too much around Candyking and their growth, even though you have done so in previous quarters. But I think this quarter is obviously special with Easter. So, could you say something then on your branded factory products and how much Easter affected that. Because there is a poster effect also on this segment.

Henri de Sauvage Nolting
Yes, I would argue that it's a little bit difficult to estimate, but we are - the first thing to remember, is we're not so big, or not big at all in very Easter related chocolate products. Like the chocolate eggs and things like that, which tend to be big Easter products. So, I would say the market where – reason an Easter effect, also on the packed business, is in Sweden. So, there – we definitely helped by the Easter effect. In all the other markets, I would say it's limited. So, a little bit in Norway, but there we see that we still need to strengthen our brands further. And we've been under pressure also with the sugar tax coming in. I would say in all the other markets, it's not so much Easter related. So, I could say that Sweden, yes, a packed business. But the rest of the market is not very much related to Easter packed.

Michael Liptill
Okay, and why can't you give us more on Candyking? I guess this increase is the uncertainty also for the next quarter, because you obviously integrated with Candyking in May. Which means that Candyking did not support, or the Easter sales of Candyking did not have any impact last year on Q2. So, it's a bit difficult to know exactly how Cloetta is actually performed in this quarter, if we don't get the Candyking numbers or the exact impact from Coop. Otherwise, the development in the segment didn't tell us much.

Henri de Sauvage Nolting
Yes, I would say that we reported Candyking up to the full year, and then we chosen to - had to do it differently this year, by reporting the packed branded business and then Pick & Mix, or the other one. That's also because we're really integrating those businesses, and it also becomes more and more difficult to really split out what is Candyking related, and what is, let's say old Cloetta related. Because now we're integrating merchandise, and we're even integrating concepts, where letting one concept be the dominant, or not dominant, but the only concept in a certain customer. So, there are swings between the two previous Pick & Mix businesses, and it will become also a bit of an estimate I would say, if we start to try to single out Candyking.

Up to the 1st of May we can still do that to a large extent, because it is in the same - sorry, it's not in the same system, but as from the 1st of May it becomes even more difficult. Because it will all flow through the same ERP system, combined customers, etcetera. So, and then we would only be able to do that for the first quarter. And as you can see, we had a negative development on total Pick & Mix, due to the three reasons I had just been giving, and I think when we also did an acquisition case, we also disclose a little bit how big Candyking was in the different markets. And that, I think, gives you a feeling for how that business is running. Danko, do you want to add?

Danko Maras
I just want to - I mean, the problem will disappear, or the issue will disappear as we start having comparators. So, you will get much more insight than discussions around the performance on the branded packed business and our Pick & Mix segment. That, from 1st of May, will be Like for Like on the comparator. So, you will have one more month though where the last year's comparators is not included. But as of May month going forward, the analytics will be done very transparently towards what we have performed out of total sales in Pick & Mix, and in packed. When we did the acquisition, if you remember, we said we will double our size in Norway and Denmark and UK, and clearly Henri's point about Norway, we did not have any Pick & Mix business in Norway before, and it was severally impacted by the sugar tax.

Mikael Löfdahl
Yes, and it is because of all these reasons we have appreciated more info, because these two quarters are obviously from the year perspective very different, because of Easter now coming in Q1. So, now we have to wait until the Q3 report to get a full quarter of comparable figures. Then we are in October, it's quite far away. So, I think the market would appreciate some more disclosure on this, just to give you some more feedback on that. But let's leave it to that, and one more on the - how you are thinking of price increases or trying to get price increases through to investigate the currency movements. At the same time, you are trying to drive growth, so how are you thinking of price increases versus volume growth and perhaps recapturing market share?

Henri de Sauvage Nolting
Yes, I mean this is not of course the first time this is happening, and in general I would say we're quite good in this. And also of course, it is not easy. But also, the practice is that raw material and forex movements, there is a way, let's say, to price up with our customers. But as we already just said, I mean that takes time, because we don't price up on spot prices, it's something of a moving quarterly or a moving annual total, which is then spiking certain price increases. And then we just need to do that very cleverly across the portfolio, so it doesn't impact volume growth. Which is still very important. But I would say that is good commercial management to do that in such a way that we get coverage for the forex. And of course, we didn't talk too much about raw materials but that's something which happened last year, which now of course also is something which is on the table or has been on the table. So, it's the combined defect of forex and raw material, which constantly goes up and down over time. So, I'm confident we're able to solve this but there is a time lag on the forex.

Mikael Löfdahl
Okay, regarding Turnhout, was there any negative impact actually in this quarter? You don't mention anything, but was there a negative impact? And in Q2 as you know – you will ramp up production, again would there be any costs associated with that moving back production and so on?

Henri de Sauvage Nolting
I mean, we've got the situation quite well under control, I would say, so there was not a negative impact, other than the fact that we have a few third parties who are delivering products to us to compensate part of the lost volumes of the Turnhout line. And when that line is up and running, of course we can start to bring those products back into a fully Cloetta and how we're doing - you could say generally speaking, when doing the packing of the billed products, and then we can produce the

billed products as well. So, there will be some synergies and some other different effects in the supply chain. But mostly important, is that we need that extra capacity to go to the next like step three or four in the Candyking insourcing. So, with that more capacity we can start with bringing in third party products, which we ask for help when the Turnhout fire was there, we can look at the tonnage we still have in Italian factories in the agreement which we have over there. And of course, more candy Candyking insourcing and the moulded network will also generate the synergies we have committed to work on; the 100 million SEK.

Mikael Löfdahl
That was my final question, if you could give some flavour on the timing of those synergies coming through, when we will - I guess they're already started to show, but will show even more in the second half of 2018, but can you give some flavour?

Henri de Sauvage Nolting
Yes, we've already said it will take until 2020 before we are fully there. But we've also said that of course a lot of a big chunk of it will come in 2018, if we have the Q2 ERP go live happening, that will help, and as well the Turnhout factory and getting more capacity then we can start with the next steps in the insourcing. Which then starts, let's say, somewhere after the Turnhout line is fully operational, then we can insource even more products during '18 and '19. So, that is where the bulk of the 100 million will lie. But it's a lot of work, that's a lot of products we can insource. We're going for the most attractive ones as those also the easiest ones. And then towards the next phase, we'll also then need to look at products where we might have to do a small investment, and whether that business case is attractive, and there is a lot of business cases to just work through, and that's why we have the '18 to 2020 timing before we're ready with the full synergy realisation.

Michael Löfdahl
Okay, okay. Thank you.

Operator:
Thank you. Ladies and gentlemen, let me kindly remind you that if you wish to ask a question, you need to dial 01 on your telephone keypad. We have a question from X (?). Sir, please go ahead.

Speaker:
Good morning. Just in terms of your full year expectations, you said very little about that, apart from in your statement saying your main focus is on driving growth up and costs down. I wonder if you can, I know it's early in the year still, but maybe be a little more precise in terms of your aspirations for this year. Particularly, relative to your long-term targets of growing organically, at least in line with the market i.e. plus one to two percent, which you've done in the first quarter. And also, in terms of your what sort of improvements are needed margin should we expect, and obviously it's going to take a while to get that 14%, but you know, should we expect some modest progress this year?

Henri de Sauvage Nolting
Yes, we don't give forward looking statements on that level of detail, and that's why you didn't hear it, we've never done that. But of course, it is quite clear that in 2018 we need to get a few things back in order, and also a few things we need, like all the brands and the factories, the integration of Candyking. And that's, as Danko already explained, of course the Candyking has a dilute effect where you just take the whole Candyking business and put it into the Cloetta P&L before all the synergy savings are coming through, and all the synergies will get in our factory network, and that is something we will work through during 2018. And of course, if we see they were confident on the 100 million synergy realisation in the period '18 to '20, and that build is coming in '18 and '19, then of course we're also banking that we will use some of that coming through in this year.

Speaker:

Okay, thank you.

Operator:
Thank you. The next question comes from Nicklas Skogman, sir please go ahead.

Nicklas Skogman
Yes. Could you maybe disclose to us what - Well, thank you for disclosing the package business, Like for Like, we appreciate that, but could you disclose what you had in Q1 last year for the packaged and the Pick & Mix business?

Danko Maras
No, it's coming back to - it's Danko here, Nicholas. It's coming back to that - we will have full disclosure of comparators as of May second quarter. And perhaps we will discuss whether we should include the additional month or not. We'll do that hearing from your questions, so that it's very transparent for you. But last year, we did not have a comparator on Candyking and we haven't intended to share that. It wasn't our business at the time, and what we will do going forward, take a thorough look and see if we can do it from Q2 onwards, because of the questions we have received today.

Nicklas Skogman:
Okay, but I mean, you had Pick & Mix business yourself in Q1 last year, and you had packaged business of course in Q1 last year, so - but you don't want to disclose those figures.

Danko Maras
No, not really, but what we talked about, again you have this Easter effect. That last year the Easter effect was between January and April, because it flipped over to April. So, if I should start explaining last year, without Candyking and the impact of Easter, then it gets a little bit tricky. So, let's leave it for this time, I will give you more information as of Q2 onwards, which is Like for Like.

Nicklas Skogman:
Okay, thank you. And then on marketing spend, I think you communicated that you're prepared to step this up. What's the year and year impact on marketing spend on your cost?

Henri de Sauvage Nolting
We have two programs running, and one is that with the existing marketing budget we want to become more efficient. So, we're driving hard a program, which you probably have heard from other big FMCG companies to make a real shift towards what we call "Working Media". So, away from non-working media. And in non-working media, you have costs like agency costs, Nielsen cost, research cost, creative cost etcetera. And Working Media is basically all the money we spend which consumers see. So, from buying [inaudible] advertising to online advertising, or TV advertising. And that balance we're really trying to move up into erection that most of the money, or a big chunk of the money is being seen by the consumers, unless being spend on that said bolt in services. So, I would say that's the first big thing we're doing. We're wishing good progress on that.

Then at the second part as we said, we'll if we see opportunities where we can strengthen our branch forward, we will do that during the year. And if you look at the P&L, you can see that in quarter one we have been more or less flat. However, the efficiency of where we have been spending the money, has gone up, because we have more working media than last year. But it is definitely something we have talked about and committed to. But we also need to be judgmental in the investment and proposal we are getting from the markets, and from the central marketing unit.

Nicklas Skogman
Okay, thank you very much.

Operator:
Thank you. We currently have no questions. Ladies and gentlemen, let me kindly remind you that if you wish to ask a question you will need to dial 01 on your telephone keypad.

Jacob:
I have one question here, from the web, how should we understand Candyking margins versus Group margins?

Danko Maras
It's Danko here. There is a combined benefit. When we talk about 14% EBIT contribution, it means that the total Group will get a benefit in the insourcing of volumes that will not necessarily only be on the segment of Candyking. For those of you who have been part of the Candyking journey, you know what's the time of the proposed IPO or they were referring to somewhere around 3% to 5% EBITDA margin in the Pick & Mix business. We are not deviating from that kind of long term EBIT margin, because it's a different business model.

On the other hand, what they will then do is to give us additional tonnage that we can produce, that will affect the total Cloetta business in a lower cost per unit in those factories where we are then producing it. Which will be the incremental 10% to 11% EBIT margin that it will yield to us on the increment. Therefore, for the total Group, you'll see a 14% impact with the 100 million being delivered, but for the segment of Candyking, for Pick & Mix, we are currently looking at the same levels as it's been indicated by the previous Candyking business.

Operator:
There are no further questions over the phone.

Jacob Broberg
Okay, then we'll say thank you from Cloetta, and have a good time and speak to you next time. Thank you and goodbye.