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Presentation

Operator
Ladies and gentlemen, welcome to the Cloetta Q3 report 2019. Today I am pleased to present Henri de Sauvage Nolting, president and CEO and Frans Rydén, CFO. For the first part of this call all participants will be in a listen-only mode and afterwards there will be a question and answer session. Speakers, please begin.

Frans Rydén
Good morning and welcome to Cloetta's Q3 earnings conference call and webcast. As mentioned, my name is Frans Rydén. I'm the CFO for Cloetta and I am joined here today by Henri de Sauvage Nolting, Cloetta's CEO. And with that, I'm going to hand over to you, Henri.

Henri de Sauvage Nolting
Thank you, Frans. So, we had a strong organic growth quarter. I think everybody knows also from the capital markets day that this is our number one challenge, so pleased to see another quarter of growth. If you look at the underlying organic growth, which is how we measure ourselves, we take out the currency effect, we have a 4.3% growth in the quarter. And that is very pleased to see in a market which is not always easy, of course. The operating profit went up to SEK 200 million, a bit better than last year, but obviously we need to also to be able to reap in more of the growth benefits also into the top line, and we will come back on that later. Operating profit followed and then the profit for the period ending at 130 million. Cash flow from the operating activities went up to 255 and the net debt EBITDA is at the target level of 2.5.

If we then look a little bit further into the market, in the Nielsen market – these are the markets which we measure in Nielsen – we could see growth in all of the markets. Of course, the caveat is that Nielsen is not covering the whole out-of-home channel, so kiosks, petrol, the non-retail accounts, but it seems to be that there is growth in the market, which is of course, a very healthy signal for the total category and for the businesses operating in that market.

We have a model where we are estimating pick and mix and also over there, that's our own internal estimate based on our sales, but also the sales of Cloetta branded products we do to others, be it retailers or competitors. And we estimate that also the pick and mix market has been growing in all the markets. If we then unpeel the organic growth of 4.3%, it's split at 3.6% branded growth. And that's now the second quarter in a row that we're seeing branded growth. So, the question that is probably going to come afterwards is, is it now a trend? And I would say probably it is a trend.

And of course, we just need to continue to deliver quarter after quarter. But of course, very pleased to see also the profitability, as you know, on the branded business is already at the target, both the target levels are just getting the brand growth to continue is really going to help us. And also, we have the pick and mix business growing. We had that also last quarter, but of course then there was a lot of Easter effect, so now there's a quarter without these kinds of effects and we see a 6.4% growth. Good performance in mainly all the markets.

If you look at market shares, we are still on the MAT – moving annual total – so the last 12 months we're seeing that we're gaining market share as we also can see that competitors are fighting back. So, if we just look at the last three months, we only grew in three of the 16 categories, again in Nielsen only – not taking the other parts of our sales channels into account.

If we then go to the core strategy. Just a quick update. First block is the drive to growth. Brands continue to grow. Where is it coming from? There's more marketing spend. There's actually two underlying pieces over there. One is that we've increased the absolute amount and we'll come back that a bit more later on. But we've also, again, being able to reduce the spend on non-working media and increase the spend on the working media. And that effect is the same as the absolute amount. So, in media, which is being seen by consumers, be it digital or outdoor or TV, we are seeing quite some effect. And also, for the Swedish people, I mean, it's not only Läkerol at the moment on TV, it's also Gott & Blandat and new Plopp and also Ahlgrens Bilar, I think have not been supported for eight years or so, is now having support campaigns.

So that is one – marketing. The other one is then the power we put behind activities and innovation, so the fewer but bigger starts to pay off. And of course, Läkerol global re-launch is happening as well in all the markets where we are present with Läkerol. We're going out with the same repositioning message, the same TVC, the same outdoor. And then local, adapt it, executions from the world's biggest candy box in Oslo to run. We were doing in Läkerol shoots in Denmark. So, that is happening as we speak. Of course, that is something we're going to do in the next couple of years, because these sort of things, they don't last, or they don't tend to give an effective immediately. This is building the brand back to its glory.

And then we see in pick and mix, as I said before, we see growth, which is very good. We also now did a strategic review on how are we going to invest in pick and mix to make really a concept which is going to attract the consumer preference because we also see that we need to strengthen the Cloetta pick and mix concept versus all the other ones which are in the market, so we gain consumer preference – or shopper preferences is a better word – like we do with our brands. And there's a next phase of pricing coming in as well.

Capacity: Also, with this growth, of course, it puts us in a nice challenge, although sometimes, of course, we would like to sell more and being able to produce more. But on the capacity, the new drying chambers, pleased to say that is all going according to plan to be up and running next year. We also extended the shifts on the foam production in Ljungsbro to 24/7. So, we added an extra shift over there in order to be able to cope with the demand of foam, be it Juleskum or the Mustascher which we launched to support the Prostate Cancer Foundation in Sweden. So, that is in position. And we also just concluded a five-year plan on the capacity investments. So, what are the CapEx we need to invest in in the next five years in order to facilitate growth and improve the customer service in all the markets.

Another one, of course, on the capacity is the Perfect Factory, which is now after summer being rolled out to the next six lines. It's very good and encouraging results where we can see efficiencies going up. But again, this is a longer multiyear programme where we need to work hard in order to get the desired results. And last but not least, we also took a decision to implement a new planning tool, end to end. So, from demand planning in the markets all the way down to the factories, replacing a number of older tools which were not working real time with each other, which meant that factories sometimes saw the demand from the markets a month too late – or later, you could say. So, with this, we will be more agile to follow the exact demand patterns in the market. And the first country and the first factory are going live already towards the end of this year.

Then on the funding, the growth. Enormous traction on our VIP plus programme. I really think we're changing the culture. I hear it more and more. People talking about this is the real VIP plus spirit. So, I think that is a very positive thing to see. Also having a funnel of savings ideas coming through for the budget process for next year, both in the people cost and the non-people cost.

And then on the pick and mix Sweden, which of course is extremely important. The pricing on 50% of the contracts is in, and the pricing on the next 50% is ongoing and soon to be announced and negotiated with those contracts which we can start to touch as from next year. We also did a big review of the assortment in Sweden to take out complexity and double items between old Candyking concept and the old Cloetta concept to come to a more harmonised assortment. And we're also improving the merchandising efficiency.
So, all in all, I would say good top line and in line with where we want to be. On the EBIT we're making progress. Frans will allude a little bit more to that. We have Forex going against us and also the fact that we have to produce so much more. It also comes with extra overtime, extra shifts. So, we see some money over there spent, but that's a good investment, I think, at this moment in time to fuel the growth while we're sorting out the capacity constraints. And last but not least, of course, we've also been investing more in media. So, Frans, over to you.

Frans Rydén
Thank you, Henri. As usual, I will start with net sales. And as Henri actually mentioned, Q3 is the first quarter in this year, where we're not impacted by the shifts of Easter. And we're really pleased to be able to report an organic growth of 4.3%.

Our branded business grew 3.6% and that is the seventh consecutive quarter year-on-year organic growth. And to the extent of our knowledge, that's the longest run that Cloetta has ever had. And that is obviously great to see. And this also brings our year to date growth up from 1% that we had at the half year mark to 1.9% Q3 year to date.

And for the pick and mix business. Obviously last quarter we could report that we were finally back to year to date growth. It now grew not too far away from twice as fast as the branded business, so at 6.4%. And that's on the back of also healthy volume growth as well as pricing that we have previously spoken about. That takes the pick and mix business now to 3.1% growth year to date. So, in combination for the total business year to date organic growth of 2.2%, and that positions us really well against our targets to grow 1% to 2% per year, which we believe represent growth in line with or better than the market.

Now as in quarter two, year to date, the euro has continued to strengthen and that has an impact on us. So, it boosts our top line, as you can see, but it also hurts us on cost, and I'll come back to that. Nonetheless, our 4.3% organic growth is 5.9% total growth. And year to date it moves us from 2.2 to double at 4.4. That said, despite the currency effects, again this quarter, I believe that you will find that Cloetta is a very stable business delivering growth, stable profit and stable cash.

Now, before we look at the actual P&L, let's take a closer look at the growth splits on branded products and pick and mix. And on the top part of this page, you can see that branded accounted for 73% of our sales in the quarter. And also, that – at the very right-hand side there – that 3.6% growth is by some margin actually the best growing quarter that we've seen over the last seven quarters. And as a matter of fact, we haven't been able to find anyone in the office who has seen this type of organic growth before.

And anecdotally, I know Henri received a text message from the former board member just before this call congratulating on this development. As mentioned by Henri, despite this growth, we are only holding or taking share in three of the 16 categories we track, whereas year to date we are at 15 out of the 16. So, what we're seeing here is both the effect of, that competition is tough – certainly in this last quarter, but also, of course, that Nielsen, who tracks shares, cannot fully cover the market that we are playing in.

Now, on the lower half of this slide for pick and mix, accounted for 27% of our sales in the quarter. We see that healthy at 6.4%. For those who haven't been following us, obviously that looks like a step down versus the 18% growth we had in Q2. But again, that's really the shift of Easter. And I think it's more relevant to compare the 6.4 here to the kind of growth rates we were seeing back in 2017 when those growth rates came from acquiring large new contracts. So now this is really driven much more on a same business, organic growth. So quite healthy.

At the same time, the branded business – we win with one consumer at a time. In the pick and mix business it is much more dependent on gaining whole contracts with retail outlets. And given that we've flagged the profit challenge on pick and mix in Sweden, we may have to walk away from some contract if we can't find common ground with our customers. So far, we've had broad acceptance on the price increases implemented in July, but of course half of the contracts are still being renegotiated or will become renegotiated. So, that may affect our sales going forward.

Now, looking then at the profit and loss. Gross profit in quarter three improved by 28 million versus last year. That's driven by these strong sales, including pricing that we've taken, partially offset by higher cost of goods sold, which includes the forex impact, as I mentioned. And of course, you are also aware that commodity costs like sugar and gelatine prices have been rising over time. Nonetheless, while the gross profit is improved versus 2018, we are not seeing as much fall through from the top line growth to the gross profit line as we would like to because our supply chain network is really stretching themselves to meet these higher demands. And in the CEO word of the report, we're talking about what are some of the things we're doing to address that, including the Perfect Factory programme, adding capacity and the five-year plan to be able to do this in a good way, not just for the next year.

Gross profit year to date is up by 54 million. Again, this is driven by the strong sales and partially offset by the cost of goods sold. Now, if we look at the gross margin, it is down in the quarter by 0.3%. But given that our profitability is lower on pick and mix, as you are certainly aware, and with the really strong pick and mix growth we saw in quarter three, you would expect an impact on the gross margin. And this is true. But as mentioned, we also have upsides from growth and pricing. And ultimately, I would say that the full gross margin decline year to date can be attributed to the currency effect. And in quarter three, the currency effect is actually about two times higher than what we're seeing us drop in gross margin here.

Going further down to sales, general and admin. We also have an impact due to forex, both in the quarter and for year to date. And I'm going to break this down on a separate slide that follows this one. And I'm also then going to give an indication of how we ramped up the marketing investment and how that's reflected in the P&L. Here I would just point out that as you see the sales, general and admin as a percentage of NSV, it's nicely down by about 50 basis points. But before we go to the details of SG&A, last point on this slide – operating profit adjusted, it's stable versus last year, up by 6 million and year to date, up by 24 million.

The result in the quarter is driven by gross profit from the strong sales, including the pricing that I mentioned. Good cost savings in sales and general and admin. Obviously offset partially by the unfavorable currencies. And then we have reinvestment in growth, which is both on the higher marketing spend. But of course, as you understand, also higher merchandising cost to enable that really strong top line growth that we have on the pick and mix business. And year to date, it's along very similar notes. The strong sales, good cost savings, unfavorable currencies and then reinvestment both in marketing and in merchandising costs.

So, operating profit adjusted as a percent of NSV. What you see here is the currency effect, both year to date and for the quarter. We're obviously favourable, but it's impacting the percentage of operating profit adjusted. So, going then a little bit further into SG&A, you will recognise this slide from last quarter. We're sharing the same level of granularity in the details. You can see that there's a reduction as a percent of NSV, both for the quarter and year to date. You can also see that both the quarter and year to date are impacted by items affecting comparability.

Now, I want to say a little bit more about here, because in Q3 this year we have less such items than we did last year when obviously Candyking integration was much more in full swing and taking more effort, while for Q3 year to date, it appears as if we have more of these items affecting comparability than last year, but that's not correct. What's driving this variance here is that we had a gain last year. So, the increase this year is really just the absence of a repeat of last year's gain and that gain related to remeasurement of the earnout consideration for Candyking.

So, netting out the impact of currencies, which we have here shared – and it's not official reported numbers, by the way – it's to our best knowledge. What we're seeing, going from the right side, is that year to date, we are flat despite the increase in absolute marketing spend that I mentioned, as well as the investments behind merchandising. So, the cost efficiencies we are delivering are being reinvested for top line growth. And when you look at the quarter three in isolation, you see that the increase in top line through marketing spend and other is coming through much more strongly. We haven't shared before a number for the increase in marketing investment, but I would say here that in absolute spend in the quarter, it's up somewhere between SEK 10 million and SEK 20 million. And then within marketing investments, the increase in working media, which is the spend seen by shoppers and consumers, continued to improve as a percentage of the total spent.

So, for my final slide before I hand back to Henri, on the cash flow. For the quarter we are delivering, if I guide you here to the bottom left of this slide, a stable 199 million in free cash flow. And that's in my opinion, healthy against the EBIT that we saw on the prior page of 195 million. And it's a stable delivery versus the 206 million we delivered in Q3 2018. Now the slight decline versus 2018 is that despite higher cash flow before changes in working capital, including due to implementation of IFRS 16, that's being more than offset by a softer improvement of working capital this year and higher investments in CapEx.

And for the working capital that is really on account of inventories because in quarter three last year, as is often the case, inventory declined after the summer and this year they did not decline as much despite the strong growth we had because we have purposefully tried to increase our inventory levels to improve the customer service levels that we can provide in these high demand and the fluctuation we're seeing in the market. So, that's on purpose.

Now on cash flow from financing activities in quarter three, you see this due to repayments of some commercial papers – 49 million - and then IFRS 16 implementation. Whereas for year to date, the overall, is very similar to Q3. Stable free cash flow versus last year. I think the other two items that are interesting to point out here is that – what actually doesn't impact the free cash flow, but you can see it – 144 million under other investing activities.

That's the settlement of the earnout consideration for Candyking earlier this year. And also, under investment activities, we obviously had payments of dividend. And in 2018 that also, year to date, included an extra exceptional dividend payment, following the sale of the Italian business, as well as repayment of some debt. That said, in 2019, of course, the payment of the ordinary dividend of one krona was an increase versus the payment of 75 öre last year. And on that positive note of increased dividend, I'll just hand back to Henri.

Henri de Sauvage Nolting
Very good. Thank you, Frans. So, concluding: Very consistent – maybe a bit boring. The three main priorities we're working on, we're focusing on the company. Number one being the branded growth. Why? It has already above average EBIT contribution. That's why it is so crucial. So, branded sales at 3.6%, really good to see. We're investing more in media on top of the efficiencies we're still getting out of the move from non-working to working media and thereby strengthening the brands or even being able to invest in brands which have not been invested in for the last couple of years.

Also good to mention is that at the moment we're executing the so-called media pitch, so we go into one media agency for total Cloetta away from market by market approach, not only to get a better deal, but also to get more professional in how we work with media. One thing which is going to become now really important is pricing in all the markets. Of course, with Sweden it's the forex next to raw materials. But the raw materials like Frans mentioned, sugar prices, gelatine prices in particular are really going up. And that needs to be put through to prices towards our customers who then can decide what they do towards consumers. So, that's a big piece of work which is going on.

The second part is pick and mix. How do we fix Sweden? Pricing is really important and while we're doing pricing, of course, we also can see that raw materials and forex are working against us. So, that means we just have to do even more pricing. And that is under execution, assortment rationalization I talked about. And then really good work going on how to differentiate the Cloetta, or Candyking concept, versus competition, good endorsement in the board of directors of that direction. So, I think every quarter we get more insights, more understanding, and now also really good proposals which are being tested in Sweden on different concepts to make a stronger USP for the Candyking brand.

And then the third one is how do we reduce cost and drive more efficiency? So, the VIP program – I talked about the Perfect Factory. Really good progress to see on those six lines, also improvements both in capacity, which will later on then being able to capture when those lines are run more efficiently with the extra drying cabinets which are coming in. So, we also can dry more, and we don't have to stop because they are full. It's also the usage of raw materials. But there are also of course, in the perfect factory, other elements like labor inflation in certain markets and certainly, in Slovakia which we need to offset with savings.

And then for the first time ever, a really good five-year bottom-up plan from the market by technology on what are we going to sell in the next five years in order to reach our financial targets and translating that into a capacity plan, both internally and externally with third parties. And what will we then need to invest to either de-bottleneck or buy new technologies so we can start to face that on a five-year basis rather than year to year. That's the presentation for today. And now we want to open up for questions.

Q&A

Operator
Ladies and gentlemen, if you wish to ask your question please press 01 on your telephone keypad.

We have the first question from Mikael from Carnegie. Please go ahead.

Mikael Löfdahl
Sorry, was it Mikael at Carnegie? Sorry, I didn't hear. Okay, so first of all, is it possible to give us some more guidance regarding the marketing initiative? Perhaps in Q3, how much of the marketing

increase was more of a one-time event in terms of Läkerol and the re-branding - or what you like to call it - of Läkerol, and how much is expected going forward from that?

Henri de Sauvage Nolting
There's a few elements to that, Mikael. Of course, when you start with the re-launch, like we did now in Q3 in all markets, you want to really make a big bang. So, we are heavy in Q3. So, that also has been driving the absolute amount. And then, you know us by now, we are not allowing the markets to spend more in absolute sense if we are not really, really sure that they have scrutinized the non-working media to the last krona or to the last euro. And that, I think, a little bit to our surprise has gone much better in this quarter than what we initially thought. So, we get more bang for our bucks and thereby also diminishing the need to maybe to go up with the absolute media amount.

Now, having said that, we are going to continue with the support on the brands, but then quarter by quarter, it's going to pan out a little bit different, probably also in the way you look at it. First of all, you need to look at last year's spend, of course, in the different quarters and compare it with that. I remember Q3 last year was not one of our highest media quarters, but Q4, for example, if that is your question. In general, that's quite an expensive quarter with Christmas coming.

There’s a lot of extra companies going on air. So, it's normally not the most efficient quarter for us to really be big because every second of media, you could say, is more expensive. So, going forward, I would say that the trend is going to be that we are going to support the brands in a competitive level, and we will make those step-ups step by step, also because it’s a bit in line with the savings we're able to generate. That's also very clear, that the way Frans and I want to manage that, that we create savings. And then we see what is the best return on the investment for that.

And then I think the media has picked up the Läkerol a lot, but let's not forget that there are a lot of other brands, big brands, which are becoming more and more professional in how we manage and support them. So, we're supporting Gott & Blandat at -30% at the moment. We're having two new Plopp kaka, tablet, launches which we are supporting. And as I said, Ahlgrens Bilar, which is a big brand for us, have not been supported in Sweden in media for at least the last five years.

And also, that is with the old slogan happening and then, of course, in the other markets we have in Finland Sisu which is also a pastille which is really doing well, which we are supporting, and also in the Netherlands, another main market. Also, in Norway, for example, we are supporting the Gott & Blandat -30%, part of the cost savings we are doing. So, step by step, but we will also try to do it not that dramatically hitting one quarter. That’s probably the best way to answer the question. Anything to add, Frans?

Frans Rydén
No, I think that’s it.

Mikael Löfdahl
Okay and another question on the organic growth for the pick and mix segments in the quarter. I guess the price hikes of roughly 15% of the Swedish volumes that should have been supportive for organic growth. Is it possible to strip out the price versus volume in the quarter of the 6.4% in growth?

Henri de Sauvage Nolting
The volume in Sweden is actually down because we are taking a high price increase, but as I said before we've also lost a relatively small percentage of the contracts because of that. And we're willing to do that because we cannot continue with negative margin or negative EBIT on the Swedish pick and mix business. So, if you take that one into account, volume down, price up. If we look at the other markets, we can see actually a lot of penetration going up. So, we're selling more per store and that is a combination of penetration, but also of some pricing which we have taken.

In nearly all the markets we've taken pricing and then had the market specifics – in Norway we work a lot with the retailer over there and also with extra display solutions, which the Norwegian team developed for the Norwegian retailer. In the UK, the number one retailer went back in the promotional depth and they saw that that didn't really work. There were also less shoppers coming to the store, which actually is quite a nice thing to see; how important pick and mix is for a business to bring people in. After a quarter they're reverting back during Halloween. So, it's a bit of a mix, of course, by market. But in general, it is good organic growth.

Mikael Löfdahl
Okay. Thanks. Also, on the renegotiation of contracts. I guess the 50% that you have renegotiated, that has been implemented now. I would have assumed that you would have continued to renegotiate contracts during Q3, but it sounds like you will do that in Q4. Is that right?

Henri de Sauvage Nolting
Yeah, because the nature of these – I can't be specific because of course, that would be unfair as well to our customers - but the nature of these contracts is you make a two- or a three-year contract and then they are fixed. Contractually, we are bound by these contracts that the prices are fixed. What we're doing is we're basically saying, well, you know, this is a bit of a specific situation, but then we need to break up the whole contract. We basically tear up the contract. And of course, there we need to balance the relation with the retailer. Where we've made the contract, whatever, two years ago. When do we rip that up? We also need to think about the totality of our business, because all these retailers are not only buying pick and mix, they're also buying our branded business.

So, that's a cautious balance we are looking at and we're discussing that, and I think we get good understanding for our situation. But those contracts are starting to be renegotiated, other ones we have renegotiated, and then the third part – we haven't really talked about – they're also in bulk items. So, these are, let's say, loose Cloetta bulk products from small Kex to Gott & Blandat, or small Plopp, which we're selling to retailers who have their own concept or competitors who have their own concept.
And also, over there, of course, we see cost increases and margin being either too low or even negative. And that also is a big part to raise in price.

Mikael Löfdahl
Yes. Okay. And also in regards to these renegotiated contracts, I guess one problem before was that they didn't take into account the raw material prices and so on. I guess that's why you had so low profitability on many of them and now you're mentioning the raw material prices and that you may need to raise prices even further to compensate for that. But is that now built into the 50% that you have renegotiated? So, it shouldn't be any major—

Henri de Sauvage Nolting
That I don't want to tell you because my competitors would love to hear how we're doing that. But let's say it's correct. Of course, we see that both forex and raw materials are fluctuating, so we need to find ways to compensate that during the duration of a contract.

Mikael Löfdahl
Just a more long-term question here: To reach your 14% margin target, if you were to look at the gross margin where it is right now, what is required in terms of gross margin improvement to reach the 14%? Is that something you can share?

Henri de Sauvage Nolting
It's a mixed bag, of course, also over there. If we say that we have good gross margins and hence also EBIT on the branded business, of course, adds big differences between both categories and within and

between countries. So, there are other things going on, again, difficult to share on a public call, but there are other things going on where each market or each country of Cloetta, they have very clear strategic roles, which is something we did not have before; everybody was treated equal by market, either they need to grow more or they need to improve their gross margin, or they need to bring their in directs down. So, on the branded business there are very strong agendas to drive gross margins up in those areas where we're below par.

And then, of course, the whole pick and mix also over there. It starts with the gross margin, because if pricing is too low, then you see that first in gross margin. And then when you look at your merchandising costs and your depreciation of the fixtures, you get into negative EBIT like we have in Sweden. But it starts already with the gross margin. And that is mainly a Sweden issue, but also in some other markets we can still see improvement steps. And that's why it is so important to invest in a concept which is really stronger than anything else, because that also helps us to take that pricing.

And then last but not least, of course, if you then go into the supply part of the gross margin, we are in a luxury position, you could say, that we have so much volume. We're a little bit stressed at the moment to produce all these volumes; we can bring that down by de-bottlenecking or investing in specific capabilities to make that volume in a more efficient way then there should be, or there will be, a good contribution like we shared on the capital markets day from the supply chain as well in our 14% EBIT journey. So, it's basically all hangs together. Maybe Frans wants to do something.

Frans Rydén
What I would add to that is that, yes, it's a starting point. We have a lot of things that we are looking at that would help us improve our margins. Where we have to be just a little bit careful here is that if I use a very specific example, if we take a contract in pick and mix where we provide the merchandising services, then obviously we need a higher gross margin from that contract than if we close a contract where the retailer will manage the merchandising themselves. So, we shouldn't lock ourselves really into the gross margin, but it's rather to lock ourselves into the EBIT margin.

Mikael Löfdahl
Okay. Thanks. Just a final question on the tax rate. Is it possible to— Now it was a bit higher, at least reported in this quarter. Is it possible to give guidance of where you expect the tax rate on an annual basis to be going forward?

Frans Rydén
Actually, this quarter is fairly similar to prior quarters. It should be around 24% to 26%. What you're actually seeing is that in Q3 last year we had a one-time effect that pertained to taxes between Germany and Holland. So, we saw there a very low effective tax rate in Q3 last year actually. And what we're seeing this quarter is back to normal.

Mikael Löfdahl
Thank you very much.

Frans Rydén
Super. Thank you so much, Mikael. I have a question here as well that's coming over the webcast from Stefan Stjernholm at Nordea. He's first asking also about marketing spend in Q4 versus Q3 and I think along similar lines to what Mikael did. So, I think if that's okay, we'll stay with the answer that Henri has given on that question.

Question number two here is relating to the earnings impact from forex on EBIT, both in quarter four and for the full year in 2020. And for quarter four, of course, we tend not to give forward-looking statements and also where the forex will land in quarter four, that I don't know, but what I can share and we had given you sort of an inclination to this when we looked at the SG&A and we could see that we're taking a hit in SG&A in the quarter of 8 million on forex, and year to date 25. And at an EBIT level, year to date, it's a little bit higher than that, but it's still low double digits, around 10-ish million. And year to date, it's fairly similar to that as well. So, it's not as bad as 25 on a year to date EBIT level because we also have some other offsets. But let's say it's around 10 million on a quarter and year to date basis.

Let's see if we have any more questions coming in.

Operator
We haven’t any questions by phone for the moment. Ladies and gentlemen, I remind you that if you wish to ask a question, please press 01 on your telephone keypad. We haven’t any questions by phone.

Henri de Sauvage Nolting
Okay, good. Well, then I want to thank everybody. It’s a continued journey; we're on the road to 14%. Very pleased to see that we have very good organic growth in this quarter. It also shows that the strategy we have is starting to work, but we're not going to sit still, of course. What we will continue to do is to find ways that we get more of this NSV or sales growth to fall through to both our gross profit and our EBIT, because we are committed to get to the 14% in the midterm. So, thanks for your attention and see you soon in the markets.

Frans Rydén
I also like to thank everyone for the call today and wish you a good weekend, whenever that comes to you. Thank you very much. We’ll close to call. Goodbye.

Operator
Ladies and gentlemen, this concludes today’s conference call. Thank you for your participation. You many now disconnect.