Transcription

Cloetta Q3 report 2021

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29 October 2021

PRESENTATION

Nathalie Redmo

Good morning and thank you for joining us on the Q3 conference call for Cloetta. My name is Nathalie Redmo, and I'm Head of Investor Relations. With me here today are Henri de Sauvage Nolting, CEO of Cloetta, and Frans Rydén, CFO. Henry and Frans will take you through our third quarter results, and we will then move on to a Q&A session. I will now hand over to Henri.

Henri de Sauvage Nolting

Thank you, Nathalie, and welcome, everybody. Overall, a good quarter. Really happy with that. The sales of our branded business went up with 4%, but it was also notably higher than the previous record we had, which was 2019. So, we're lying something like 5% over 2019 sales. So, that's really good to see that we're back on track on that growth journey. Also, the Pick & mix business recovered. We're still not completely back to 2019 levels, but as we discussed, in the previous quarters, with all the actions we have taken, we're also now able to report that we're back to a profitable level, pre-pandemic comparison. So, that's really good. And the strong sales momentum allowed, also, the marketing spend to be in line with 2019. So, that's also positive, that seems to work. And we're actually, as we speak, for the ones in Stockholm, Sweden or in Scandic, we have the largest CandyKing media campaign ever being rolled out for Halloween, of course, Scandinavia. I'll show you a bit more in detail later on.

We also have now submitted our science-based targets initiative submission of reducing 46% greenhouse gas emissions by 2030. We'll await their approval before that becomes finalised. Of course, that is a huge undertaking also for us, in particular, in the broader supply chain into raw materials, *et cetera*.

We also went with our ERP system to the cloud, which is a major achievement in the sense that it all was done under Corona restriction times. Of course, that will not only help us with enhanced functionalities, but it also is a saving and of course, also giving us more IT security the way it is set up.

The net debt over EBITDA became again below our target, and net debt levels are at an all-time low – Frans will talk you through that a bit more. And then, of course, looking forwards, we're preparing and actioning a lot of pricing in all our markets to mitigate the surging input costs, like all other companies in FMCG industries. We see that this is happening. Raw materials, packaging, energy, transport, *et cetera*. And of course, we are working hard to make sure that we have a stable supply of raw materials, which we'll need as we progress into next year.

So, if we look at the sales results, on total, of course, looking very good. As said, if we split it out into two divisions, we see the Branded business now growing with 4%, and remember last year, we came out of the first wave during quarter three, and we had a strong rebound in sales. It was not an easy comparator either for the branded or the Pick & mix business, but nevertheless, we grew with 4%, and also the Pick & mix, another strong quarter with 21.6% organic sales.

We would then look a little bit more on the underlying consumer drivers. Mobility, very important for us. We can see that in retail and recreation, particularly during the summer, these are the theme parks. There's also the cinemas or the High Street shopping, which is very important for the UK Pick & mix business, and we see now for the first time falls in the figures in some of the markets, and improvements in the other ones. So, that's a good signal, of course, important for our business. And then, we see the transit stations. These are the kind of places where you would come in or stop your journey, in particular when you travel to work, but also when you go shopping in town or in the city centres. We still see that it's down versus the baseline, which is 2019. However, there's a significant improvement versus last year. So, that is going in the right direction. But the last one is then the workplaces; people are still working very much from home - we don't see this really going up yet - and also, the travelling to work, which is a little bit in line with the transit stations. It’s happening in some countries, more with own car or own transport and with public transport, which is a little bit difficult to judge because, of course, there's less kiosk sales in public transportation hubs like train stations. On the other hand, it should get more petrol station sales. So, a little bit early to judge that.

We then look at the branded business. Still 75% of this in food and 25% by the other channels. If we first look at the last three months market data, we can see that pastilles and gums are still not completely recovered. And let me remind you these are the data of mainly the supermarket channels because that is what is being measured by Nielsen. So, the out-of-home channel is not in there to a large extent. And candy bags, 1% up. Of course, that we have seen at much higher levels in the past. So, therefore, I’m also pleased to be able to report this kind of growth figures.

Now, if we then look at the category trends, we already saw that traffic is increasing, also in travel retail, in particular on the ferries. But pastilles and gums as a category are still below 2020 levels, and candy bags and chocolate are above 2020 levels despite the tough comparator of last year and also the Pick & mix recovery because, of course, there is some relation between Pick & mix sales and Branded sales. And if we look at ourselves and we keep on working on strengthening our top 25 brand positions, so, whatever, Red Band in Germany, or Kex in Sweden, that's what we mean with those. So, really get clarity in consumer language on what these brands are standing for, building stronger marketing capabilities in all the markets. We’re still in the process of recruiting stronger marketing people and increasing the share of working media - I'll come back to that.

Also, the whole agenda of our innovation 2.0 to come with more margin accretive innovations is helping us. A good example is the real fruit launch we have with Gott & Blandat, for example, here in Sweden. And then, very important, how are we going to get back our pastilles and gum sales to the levels of 2019? We need to reconquer the penetration, get those light users who have now maybe for one and a half years not been able to encounter our product because the channels were closed, or they have not seen the need to buy those products because they were not travelling to work or going out in the weekend. So, that's a very important one because it is a category with above average profitability, and that, of course, is not good for our mix in gross margin for the branded business.

Pick & mix, not that much changed in the channels, because now everything is more or less open. You can see the UK now also with the Bond movie coming out, the cinemas have opened their Pick & mix places. So, that's good. Consumer activation still in the quarter on an unchanged level, meaning that we don't have a lot of consumer promotions, price promotions, in the Pick & Mix categories, and that will be important going forward to get penetration going again. However, our clear mission with Pick & Mix is sustainable value growth. So, price-promoting does not completely fit into that. So, we’ll find other ways like the SF anytime activation I will show you a bit later to get consumers back into Pick & mix. And the consumer demand for Pick & Mix is still going up. So, that's positive. That's a positive trend. You can also see that from the figures. Like-for-like sales on existing stores is up, and that also means that even without promotional mechanisms, we’re able to attract consumers back into the category.

So, actions are that the premium CandyKing concept is now live in all markets with good group results. We even have the premium mix, as we call it, much more expensive concept in some 20 stores in Finland really doing well. It's a lot more expensive, better quality, but even the volumes are up. And then, of course, the efficiency programme is still delivering, and that's the efficiency in merchandising, transportation, distribution, warehousing, *et cetera, et cetera.*

Now, we go to Frans to give us a bit more insight in the financials.

Frans Rydén

Good. Thank you, Henri. So, as usual, I will start with net sales. Then, by now, you have probably both read and heard Henri and seen in the documents that we're talking about back to best ever pre-pandemic. And I'm going to continue on that theme, and it would be a bit dishonest to pretend that I'm not actually quite delighted to be able to present our latest Q3 financials, especially with the backdrop of the challenges we've met over the last 18 months.

So, overall organic growth up seven and a half percent, and this growth once again driven by both branded packaged and Pick & mix. And as Henri mentioned, for the branded packages, that means that the quarter is up 5% versus Q3 in our best year ever for branded package sales, which was 2019, previously. And also, that now on a year-to-date basis, we're ahead of 2019. In Q1 and Q2 earlier this year, we were on par, but this actually takes us one step forward versus that. Now, we know that part of that is cannibalisation from Pick & Mix, but this solid branded package growth is coming shoulder to shoulder with Pick & Mmx growing 21.6%. That takes us to an index of 83 versus 2019. And I'll come back to that point. So, on a year-to-date basis, organic growth is actually not far from 7%, and with branded package sales up four and a half, and Pick & Mix more than double-digit, at 13.8.

So, let's look at the segments, then, over time. And starting, as usual, with the Branded packaged sales by quarter in the top row. So, this is the third quarter of growth, and it's also worth remembering, and you can see that here, that in Q3 last year, at a time when COVID actually seemed to be receding before the second wave hit towards the end of that year, we were growing. So, the growth in this quarter is on top of the growth that we had already in Q3 last year. Now, that said, within the branded package segment, sales of pastilles and gums are still down on account of the still reduced mobility due to COVID.

So, we do have an unfavourable mix. I'm going to come back to these two points when we look at the profitability, both what happened in that interim period before the second wave of COVID, and also with unfavourable mix. Then, looking at the lower half of this slide and the Pick & Mix business. So, at 20% growth, that's really great. And as mentioned, it gets us an index of 83% versus 2019, which is another step forward, given that in Q2, even though the growth was very high, it only got us to an index of 75. So, continued recovery, continued growth, and then, let's look at the profitability.

So, as you can see in the graph, our operating profit adjusted increased versus last year. This increase was driven by volume and margin-enhancing initiatives, taking operating profit adjusted to 12% of sales in the quarter, and year-to-date profit back to double-digit margin at 10.1. Now, the gross margin - and we don't show that in this slide, but you have the details - is also very strong versus last year. On a reported basis, we're up almost 600 basis points. But then, to be fair, if we adjust for the phasing of cost that went into Q3 last year, and we take out the restructuring cost we had for the plant closure last year, gross margin is still up by a solid 200 basis points. So, from below 33 in 2020 to over 35% in this quarter.

Now, even so, if it wasn't for the challenge that we mentioned about unfavourable mix within the branded package segment, gross margin would have been even stronger. So, refreshment has declined further versus 2020, while the rest of the branded package sales are obviously doing really well, being up versus 2019. So, we're widening the gap between the categories, and that is worsening the mix.

So, getting consumers back to pastilles and gum, first with the return of mobility, and then, of course, rebuilding previous habits is, and will continue to be, one of our key challenges. That said, the nonetheless growing operating profit that you see here by 49 million, that's partially offset by cost, 29 million, which is the net of a tough comparator as we released incentive programmes last year, although we also have lower supply chain cost here. Importantly, the 29 million in increased cost does not include an increase in marketing spend as we kept it in line with 2019, given the good sales momentum from the first half. It is a reduction versus Q3 2020, but then again, we did a big step up in marketing last year in that period I mentioned when COVID seemed to be receding until the second wave hit. And we did that to bring consumers back in. But I'm going to get a bit more detail about this when we get to actually the SG&A slide.

Now, importantly, what you do not see in this bridge or in the commentary, are any significant increases of input costs which you see reported on a daily basis in the media, nor any of the supply chain challenges with logistics or missing containers, *et cetera,* that is happening across the world. For increased input costs, given our forward contracts and inventories, there is no material impact yet, and we have also been able to manage our supply chain to avoid any material disruptions. Now, we're going to look at this topic again a little bit later on, and Henri will have a slide on that, but we are actively working on mitigating both of these challenges, including through required pricing.

So, before moving to the SG&A, let's look at operating profit by segment. So, I'm pleased to report that the branded packaged business delivered 181 million in operating profit adjusted and a 15% profit margin. So, again, above the 14+% margins that we used to quote before the pandemic, and also before we actually introduced segment reporting earlier this year.

Versus prior year, as shown here on the slide, and having adjusted for that cost that was phased in Q3 last year, profit is largely stable, and the growth and somewhat lower marketing spend offsets the unfavourable mix and the absence of last year's release of the incentive programme. But then, when we look at Pick & mix, we have a really good trajectory. In Q1, we said we could get back to profit without all the volumes back, thanks to the margin-enhancing initiatives. And in Q2, we were just about break even, and now, above breakeven again.

Actually, with these results, we’re back to pre-pandemic profit level. So, it's really nice to see a steady profit without full recovery of volumes, but it's important to note that this result does also include that Pick & Mix first, having absorbed its fair share of common costs, like in headquarter, IT and supply chain. So, there is a favourable contribution also, in that respect, beyond the reported profit. Ultimately, however, and I said that in Q2, the most relevant comparator is not 2019 or 2020, but where we want to go. So, this is not where we stop, and as volumes continue to recover, profitability can improve further, and we will also have further margin-enhancing initiatives, whether that is fairer pricing, reducing costs for warehousing, distribution, merchandising, or in support functions.

Looking then at the sales general and admin costs, the total cost increased, as you see, 50 million to 362 million Swedish krona in the quarter. Now, if you look at this increase, if you exclude items affecting comparability, exclude the Forex, then the 47 million increase is almost fully explained by the absence of a repeat of last year's release of bonus programmes. So, basically, this means that the lower marketing spend dimension paid for other increased SG&A. That's in line with what we talked about in the last quarter, which is that cost would start to come back as the business also started to normalise. That's also the case for quarter three. So, rebounding sales of Pick & mix naturally brings higher costs for merchandising and for fixtures. So, these are good cost increases, and you can also tell that from the progress on building sustainable profitability in Pick & Mix. Secondly, other costs are also coming back, and we do have continued to invest in e-commerce and other capabilities.

Now, part of these increases are offset by our VIP plus programme, which continues to deliver savings versus last year. And here, what we have in is restructuring of our Swedish business, the launch of the shared service centre in finance, and migration to the cloud-based ERP.

Now, if we compare to Q2 again, the reason there are no cost increases at all versus last year, again, when excluding this incentive programme release, is due to the lower marketing spend versus last year's step up. And here, I want to reaffirm our commitment to our brands. And although it's down in spend versus Q3 2020, we're not down on a year-to-date basis, and we intend to continue to invest strongly behind our brands, both in the near and long term.

And while we talk about lower spend in Q3, this spend is nonetheless on par with our spend in Q3 2019. So, we're not talking about having gutted the support here. It is lower than what we would have spent without the good momentum from the first half, but also the mix of this spend is also better because we have also improved the ratio of working spend versus non-working, and within the working spend, the ratio of pure media. So, basically, what is really reaching the consumer is also increased.

Now, finally, on SG&A, if you take a step back at the percent of sales, 23.1 in the quarter, it is the lowest percent we've had since around, I think, 2014. So, that is really very good. And even with a higher marketing spend, this KPI would have been one of our lowest percentages for quite a number of years.

Looking then at cash, we had again a healthy free cash flow in the quarter, delivering 238 million krona on an operating profit of 189, and this strong operating result in cash is the main driver of the good free cash flow, almost on par with last year. But then, in Q3 last year, we benefited a lot from the reduction of inventories that we had built up to avoid supply disruption when COVID broke out. So, with respect to working capital, as we close the quarter, days inventory in hand is actually further down, by nine days versus last year, in line with what we said that we were going to do. At the same time, our receivables are up, and so are our sales. So, that is really expected, and our overall cash conversion cycle is down six days versus where we closed 2020 Q3.

Now, the working capital is not yet affected here by the new European UTP legislation. So, our days payable outstanding and our days sales outstanding is fairly similar, but the new UTP legislation is, nonetheless, risking having a negative impact on our working capital, given that different countries in Europe are implementing UTP differently. And our manufacturing sites supply multiple markets. That means our trade payables and trade receivables do not line up by country. So, we're working through this, and we will have to report further on when we know how this will affect us.

Now, for the investment in PPE and intangibles, it was 52 million and a bit lower than last year. Now, the cost for the new carton-packaging technology that we mentioned earlier this year is not yet materially reflected in the numbers. So, there was 130 million we said we were going to invest, out of which 40 was going to come in this year, and I think we're going to land a little bit below 40 on account of restrictions to travelling because of COVID, and that has slowed down the work somewhat.

Now, with the seasonality of our business, we tend to generate our cash in the second half of the year. Yet with our strong start, we have now delivered a solid 351 million in free cash flow in the first nine months. So, it's good improvement year-to-date versus last year, by 237 million. Now, we had a very strong cash flow in Q4 2020. So, you have to factor that in when you think about Q4 2021.

Then, moving to my last financial slide, leverage is one of our key financial targets. And this slide seeks to capture that and our debt position. And I'm pleased to share that our leverage is back below targeted 2.5 in the quarter, which is the first time since the pandemic started. I'm also pleased to share that our net debt is at an all-time low since the Cloetta merger, basically, at 2 billion - that's the lowest we've had since 2012 - and we're still having access to additional unutilised credit facilities and commercial papers not yet on the market of almost 1.4 billion. And we held a solid cash of 505 million at the end of Q3. So, our conclusion is that our financial position remains really strong.

Now, before handing back to Henri, I have one additional slide to you, which is more of a heads-up. So, earlier this year the IFRS Interpretations Committee finally concluded on the treatment of cost for system implementations related to cloud computing. Basically, software as a service. Now, this has been an open question for some time, and if one should treat that type of implementations different from when you house the software on your own server. And they have concluded, yes, it should be treated differently. So, we're currently investigating to what extent previously-recognised efforts are now going to be retrospectively expensed, and we're going to be able to have figured that out by Q4. Things are leaning in that direction, however, and we expect to record a negative adjustment of the operating profit. We don't think it's going to exceed 25 million krona for the full year of 2021, and that impact will be distributed across all four quarters because we're going to do a restatement as per IFRS guidance.

So, if you look at this table, I'm trying to illustrate this that the cost for cloud computing is going to go up. That's the three red arrows towards the middle, but then it's going to be partially offset by amortisation charges being reversed. So, that takes it down a bit for a net negative impact. But there's no impact on cash, and again, only limited part of this will impact Q4, probably not even a quarter of that 25 million. And when we close the next quarter, we will have nailed down these numbers, and we will populate the table for you.

So, that concludes my part of this presentation, and back to Henri.

Henri de Sauvage Nolting

Good. So, a quick update of strategy. Frans already talked about the marketing investments just to show you that this is part of the strategic agenda. So, in order to get our branded growth to levels where we want it to be, we are investing more efficient and we're investing more in marketing. And if you talk about marketing cost, you should think that it takes external companies like agencies or production companies to make, let's say, social media campaigns or do market research and that money you tend, in FMCG language, to say, ‘That is not working media.’ And all the money we spend on buying time or Facebook or on TV or on the outdoor media is called working media. That's the kind of stuff which the consumer sees. And when we started this journey. You can see that 60% of the money we were spending in marketing was actually paid to third-party companies. None of that money was seen by the consumer. So, let's say that the production cost, and only 40% was seen by the consumer. So, we’re now proudly, I would say, saying that we've now upped it to 70%. So, 70% of the money we invest is being seen by the consumer in one way or the other, and that also is, of course, a big contribution to the strengthening of the top 25 brands. So, that can be outdoor, that can be TV, and of course, you're all very excited by the launch of the second car manufacturer in Sweden, Volvo cars, today. I think they get a little bit too much attention, because we are by far the number one car producer in in Sweden with Ahlgrens bilar and will continue to be so. But I would say congratulations to Volvo with their number two place to date.

If we go to the next chart, we, of course, have these science-based targets, very important for us, but that's not the only part in our sustainability agenda. We are working hard with the living income for farmers in Africa and also of course on the ‘For You’ Nutisal drive towards natural flavours, natural colourants is really progressing quite well. So, that's an important part of our strategy, as well.

And then, we go to the next one, Nathalie. So, we already talked about it. If we want to get into sustainable value growth with CandyKing, we need to activate towards the consumers also to bring them back into the brand. But to do that only with price promotions is, of course, not helping so much with the sustainable value parts of it. So, I'm really pleased to say that we’re launching now a cross-Scandic cooperation with SF anytime, where we are, basically, gaining penetration for them on their streaming platform in store with our enormous numbers of penetration moments with Pick & mix, CandyKing bags where, if you buy a certain amount of Pick & Mix, you get a QR code, which you then can redeem for a free movie with SF anytime, and they are using their channels of communication to talk about CandyKing. And of course, the two things together are really a nice fit because when do you consume our products? That's when you are sitting on the sofa with the family or Friday or Saturday watching a movie. So, it's a fantastic way to activate the CandyKing brand without price promotion and getting more brand-building activities around the CandyKing brand, which is good for consumer activation, also, of course, showing to our customers that we are the number one in this category, we are taking care of building the segment into a really branded business. So, very pleased to see this. It's really big.

And then, we already talked about it, what is happening out there in raw materials with everybody in FMCG. We tried to give you some sort of a feeling. We made a basket, a weighted basket of our most important raw materials, what happened with the price index since January, and you can see that it is somewhere, 17% up since the beginning of this year. And that is, of course, something we are mitigating. We are out there with pricing in all the markets now, taking the right moment in the proper way. We do this with a three-months average in some countries, looking forward in other ones, and discussing with our trade partners how we are going to price towards them. And then, it's up to them to see what they are going to price up towards the consumer. So, that's a lot of work, but it is really important because these are big sums of money, and therefore, the only way to do this is to price up for that happening.

Key business priorities. No big changes. You can see from the presentation today, branded growth, really important. Getting the top 25 brands stronger and stronger, and also, like both Frans and me mentioned, pastilles and gums, that needs to come back because it is helping us in our profitability.

Pick & mix, sustainable value growth are really important. Maybe one piece of information as well, it's really nice to see our largest customer in Norway also voting for Cloetta, based on our fantastic work with Pick & Mix, as Supplier of the Year. So, that, again, gives confidence because we're not the biggest one in Norway in the candy and chocolate category, but they really see us as a very professional player.

And, of course, cost very important still. Frans talked about it. We have costs going up with merchandising because we have more sales. Good. Yeah, we have incentive programmes which were zero last year and now are getting reservations, but it's very good to see the progress on both the purpose [ph 00:32:39] factory programme efficiencies and the VIP plus programme. So, that's happening, but of course, looking forward, surging input costs, we need to take care of that.

And that was it for the presentation. And now we open up for questions.

Q&A

Operator

Thank you. If you do wish to ask a question, please press 01 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel.

Our first question comes from the line of Nicklas Skogman of Handelsbanken. Please go ahead.

Nicklas Skogman

Yes, good morning. My first question is on if you can give us some guidance how we should think about this raw material cost inflation, and then, your response in terms of price increases for the quarters ahead. Do you expect some mismatch there, or do you feel like your hedges and the price actions taken will be enough, so to speak?

Henri de Sauvage Nolting

First of all, I think nobody knows because prices might go up even more next month or the month after. So, we have a way of doing this with our customers by markets. In some countries, it's an average of a number of months because we don't act on spot prices. In other markets, it’s more like a momentous negotiation at the moment. And we are trying to find this, and we have been finding this in the right way, so that we capture the increases, but we’re also not delaying it too long so that we might have a quarter with no price increases while the input costs are going up. So, there's always a bit of delay in this, because we are not acting on spot prices, both when it goes up and when it goes down. And then, it is clear that it might not be only one price increase, it might be multiple price increases we will have to do during the year in order to cover the increases which we are seeing. But how high these increases are going to be, we don't know because then, we would probably be trading raw materials at the moment.

Nicklas Skogman

All right. Thank you. I'm thinking about these pastilles and chewing gum sales still being lower than last year when mobility was slower. How do you think about that? What do you think is the explanation? Is there some new competing category that's taking share or how do you think about that?

Henri de Sauvage Nolting

No, that is not the case. What we do see is the mobility is still not completely back, and these are, of course, products which you are not only buying in the supermarket channel but also on the go, when you are on the move and you stop at the shop to buy a coffee. And a lot of these channels are seeing recovery, but not fully yet. So, that is one thing, and that will come for sure when the pandemic is going to get more and more under control in most of our markets. But the second thing is that this situation has been now going on for one and half years, and in each brand, in each category, you have heavy users and medium users and light users. And what we can see, in particular on the light users, we have lost light users who have just not seen the need of buying chewing gum, for example.

We can relate to that with other categories that if you're not going out in the weekends or you’re not going to work every day that you buy less make-up, or in our case, you buy less probably chewing gums to refresh your mouth, and that is the actions we're working on. How do we get those light buyers back into the category, and, of course, back into the Cloetta brands? That will take a little bit more time, in that sense, a bit comparable to the Pick & Mix challenge where, also, all the stores are open now again, but we don't see all the consumers back into the category yet. And that's a little bit the same challenge in a different way, of course, with the refreshment category, that we’ll have to rebuild the penetration with the light users.

Nicklas Skogman

All right. Thank you. And then, the last question is: I didn't really follow the marketing cost explanation. So, to ask in simple terms, how much lower were marketing spends in Q3 this year compared to last year?

Frans Rydén

I won't give you the exact number, Nicklas, but I'll help you triangulate this a little bit, and then, maybe I'll think about it. So, let's say what we have shared. In Q2, our SG&A was up 50 million. And that was in the report. Or 53, let's say 50. And at that time, we said it was roughly 30 was on account of higher marketing spend. So, that leaves 20 on everything else. And that 20, of course, is again, like we said, when the business comes back, some of these costs will also be coming back. So, if you then say, ‘If you were up 20 in Q2, maybe you should be up 20 in Q3.’ But obviously, once you adjust for that incentive thing, we're not up at all.

So, you could conclude maybe it could be somewhere around 20, which is the reduction in the marketing spend versus last year. And then, I think, to understand the quality of-- is that 15, or is it 20? But let's say somewhere around there seems plausible. And then, if you want to think about the quality of the spend, then there is two points there. One is that we know that last year we really stepped up to get the consumers back in when we thought COVID was receding. So, when we're spending less, it's not because of reduced commitment to invest behind our brands. That will be the wrong conclusion. And certainly, would be a wrong conclusion to have when we think about Q4.

So, that's one. And the other one is, as Henry showed on the slide finding on a year-to-date basis, what we spend our money on has been steadily improving. And also, again, in Q3 this year versus Q3 last year, the ratio of spend that goes to working is higher, and within working, pure is higher. So, while, let's say, reported spend is down, that doesn't necessarily mean that marketing spend would have reached, if you were the eyeballs of the consumer, or the ear drums, has been reduced.

Nicklas Skogman

All right. And if we think about Q4 now, this Halloween campaign, should we think that marketing spend should at least be on the same level as last year in Q4.

Frans Rydén

Yes. In Q4 last year, again, we had a big step-up there, again, because the second wave really came more towards the end of Q4. And of course, these investments get locked in a little bit earlier. So, I think I would go back to the same scenario and think, if we were up 20 in Q2, and we're probably up 20 or somewhere around there in Q3 on the 'all other SG&A spend', maybe it seems plausible that we should be up also on that type of spend in Q4. And then, the question is: are we still going to be able to spend more efficiently, and do we need to step up as much as we did in Q4 last year, or is it possible that Q4 SG&A will be pretty much in line with last year in the same way that we saw Q3? And there, you have to decide which direction you want to go.

Nicklas Skogman

OK. Thank you very much.

Operator

Just to remind everyone, if you would like to ask a question, please press 01 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel.

We'll now have a brief pause while any further questions are being registered.

And there are no further questions at this time. Please go ahead, speakers.

Henri de Sauvage Nolting

Good. We thank you for the call of Q3. As said, we're pleased. Good progress on the branded business, above 2019 levels. A good recovery of the business in Pick & mix, and of course, working hard to mitigate the raw material prices and other inflation going forward. We have Stefan posting a question: 'Are there any larger Pick & mix contracts up for negotiations?' That's happening all the time. I would stay nothing in this immediate quarter, but for next year in each quarter I think there are contracts up for negotiation, both on keeping and also on gaining new contracts. But I can't comment due to competitive reasons on the exact nature of those contracts.

'Any change in the competitive landscape within Pick & Mix?' Well, that's interesting. What we do see is that there's quite a few of the third-party suppliers we are using - these are not Pick & Mix competitors, but these are, let's say, factories producing, Pick & Mix items - that they are actually having trouble to supply, to keep up with the demands. How that is exactly going to impact the competitive landscape, we don't know, but we feel we are quite well-positioned because we have our own factories which are producing, of course, also for Pick & Mix. So, we should be able to capture a bit more of that.

At several retail sales, yes, we are recovering, and we can see, in particular, in the Nordics that we are about halfway on the recovery versus pre-pandemic. That is mainly coming from areas like the ferries or the boat passenger, boat sales. The air travel is still low, of course. That is also picking up as we can see that the airline industry is not back to, of course, where they were, and that they're also finding it difficult to find personnel, *et cetera*, to bring the capacity back. And we see that in the sales in the shops on the airports.

Nevertheless, we are not that big in travel retail. I'm very pleased to say as well that outside the Nordics, with the new international team we have, we're also making really good progress with some of our international brands like Jelly Bean Factory, and closer cooperation with a few of the big players adding 50 - 100 new airports going forward for jelly beans. So, that is, of course, the opportunity within travel retail for us as a new player in that field to take new contracts and to increase sales of travel retail outside of the Nordics. So, there will be a gradual improvement as we expect, but an important business, not only for sales but also to build our brands, in particular those international brands.

Good, that was Stefan. And no further questions. So, then we end it, and we thank you for today.

Operator

This now concludes our conference. Thank you, all, for attending. You may now disconnect your lines.

