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Presentation

Jacob Broberg
Good morning and welcome to Cloetta Q1 Presentation. My name is Jacob Broberg. I'm head of Investor Relations and I have Bengt Baron, CEO, and Danko Maras, CFO, with me. So obviously the floor, or the phone to Bengt. Please go ahead.

Bengt Baron
Thank you Jacob. Good morning everybody. It's a pleasure to be able to present the first-quarter highlights. We feel that it's a solid quarter and we're very satisfied that our focus on profitable growth is generating results. Starting at the top: the income statement and net sales, the growth was 10.1% to SEK1.3 billion. We've been helped, on that line, by the FX, by 3.4%, and Danko will take you through the details on the organic part of the growth and the structural changes. But double-digit growth and that drops all the way down to operating profit, that's not totally double, but went from SEK52 million to SEK90 million and also the underlying EBIT increased by 32% up to SEK107 million. Also very gratifying is that we are post-the-restructuring-process, so we're through. We saw already in Q4 of last year a significant increase in the cash flow generation, and that also continued in Q1 of this year as the – with – primarily driven by the fact that we collected cash from the Italian seasonal product so we saw the SEK 223 million of cash flow from operating activities. With the result improvements we also paid off our net debts, so our net debt EBITDA, and the ratio went down to 3.6x so improved further; as compared to last year it was about 4.5x. Also very, very important in the quarter, a very busy quarter, was of course a refurbishing and a change of the 700 Coop stores with our new pick-and-mix concept. Starting basically from zero in the third week of January we were ready by Easter and we actually managed to get all of the logistics in place working for the huge Easter peak, which is actually the biggest peak of the year in pick-and-mix.

Looking at a little bit more in detail on the sales and marketing – sales development: double-digit growth; positive total market developments pretty much across the board except in Holland. The organic part of the growth was 4%, which is the best organic growth quarter we've had. Sales grew pretty much in all markets except in Italy, which is a very small quarter; Italy is big in Q4; the first quarter is the smallest, but as yet there was still some challenges in that market place. In Norway we also lost a bit of sales and that was driven by one major customer, and basically flat, slightly down, in the Netherlands. Sweden of course had a very solid quarter as we rolled out the pick-and-mix, and likewise Denmark and Finland had very, very strong quarters as well. The brand we acquired last year, The Jelly Bean

Factory, continued to do extremely well, and we are very pleased with the development in the core markets, but we're also starting to roll it out into Holland and Germany.

With that, I'll hand over to Danko to take you through some of the financials.

Danko Maras
Thank you Bengt, and good morning everyone. Yes, as Bengt was saying, we feel it was a very solid quarter. And if I go into page 4 you'll see both net sales and EBIT, a couple of more details on that. I'll wait a little bit with sales, I'll go further into it in the next chart. But on the underlying EBIT SEK107 million have been generated in the quarter, relative to the SEK81 million last year is a nice improvement of 170 points or a 32% improvement on year-on-year. Also EBIT margin going from 6.6% to 8.3%; the key contributor to this is actually in the gross margin, so for those of you who have the chance to look at the financial statement, you're seeing that our gross margin went from 35.5% to 37.4%. That is 190 basis points improvement for year-on-year and for that we feel very comfortable about what we've said before on full run rate on our efficiency savings and so forth, so it's really coming through and for that we feel very good.

If we move down then to the operating profit you'll see that it's slightly below the underlying EBIT with about SEK17 million, so the operating profit of SEK90 million is a vast improvement to last year. There's absence of restructuring funds of course, but we did have some restructuring in the quarter, as we already have announced, on Italy; approximately SEK40 million of costs that we took, and we are in negotiations still, but it's been quite a hectic quarter for the Italians in managing the redundancy of approximately 30 people in that quarter. Overall the execution of that programme is going very well but it's a little bit too early to say that we have landed fully on this one, but approximately SEK40 million of cost are exceptional in that respect. We also have a residual on a roll-out of the Coop pick-and-mix, where we had some specific costs that we consider being extraordinary in the quarter and we have also booked them on exceptional. So the total net number between underlying EBIT and operating profit is SEK17 million adverse.

If we then move down, further down to the – by the way on the operating profit, just one point there: the gross margin is quite unaffected, and I comment[?] to that – when you look at the income statement you see that selling expenses are quite much higher relative to last year. And that is because we've booked the restructuring costs on the selling expenses because it relates primarily to the commercial activities in Italy, so you won't see any distortion in gross margin there, and also the fact that we have rolled out Coop pick-and-mix, we have merchandises. For those who have seen that selling expenses goes up, that's also a contributing factor to the quarter why they are actually increasing.

If we move further down on the P&L, the financial items are lower than last year, it's SEK48 million versus SEK50 million. But again, I would like to iterate that we have a table in the quarter report where we are itemising, what are the actual cash-outs on the finance nets which relates to the borrowing we're having? That is approximately SEK39 million in the quarter; the rest are various items where we have to book interest charges that are not cash-out. And I can spend more time on those specifically for those who want to know more about them, but we are itemising them in the table and they should give you a good indication of what we look – of what it will look like also on a going forward basis, so for us we think we have good information on that for you.

That yields profit before tax of SEK42 million versus SEK2 million last year. And if we take the corporate tax rate there of 22% for the Swedish units you can see that actually quite a little bit lower than that, at 21%, so a pretty normal quarter on the tax line, yielding SEK33 million profit for the period relative to negative SEK12 million last year. And we do have a positive earnings per share in the quarter now of 12 cents per share.

And then moving on to page 5, if we look at net sales, very nice to see organic growth of 4% of course, exacerbated by the fact that we have introduced the Coop pick-and-mix, but also overall 4% is a nice number for us. It's perhaps important for me to mention that we have most of our business in our organic growth, but The Jelly Bean Factory was acquired last year in May month, so you will see some effects of structural changes. We haven't bought any new companies; it is actually the comparator that is affecting it. The Jelly Bean Factory's going well and the impact of that is 2.7% on the Group top line because there is no comparator from last year. And the third part: changes in exchange rates. The euro has still strengthened versus last year, it's actually about 5.7%, and our share of euro sales is about 60%, so there you have the FOREX effect of 2.3% in the – sorry 3.4% in the quarter. In total, 10.1% growth in the quarter.

If we go to page 6 you can also see visibly depicted, again a very good visual on how we are delivering by quarter, and as you can see on all three items we are over-delivering versus prior year, both on sales operating profit, and underlying EBIT.

If I then move on to page 7, Bengt was mentioning a very strong cash flow in the quarter. Yes, indeed, it's a very strong cash flow in the quarter. Even for me as a CFO, I was smiling on my way home when I got the news on this one, and perhaps it's almost a little bit too good if I – but I never say no to a good cash flow. But we should perhaps remember two things that have happened in the quarter. The cash collection from our seasonal business in the fourth quarter are collected in the first quarter, so we traditionally have a very good cash flow in the first quarter. Our inventory has also actually come down so we are having an additional impact of that we are now starting to focus more on our inventory level and that is yielding a good working capital impact on cash flow, in combination with our strong EBIT or EBITDA. So with those two together, it has a significant cash flow in the first quarter, but please be mindful about, this number is a very strong delivery in the quarter.

On page 8, again here you can actually visualise it a bit more. You see the difference versus last year, that we have a strong cash flow from our results: SEK66 million, and you can also see SEK157 million positive cash flow from movements in working capital yielding the SEK223 million. The SEK55 million CAPEX, or investment in property plant and equipment, relative to last year, actually relates to the Coop pick-and-mix roll-out, where we have invested in racks, so it's not an ongoing cost that you will see. We're actually holding it quite firmly on the 3% then, as we always said. You can also see that we haven't invested in any companies in this quarter, and therefore last year you saw SEK107 million, so a very nice delivery on free cash flow and SEK168 million in total. This has also yielded that we, for the first time, actually have a revolver which is completely unused, so it's tickling in the fingers on Bengt, but we'll see what that will mean for us in the future. And then as a subsequent effect of a very strong cash flow, debt reduction: we amortised SEK34 million this quarter, and also a very strong profit delivery has the steepness of the curve or the financial leverage, where we started at 455 last year, and we're landing at 3.6x. So we feel very good about the cash generation that we did and if we look at the continued strength of this it's getting closer to the target level that we had – I issued when we started our company once upon a time in February 2012.

So all in all, financially a solid quarter, and with that I'll give over the word back to Bengt.

Bengt Baron
Thanks Danko. And we think that the roll-out of the Coop, the pick-and-mix, deserves a little bit of additional tension. It's really easy to get lost in the big numbers. You're talking about SEK200 million of sales and then rebuilding 700 stores, but then when you start digging into the details to understand what type of planning and execution goes into this: we're talking about approximately 3,000 pallets worth of racks; we're talking about 100 trucks that needs to be delivered around Easter time; and we need to do the logistics of rebuilding 700 stores in seven or eight weeks, one-by-one, planning it, getting the racks into place, getting 100+ SKUs into place at each store, at the same time taking out the old racks. So I think it's a remarkable feat by the team on the Coop side and on the Cloetta side of actually pulling it off, getting it all ready for the peak season at Easter and also being able to execute during the Easter season with basically no history on the numbers. The previous supplier pulled out a little bit faster than was expected and planned, but together with Coop, we stepped up to the plate and we managed to get it through, and I think this is a tremendous accomplishment by the team. To go to[?] the next stage hopefully everybody recognises; if not there's always a Coop store close to you that you can go out to see this in real life, and we're proud with what's out there.

We are still learning so it's – I mean, we've just gone through a first quarter so there is still learning to be done, on the pick-and-mix business and we're learning as we're going. So we will most likely trip once or twice as we go but we feel good about where we are right now.

Going forward: profitable growth. Restructuring is behind us so now it's all about driving – continue to drive profitable growth. Accelerate Nutisal, the branded business of Nutisal: we still feel we're going in the right direction. We have started the roll-out so we've launched in the traditional trade in Italy for instance, and getting some listings in Holland and moving forward. Also The Jelly Bean Factory continues to do well in the organic markets, also there rolling it out into Holland beginning slowly but surely in Germany, but things are going extremely well with The Jelly Bean Factory and we're very happy with that acquisition.

Raw material and currencies continues to be volatile. Everybody asks us: what's the impact, on average? The average is very interesting but we need to stay on the detailed level because this is SKU by SKU. As we've said, increases need to be passed on and decreases need to be passed on, and if we do that on average without thinking about what the competitive situation is, we would end up at an average which means we would be too low in price versus some competitors to some segments and too high versus some competitors in other segments. So we need to go through the nitty gritty and this is always a painful process with an extremely consolidated retail trade, so we need to keep on focusing this and also keep on working on this.

And then finally as restructuring is done we're moving forward into continuous improvement and we're stepping out our efforts within lean and day-to-day improvements in our supply chain. And it's all about continuing to make sure that we deliver on quality on the service level, but also going forward, as we are focused on profitable growth, to actually release more capacity without having to invest in the CAPEX, but actually releasing capacity by improving our efficiencies.

Of course staying active in the market place, I think there's some interesting launches that are worthwhile to point out. On the left, I'm not sure I even am going to try to pronounce it but the Tsinuski Toffee, which is the follow-up of the Hopea Toffee, which was extremely successful last year. Then the Läkerol Dentafresh: hopefully you've seen it in store but also maybe you heard some advertising on radio. This is actually the Läkerol dental product that is being rolled out and launched in Sweden and is an extremely interesting product because it is in between of the gum; it does all the positive effects of gum including the xylitol, which strengthens your teeth, but also the benefits of pastilles that you don't have a gum in your mouth that you need to spit out, so it's an interesting combination.

Polly Påsk continues, limited edition for Easter. Viva Lakrits continue to build the liquorice concept. Once again the product in the pack is just straight out of the – our Dutch assortment, but packed under the loved Malaco brand, so it works well. Nutisal, I mentioned before, in Italy; jelly beans in Holland I've mentioned before, Läkerol Salty Caramel has been an extremely successful flavour launch and continues to be as so. Hopefully you get a sense of that we are staying active, not only internally, but also in the face of the consumer and in the hands and the mouths of the consumers.

So with that, we leave the floor open for any questions.

Q&A

Operator
Ladies and gentlemen, if you'd like to ask a question please press 01 on your telephone keypad; that's 01.

Our first question comes from Mr Stefan Cederberg from SEB. Please go ahead.

Stefan Cederberg
Yeah, good morning. I'll start with a question on inventory. I see that the inventories are down 5% year-on-year while sales increased 10%. Have you seen any negative impact from lower production, such as under[?] absorption of a fixed cost in the quarter?

Danko Maras
Overall as you recall – it's Danko here, hi. Last year we talked about absorption issues and the fact that I haven't mentioned it this time, is not only because we're having a good quarter and the gross margin is good. We have less of those issues; we are having more of our normalised production level where our utilisation and full run rate is actually coming through. So I wouldn't associate any absorption issues in this year particularly unless we actually disclose it for you.

Stefan Cederberg
Okay. On the Coop pick-and-mix, what kind of revenue did you have from Coop in this quarter in Sweden?

Bengt Baron
Well we're still sticking to the number that we have communicated, which is SEK200 million for the full year, and we're not going to break it down by quarter because it's really bumpy up and down, and it's really difficult to interpret because you have the peak for Easter and then you have a slow-down in Q2 and then you come towards Halloween and Christmas, so it's really bumpy. So we're sticking to… And quite honestly we have a difficulty in relating to last year since we did not – we were not the supplier previously, so we are sticking to and we're following plan and we feel that the SEK200 million is well within reach.

Stefan Cederberg
Okay. On the price impact, did you see a net positive price impact in the quarter versus last year?

Danko Maras
Well as you know we don't disclose between volume and price, but we do not have, either way, positive or negative impact. The key contributor – and I can disclose that of course – relates to volume in the quarter.

Stefan Cederberg
Okay. And on the Easter, I mean Easter was a bit earlier this year and I guess you have seen some positive impact on volume from a bit earlier Easter, is that true?

Bengt Baron
Very marginal except for the pick-and-mix, which is the new increment because before we did not have a big peak on Easter. We're not really active on the Easter egg side and on the novelties; we're much more active on the year-round business. So yes, there's probably some but really material, but the big bump is actually the pick-and-mix.

Stefan Cederberg
Okay, thank you.

Operator
Our next question comes from Mr Mikael Holm from Danske. Please go ahead.

Mikael Holm
Hi, I have a question regarding organic growth. You mentioned the SEK200 million from Coop but you also said earlier that you expected Nutisal to contribute SEK50 million to net sales growth goal for – well, is that still valid? So we basically could have SEK250 million asset-based case, excluding any growth in the other parts of the business, is that correct?

Bengt Baron
Well as you know, Mikael l – good morning – we don't do forward-looking statements. We feel good about the SEK200 million. I think that regarding the SEK50 million, I think we've been clear that we have lost the private label business faster than we thought. We're happy with the branded business. Whether that's going to add up totally to SEK50 million this year, I don't know at this point in time, it's too early. We're beginning the roll-out, as you heard. We're launching in Italy, there's a little bit of a launch in – beginning also in Holland. We are growing the branded business in Sweden and in Finland and in Denmark so we feel – still we feel good about getting to the EPS-accretive in 2015, and whether that's going to be based

on exactly SEK50 million or slightly more or slightly less on the top line, I don't know at this point in time.

Mikael Holm
Okay. And regarding the restructuring in Italy, what kind of savings do you expect from this, and when will it have a full impact on the numbers?

Danko Maras
Hi Mikael, it's Danko here. Again the restructuring that we're doing in Italy is related to indirect and it's related to people, so what tends to happen when you do that is that you have fast-saving realisations with the fact that people are leaving. But we haven't actually itemised what the total will be on a full-year basis. But, as we said, we have taken a cost of approximately SEK40 million in the quarter; that is the impact that we have as a one-off, and that's the information I can give for now.

Bengt Baron
We also said it impacts about 30 people.

Danko Maras
Yes.

Mikael Holm
Okay, thank you.

Operator
Our next question comes from Mr Fredrik Villard from Carnegie. Please go ahead.

Fredrik Villard
Hi, good morning. Two questions, one relating to Danko's comment 'itching in Bengt's fingers', I mean [inaudible]. You've done some successful ones. If you could comment – have prices come up, given the environment that we're in, or I mean given the situation, if you compare it to a year ago? I know you're not going to say anything about any forward-looking statement, but just comparing now to what it was a year ago, how would you – how is the market for acquisitions, would you say?

Bengt Baron
Well I think, I mean we still believe that there are interesting opportunities out there. When and if we get into sort of specific pricing discussions we will get to it. I think what we are experiencing is that, based on the fact that we were active in the marketplace last year, is that we are seeing much more incoming ideas and opportunities, so it is less of having to go out and look. It's much more incoming, which means that the [inaudible] and the business development people are active in evaluating, and then at the end of the day we need to find something that is on strategy on the pillars that we talked about, within the Munchy Moments, impulse-branded and all the things we talked about. Once it's there and then we need to sit down and see if we can negotiate a deal that we believe is value-enhancing to our shareholders. They are very specific cases so I cannot really comment on whether pricing has gone up and down, or down, because I don't have a really good time series because it's very bumpy and it's a very unique situation every time that we go into this.

Fredrik Villard
Okay perfect, thanks. I mean for follow-up, we've seen the sugar price in the EU coming down, and if you could just comment on how – you said any sort of, any increase in raw materials must be carried by the end customer at some point, and any decrease in the raw materials is going to benefit the end customer. I mean, when is your next round of price negotiations with the large retailers? Because they must be looking at this situation as well. So are you going to have an overlag[?] of a sort of… Is it the same – my question is: is it the same sort of push through, sort of, time period when you've seen it raised prices and now you're going probably lower prices to meet the sugar price? Is it the same time frame or are they more, sort of, willing to do it? Does this go faster when the prices go down, basically?

Bengt Baron
Well it's our ambition that it should not be, right, and now the game changes. We feel a little bit disappointed that the papers are writing about the fact that sugar prices are coming down because, as you say, everybody knows that. So the price negotiation, it varies by market, so it's pretty much ongoing. Some markets it's three times a year, some markets it's once a year by customer at different times and some markets it's basically twice a year, so it's ongoing. But I think it's a fair assumption, the time lag, because we are working in specific windows; it's fairly similar regardless if it goes up or down. Also yeah, I mean, people are focused on sugar coming down, but cocoa is remaining at extremely high level, nuts are at a record high and also the dollar and the euro versus the Swedish Krona is not helping us either. So in totality, the impact is not really big but it's very big variations, fluctuations, on product-by-product level.

Fredrik Villard
Okay, perfect thanks. I just have one more question and then I'll let you go. Norway, you're not worried about the contract you lost? I mean then, you're sleeping well at night despite this, right?

Bengt Baron
No, I mean it's not a lost contract; it's more a sort of leaning a bit heavier on us and what we're negotiating. That's unfortunately how it works in a very consolidated trade. At the end of the day, we have very, very strong brands, so I'm sure that this – the retailer wants to make sure that his consumers can buy our strong brands in his stores as well, so I'm sure it'll work itself out as we go forward.

Fredrik Villard
Perfect, thanks.

Operator
I remind you to press 01 if you'd like to ask a question.

Our next question comes from Mr Erik Sandstedt from Handelsbanken. Please go ahead.

Erik Sanstedt
Yeah, thank you. Hi there, Erik here. Well done. I've got a few more nitty gritty questions actually. Firstly, if we start off with net financial expenses, I know you're not going to give any guidance and I know it's difficult to sort of have any visibility on the non-cash charges here, but those have created some volatility in the past few quarters, meaning that we have

sort of had too low financial expenses in our models. Could you help us out a little bit here to give any kind of indications how we should think about this over the coming quarters?

Danko Maras
Yes, hi Erik, Danko here. I recognised that there were some questions regarding this and then, I think it was three quarters ago, we started to introduce this table that you can see in the quarter report on page 7. And I think one key point is to look at interest expenses on third-party borrowing. That is the effective interest that we are paying and extrapolating that on is – you could extrapolate, if you would like to do that. In this specific quarter, we had some extra charges on – which is unusual for us, but the fact that the interest rate is becoming negative, it is incredibly important now for, not only us, I think many companies, to manage cash position in a better way. And please make sure I'm going to talk to your colleagues at Handelsbanken about that; the fact that you have to pay for a surplus position, and a negative position, makes the cash pooling and the cash management very relevant, and I'm sure one or two other companies have experienced that as well. So I would say that some of the excess that you see in the third-party line borrowing line versus last year relates to the fact that we are not optimising our cash surplus positions, because we get no interest on that at all and in some parts you actually have to pay for it. So this is a focus area for us but it's a good extrapolation to look at that on a full-year basis.

Erik Sanstedt
Yeah. That's great, but I mean if we exclude interest rates here for a moment, because that's relatively easy to calculate, those non-cash charges and the other type of expenses that you have, will they always be negative, if you like, or – because you do have some FX-related impacts on interest rate swaps, which of course could go in both ways, but would it be too – let's say, one would model those flat going forward and only model the interest rates payments, then we would probably end up with too low financial expenses, I would have thought.

Danko Maras
Yeah. No, you're absolutely right. So if I just make it as simple as I can for you: if you look at the earn-out liabilities, it's fairly constant until we don't have any earn-outs any more. So if you consider the fact that we are paying out an earn-out next year, it will reduce itself. This is a non-cash IFRS charge, where you have to discount the earn-out with a discount rate and book it in the finance net, so see that as a constant going forward. The amortisation of capitalised transaction costs has already been paid when we set up the credit facility. It's fairly constant over the lifetime of the credit facility arrangements, so that is also an extrapolation. You're absolutely right that currency interest swaps are moving up and down, and I cannot predict the impact of that because we have to make fair value assessment in line with the IFRS, so that will move. It's relatively low, but it will be an unpredictable item. Other financial expenses are inefficiencies that we are working on and trying to improve as much as we can. But in there, there is a pension charge as well, which is non-cash related; about half of it, and that pension charge is also a reflection of liabilities, which essentially means, the reflection, that it's fairly static, fairly static, but again it's actually not something we are paying out from a cash point of view. Maybe that will help for you?

Erik Sanstedt
Yeah, perfect. No, that will help a lot. I mean, it seems – I'm not going to ask any more questions on that line, but it seems the – what you're running at in this quarter is probably a

pretty good proxy for the coming quarters as well then, at around sort of SEK45 million/SEK50 million perhaps. I'm going to leave that for now.

A couple of other more nitty gritty questions. I'm wondering, in terms of profitability in the Nutisal business, could you comment a bit more on that and how that's running versus budget?

Bengt Baron
Well I mean the Nutisal business: we're still sticking to the statement that we gave when we acquired it. The ambition is to make it EPS-accretive in 2015 and we're sticking to that. It's no secret. I mean I told you nut prices are going in the wrong direction and the dollar, because you buy nuts in dollars, is going in the wrong direction, but we're staying active in the market place and we still believe that we will get to the EPS-accretive this year.

Erik Sanstedt
Yeah, perfect. And then, Danko, I know you elaborated quite a lot on the strong cash flow in the quarter. I'm still just trying to get a feeling for how much of that that we should view it as, call it 'extraordinary items' in the sense that you have generated a lot of cash here in Q1, bearing, of course, in mind that Q1 is, as you mentioned, a seasonally strong quarter.

Danko Maras
That's a tricky question, Erik. I'm very happy to see the cash flow of course. You saw last year, and when we showed the visible – the visual charts, I think that's a good depiction if you take the average of that, but I don't really want to give you an indication of… Perhaps the best thing to look at is the cash conversion ratio. You saw that we had a little bit more of our CAPEX this quarter because of the racks that we were investing in for the Coop pick-and-mix. We should go over 70%, up towards 80%. That is a good indicator for cash generation in the company. We are more and more coming in to a normalised pattern on our cash-flow delivery and our working capital movement, and, even though I really think it's a fantastic delivery on cash, I think we just have to be mindful about: if you are extrapolating this and thinking you would get SEK1 billion cash flow in the year, I think we're all a bit too optimistic on that one.

Erik Sanstedt
Yeah, makes sense. Then finally, not sure if you mentioned it, and apologise if you did, but do you foresee any more non-recurring expenses for the pick-and-mix business in the coming quarters?

Danko Maras
No.

Bengt Baron
No, we do not.

Erik Sanstedt
Perfect, thank you.

Operator
A reminder that if you'd like to ask a question, please press 01 on your telephone keypad.

We have no questions on the telephone.

Jacob Broberg
Okay, thank you very much for listening and speak to you next quarter. Have a good day, thank you and goodbye.