



Transcription: Q2 Report 2015

Title: Cloetta Q2 Report 2015 and Lonka Acquisition

Date: 17.07.2015

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Conference Ref. No: EV00028067

Duration: 34:56

Presentation

Jacob Broberg

Good morning, and welcome to the Cloetta Q2 and Lonka acquisition presentation call. And my name is Jacob Broberg, Head of Investor Relations. And with me today, I have Bengt Baron, current CEO; David Nuutinen, incoming CEO; and Danko Maras, CFO. As always, I will to start to hand over to Bengt.

Bengt Baron

Thank you, Jacob. Good morning, everybody. Pleasure to have you on the line again. Also, I think it's a wonderful opportunity to also be able to introduce and also hear the voice of David, the incoming CEO. And I think it's also a good sign of the seamless transition that we aspire to having. And so far so good, I would say.

And looking at the second quarter, which I will talk about, and then when we come to the exciting acquisition David will talk about that, as that is much more forward-looking. But the second quarter, it is a quarter that we feel very good about looking at the numbers and the performance. Net sales, which I will come back to in a sec, increased by 3.4% to almost SEK 1.3 billion. And the FX impact is not as large anymore, but 1.4% versus last year. So it's starting to stabilise versus a year ago.

The operating profit increased by 53% up to SEK 130 million. And that is basically all the way up from the gross margin that drops all the way down to the EBIT margin, and Danko will as always take you through that. Also on the back of strong cash generation and a very strong EBITDA development, we'll continue to delever and we are now to 3.3 times net debt/EBITDA. So we are solidly on our way towards the target of around 2.5.

Also – David will talk more about that – exciting news if we continue to do add-on acquisitions that fit into our Munchy Moments strategy. And last night, we were able to conclude the transaction with Lonka, which is primarily based in Holland, but it has a broader reach than that. So overall, we feel a very solid quarter.

Looking more closely on sales, we are in an environment of stable to positive total markets, except in The Netherlands, for the quarter. Our organic growth was 0.8%. Sales did grow in Sweden, Finland, Denmark and also outside of our main markets. Very positive, I would say, that Nutisal, especially the branded part of the business, continued to grow, and the Jelly Bean Factory continued to develop in a very, very nice fashion.



We would like to point out, as we have discussed this for a number of quarters, but we would like to point out that we do have some negotiations going on with our major customers in Sweden and in Norway. They are not concluded at this point in time. And that has had some negative impact on the sales in the quarter. But as we've said, we feel that it's important that when there are fluctuations in raw material and packaging, regardless if they go up or if they go down, we feel it's the right thing to do for our shareholders and from a brand equity point of view to pass it on to the customers and hopefully also to the consumers, because at the end of the day the consumers should bear the changes of raw materials and packaging material.

Some of you who has been following us for a while may remember that, about two years ago, we had a similar situation in Denmark which resolved itself in a very constructive manner, but of course it was a bumpy road before we got there. That is also why we're pointing out that, as it takes two to tango before you can come to an agreement, we also want to highlight that we are ongoing so we cannot say whether this is something that is going to be resolved tomorrow or whether it's going to be weeks or whether it's going to be months. Our focus, though, is to make sure that we do have a constructive solution to the situation.

So overall, we are very positive with where we are. And with that, I'll hand over to Danko to take you through the numbers in more detail.

Danko Maras

Thank you very much, Bengt. Good morning, everyone. So if you just go into page 4 and you see the table that we always show; the top-line growth of SEK 1,280 million, I'll come back to in a second. I will focus a little bit more now on the profitability KPIs that we have. To start with, the gross profit had a development of 3.1% improvement in the quarter versus last year, and reached a level of 40.9%. That improvement is a composition mainly of two parts; many parts, but two main parts. One is that last year, approximately half of that improvement was suppressed by restructuring cost. And as we always said, we are now out of the manufacturing strategy. We're now running a full run rate of our manufacturing strategy. So the absence of restructuring costs is not suppressing our gross margin.

The other part is actually in efficiencies in our supply chain that is driving the margin even higher. And we are very happy to see that we are getting a pay-out out of the work that we've done on the manufacturing strategy, yielding itself well in the gross margin. There were no significant movements of other parts which relates to volume price and mix and so forth. So key contribution, very pleased we're seeing the development of our manufacturing strategy coming through in a full run rate.

Our underlining EBIT is very close to our operating profit, because we do not have restructuring charges in the quarter. So this is a quarter where you see complete convergence between operating profit and underlining EBIT. The difference you see here is just related to FOREX. The EBIT margin of 10.3%, as Bengt was saying, is a significant improvement both on operating profit level but slightly less on the underlying EBIT, because of the absence of restructuring.

Another part which you can see is now diminishing is the finance net. We are now coming in to lower costs for our borrowing facility, and therefore we are at SEK 39 million relative to the SEK 66 million you saw last year. And the pre-tax profit of SEK 91 million versus SEK 9



million last is a significant improvement, of course following through from the gross margin. Profit for the period, SEK 66 million versus SEK 9 million last year, a strong improvement of that and also positive in contribution on earnings per share.

If I then go into net sales, as Bengt was saying, the 3.4% growth that we have is suppressed by the negotiations we have ongoing on the organic growth of 0.8%. It is growth, but it's affected by the ongoing negotiations. On the structural changes, what might be mindful to remember is that we acquired the Jelly Bean Factory last year in the middle of the quarter. So you have a mix of organic and structural changes that entirely relates to the Jelly Bean Factory. And the last part, again, the 1.4%; the euro is getting stronger, but at a lesser pace now. And therefore, the year-to-date, it's actually reducing. And we don't make any forward-looking estimates of where the euro will go, but it has continued to go strong. But it's going stronger in a lesser pace now.

And then on the net sales operating profit and underlying EBIT; on [inaudible], as you can see on page 6, good indication of our deliverables. You can see the convergence between operating profit and underlying EBIT. The top-line sales as Bengt was explaining is showing an increase, but not at the pace that we would like. But if we look at this and just bundle together the rolling 12 months' underlying EBIT with our sales, our EBIT margin is actually 12.6% as you can see in the report. And we feel good about that.

Coming back into cash on page 7: again, very strong delivery of cash flow in the quarter, being a combination of an improvement in our EBITDA and our working capital management. So over the three last quarters, you have seen almost SEK 700 million of cash being generated from the business, which is a testament of the cash generation capability but is now coming through in all our metrics. I'll talk more into that in later charts. If we just go back to the numbers again on the page 8, you can see that about SEK 100 million comes from our operating activities; also positive movement of working capital with SEK 63 million.

Here, it might be worthwhile to say that if we look at the working capital as a percent of NSV, structural changes that were done on inventory and good cash collection has yielded a 10.7% relation to NSV on working capital. We have been at 15% because of the manufacturing strategy and activities that we have increased [inaudible] stock and so forth. So at the moment it's 10.7%; working on that sustainably, we have to work more, but we are pleased to see that it's down to that level. Also on CAPEX, you can see SEK 28 million versus SEK 44 million last year. Also in Q1, we mentioned that we invested a lot in racks for the Coop Pick & Mix part. But even there we feel comfortable with our target of 3% of NSV. So capital efficiency is starting to yield parts of the value created here.

Our cash conversion therefore is at the quarter we've seen 84.7%. It's an all-time high. But it's a combination of two good factors: higher EBITDA and lower CAPEX. So we have to work to make that sustainable, but it's nice to see that. It also means for our business that we now have an unutilised overdraft facility of SEK 717 million. And if we add the cash that we have to that, it's approximately SEK 1 billion. So therefore, as a note for today's acquisition, we will pay that through our unused credit facility and it's all arranged for – it will not materially impact us in terms of our availability of funds. So that we feel good about as well.

And to finish off on the visual chart on page 9, you can see that our financial leverage has – again, in the absence of cash-out activities in the last four quarters really – linearly almost



reduced to 3.3 times net debt/EBITDA from 4.55. So a good testament of the cash generating capability. And in the absence of any interesting M&A activities, we would just pay down the debt.

So with that, I actually will leave the word not to Bengt, but to David. So thank you for me, and David, all yours.

David Nuutinen

Thank you, Danko. Good morning, everyone. Those of you who attended the call that we had in May when my appointment was announced, you may remember that at that point I stated that I feel that the company, Cloetta, stands strong. And I think that what Bengt and Danko have just demonstrated with the results for Q2, that is true. I also stated in May that the company strategy is intact. It's all about focus on profitable growth, cost efficiencies and new initiatives including M&A. Therefore, I'm very, very happy and excited about the fact that we are now announcing today the acquisition of Lonka.

Lonka, as an acquisition, will support the profitable growth in our core categories. The acquisition significantly strengthens our market positions in the Netherlands. Lonka as a brand is well-known and strong, and is a very, very nice addition to our existing heritage brands of Red Band, Sportlife and Venco in that market. It also diversifies our product range, filling white spots not only in Holland but in the total Group. And it also provides an entry into the Dutch chocolate market. This acquisition does strengthen our product offering, including Pick & Mix, and position also in the Nordics and the UK. And as you will very soon see, the new production technologies that will be coming in are in fudge, chocolate-coated moulded products and nougat.

On the following page, some facts about the acquisition company, Lonka. The company was founded in 1920 as a family-owned company, focused on branded confectionery products, Pick & Mix products and contract manufacturing. And as already mentioned, it is very much specialised in the fudge, nougat and chocolate product arena. The company in total has 130 employees, in sales, marketing and in two factories. And the sales of the company are about SEK 300 million. About 50% of these sales are in the Netherlands. And the other important markets are in the Nordic countries and the UK. Of these sales, about 50% is in branded, 50% in Pick & Mix and contract manufacturing. One point I want to make on the Pick & Mix, it's also very much branded. For instance, the Pick & Mix concept providers are using the Lonka brand including also our Cloetta own concepts, Karkkikatu in Finland and Godisfavoriter in Sweden.

On the following page, we can see the Lonka product categories. And as I mentioned, the white spot areas that we are now getting through new technologies are particularly in the fudge area, the soft nougat and the chocolate-coated gums and jellies; a very nice addition to the portfolio. Then on the following page, we can see some of the top-selling products; strong branded products available widely on the Dutch arena.

As an acquisition, this transaction supports our EBIT target. We see scope for cost synergies within administration, sales, procurement and supply chain. We feel very confident that it will contribute to 14% EBIT margin target. And we also see long-term potential revenue synergies with the new technologies going forward.



And now, with this, I'll hand over back to Bengt.

Bengt Baron

So going forward, what will be in focus of course is acquisition. We've done a couple over the past years; also post the merger, we know the importance of executing on the integration. We have the experience in doing that. And I'm totally convinced that the team will do a fantastic job of doing that this time as well. But that will be very much in focus.

Then with the fluctuation in raw material and packaging, of course, the pricing will continue to be focused. And as you know, we are in discussion and in negotiation with some of the major customers, so definitely focus areas to make sure that we conclude those negotiations in a very constructive and shareholder-value-friendly way.

Profitable growth always underlying, and there I think it's exciting looking at the Q2 report, from the gross margin all the way down, that it actually is following through. And then finally, Nutisal and Jelly Bean Factory, it's about accelerating the growth with Nutisal. We've gone through a bumpy road with the private label deals, but that is stabilising now. We're seeing the branded business picking up and the Jelly Bean Factory is also a very good start, good momentum. It's all about fuelling that going forward.

So I think the name of the game is consistency. And also, on the next slide, the name of the game is continuing to be exciting towards the customers and towards to consumers. In all types of product launches, the Läkerol launch in Finland, it's the [inaudible] concept under local dressing. Look at Crispy Bite, it's getting into a new responsible munching area. And if you look in at Salt Sill and Colaflaskor, they're not coming in small bags. So it's exciting and we're staying very, very active, on top of running the daily business and concluding some M&A activities.

So with that, we would like to open up for any questions.

Q&A

Operator

Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad and you will enter the queue. Once you're announced, please ask your question. That is 01 to ask a question.

Our first question comes from Erik Sandstedt from Handelsbanken. Please go ahead, sir.

Erik Sandstedt

Hi. Erik here with Handelsbanken. I've got a few questions. Firstly, on the acquisition that you have announced today, is that materially profitable, so we should already now include in our estimates in earnings contribution and not just sales contribution? That's the first part to that question.

And then secondly, should we expect any material implementation or restructuring costs?



Danko Maras

Hi, Erik, good morning. It's Danko here. If you ask me financial questions, I'll try to answer those. First of all, as Bengt pointed out, we finished the acquisition yesterday evening, late, and it's not inconceivable to assume that we would be a bit more specific in due time. And therefore, we have been very firm on our belief that this will contribute to our 14% EBIT margin target. And we would like to stay there for a while.

Of course, there will be some cost that will be associated with the fact that we're now bundling together activities. But we would like to come back to that at a later stage.

Erik Sandstedt

Yeah, fair enough. But I mean, accounting-wise, you will take over this with effect from 17th July essentially?

Danko Maras

Essentially, we will do it on 1st July. So the arrangement has been done so that we are together settling for a period of 1st July forward.

Erik Sandstedt

Okay.

Danko Maras

So it would be a clean quarter when you look at it in Q3.

Erik Sandstedt

Perfect. Then my next question, I know you touched upon it on the conference call here. But in terms of the negotiations that you're having with [inaudible] in Sweden, and I fully appreciate that you fight over pricing all the time, but how common is it that you [inaudible], and whether it's something that you should [inaudible] or is there is a risk that [inaudible] at all?

Bengt Baron

The line was really breaking up, so I missed the second half of your question there, Erik.

Erik Sandstedt

Okay, sorry. I mean, I'm just trying to get a feel for how dramatic you think this is, how common it is that your – you don't actually reach an agreement between – of price hikes? You know, this is something that is normally sorted out over weeks rather than quarters, if it will be sorted out at all.

Bengt Baron

Well, I'm totally convinced that it will be sorted out. In my opinion, there's no way that retailers would like to not sell products that the consumers are looking for. So over time, I'm definitely sure that we will sort it out. I think as we've said, when prices go, there's always a lag when pricing comes through, regardless if it goes up or it goes down. So – and it's not uncommon that you have disagreements. And over the years, we talked about it in Holland, we talked about it in Denmark, we talked about it in Norway. I think right now – I mean, we have a couple of fairly large customers that's impacting it. So it is not uncommon. I'm



totally convinced that we will resolve it. Unfortunately, I cannot give you a date on whether this is going to be a day or weeks or months. But I would be very surprised if it would – if it would drag on for several quarters, that would surprise me a lot. But at the end of the day, it takes two to tango. And we are having constructive dialogues; it's not about a total conflict.

Erik Sandstedt

Perfect. And then if I may, one final nitty-gritty question for me. You did the 0.8% organic growth in the quarter. But if one excludes the impact from the Pick & Mix contract with Coop, is it then fair to assume that organic growth was negative in the quarter?

Bengt Baron

We haven't – we have not gone to that detail. It's not that simple to say that these are sort of puzzles that you can – pieces of puzzle that you can pull apart. There are – I mean, so many things are working together. And then you have the CandyKing business that was with Coop last year, and exactly how big was it last year, how big are we versus them last year. So there have been moving parts, so I don't think it's as simple.

Erik Sandstedt

Okay.

Bengt Baron

What I can say is we feel good about the sales momentum in general.

Erik Sandstedt

Perfect. Many thanks and good luck.

Operator

Our next question comes from Mr Stefan Cederberg at SEB. Please go ahead, sir.

Stefan Cederberg

Thank you and good morning. I have a question on the Easter impact. I think there's been a negative impact; can you elaborate something on this impact for your sales in the second quarter?

Bengt Baron

These are very good points. And as we said when we started out with the Pick & Mix, the Coop deal is we are learning. I mean, we rebuilt 600-plus stores. And we're learning, and the Easter now came in earlier. And we had a very solid first quarter. So we're seeing that. So yes, the Easter impact is bigger for us than it has been before. I think we need probably another year under the belt before we can really accurately describe it to you. So we are analysing that. So, yes, we are more headwind in the second quarter, but we had a bit more tailwind in the first quarter due to that.

Stefan Cederberg

Alright.



Bengt Baron

I think there will also be a little bit – I mean, a little bit of learning also once we get into the fourth quarter, because that's also going to have – not as big an impact as Easter, but it will also impact as we're much bigger in Pick & Mix now.

Stefan Cederberg

Yes. On the Nutisal development, can you give some details on the – you're saying that branded sales are improving, but can you give some details on the earnings performance in that business?

Bengt Baron

We're still thinking, as we said – as we said, we've had two 'ifs'[?] since we acquired it: one is with raw materials; they're still going up and now at a very high level. And number two, I mean as you know, the dollar exchange rate is going in the wrong direction. But we're still working hard to make sure that we get to EPS accretive for the year.

Stefan Cederberg

Okay. And on the promotion side, has it been, you know, increased promotion activity for you in your main markets, or is it a stable promotion activity?

Bengt Baron

Quite stable, I would say. If anything, the fact that we are in negotiation with some of the customers, we actually have fewer promotions because that's one of the things that we don't get access to.

Stefan Cederberg

Okay. And then just a detail question on your negotiation: does this mean that you're currently not – that retailer who is in discussion with you; are they not selling your product at this moment?

Bengt Baron

No, it's not about not selling at all. It's a combination of not getting promotions that we talked about. It's a combination of not getting all the new products listed that you would like to get listed. There might even be some de-listings of tail-end products. There might be some limitations to visits to head office or into stores, or a combination of these. None of them are dramatic and sort of 0 or 100. This is about making sure that we stay on our toes in the negotiation, and that we stay honest in it. And I think that's part of the game.

Stefan Cederberg

Okay. Alright, and did this have a positive impact on your cash flow development, as you may be selling or producing less?

Danko Maras

You can't really say that, because the timing effects of what you produced are not entirely correlated to the current month's sales or the current quarter's sales. So we are, in the way we manage our production planning, thinking a little bit more longer-term in that and making adjustments accordingly. So you won't see an imminent impact in the quarter because of that.



Stefan Cederberg

Okay. And then a question on the Lonka acquisition: how will this impact your net debt to EBITDA ratio if you include this as of today?

Danko Maras

It's a good question. And today, we are paying approximately SEK 295 million of it. But we will also earn our EBITDA. And the way we look at our EBITDA or net debt, it's the underlying net debt/EBITDA that we will look at on a go-forward basis; it will not materially impact the net debt/EBITDA on a standalone basis.

Stefan Cederberg

Okay. So it will not impact your borrowing cost?

Danko Maras

No, it will not. We will take it from the existing unused overdraft facility, as I mentioned earlier, that has a fixed pricing.

Stefan Cederberg

Alright, thank you.

Danko Maras

No acquisition borrowing.

Stefan Cederberg

Yeah. Thank you.

Operator

Our next question comes from Mr Mikael Holm from Danske Bank. Please go ahead, sir.

Mikael Holm

Hello. I only have a question on the Pick & Mix sales development. You earlier talked about a full-year impact of up to SEK 200 million; are you currently at that run rate?

Bengt Baron

We're staying firm on that prediction.

Mikael Holm

Okay. Thanks.

Operator

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

Fredrik Villard

Hi, good morning. So a question: Lonka is doing some private label, and you mentioned in Nutisal that you wanted to decrease that business; is it the same true for Lonka? You don't want to focus on the private label, you want to keep that – what's your strategy? You said previously that branded products is the name of the game, so I was just wondering what the strategy will be with Lonka.



David Nuutinen

David here. Our focus is that we are a fast-moving consumer goods company, and that's where the focus is. On the Lonka, it is a portfolio of branded products, Pick & Mix and contract manufacturing. The Pick & Mix is also branded. On the contract manufacturing, we have inherited some contract manufacturing before. And as you know, we just closed the yesterday. We're now going through the detailed plans of implementation going forward. And we'll come to that at a later stage.

Bengt Baron

And also – it's Bengt – I mean, you know, as you may recall when we did the Cloetta–LEAF transaction, there was some contract manufacturing within the Cloetta business. And in fact, we're still having some of it in our books. It's not material, but it's still there. So it's all about, does it contribute to our financial success going forward? And if it does, we will maintain that business. But it's not the focus area; we're still a branded company.

Fredrik Villard

All right. Perfect. Thanks. And just Danko, perhaps you can remind us: what's your underlying sort of, on a yearly run rate, your underlying CAPEX need? I mean, working capital obviously swings with sales, and you said you did a great job there, but you mentioned CAPEX. If you could just remind us what's your underlying CAPEX need is sort of going forward, if you want to comment on that?

Danko Maras

Yeah. So on a standalone basis, with no M&As included, we should be at 3% of NSV. And we are currently a little bit above, but we feel very good about that we can go at 3%. And if we don't have to be more than 3%, we can go further down, we will revise that target. But for the moment, it's 3%. But as with any acquisitions, I want to restrain myself from saying this is the normal business, and what happens going forward we'll have to look at.

Fredrik Villard

Alright, perfect.

Danko Maras

3% is the number.

Fredrik Villard

Alright, perfect. Thanks. And just on the gross margin: I mean, would you say that this is the new normal given the new efficiencies, or was there something in particular when it comes to the – I mean, adjusting for the sort of the restructurings in the gross profit area, looking at the gross margin improvement in efficiencies? Is this the new normal we can expect? I mean, because it's a rather big step up here?

Danko Maras

You know, as a CFO I would love to see 40%, 45%, even 50%, just like yourselves as analysts. So I would be very happy to confirm that it's forever. But with everything, don't make extrapolated conclusions on a quarter, although we are very happy. And I think the main point we should keep in mind is all the work we have done over the years in the manufacturing strategy, we now run the full run rate. And that's a good part of our – quality part of our composition of the gross margin. But in the gross margin, you will have price



issues, volume issues, mix issues; you even have FOREX issues and so forth. So it's very difficult to say that it's sustainable going forward for every quarter. We wish so; we have an ambition to drive up profitability to gross margin, and the whole manufacturing strategy was about the margin expansion case. But we are not at 14% EBIT margin, so we need to continue to work on those components.

Fredrik Villard

Alright, perfect. Thanks. That's all for me.

Operator

Our next question comes from Mr Thomas Brodin. Please go ahead, sir.

Thomas Brodin

Yes. I have a question regarding Lonka. You're normally secretive to give financial details when you make acquisitions: is there anything that is secret about the last 12 months EBIT or EBIT margin about Lonka?

And when you say that it will contribute towards your goal of 14% for the Group, is that as a standalone basis since you acquired it, or is that after synergies?

Bengt Baron

That will be after synergies when it will be contributing to the 14%.

Thomas Brodin

Okay. And can you give anything about the history?

Bengt Baron

No. At this point in time – we concluded the deal last night. So now we need to work it through that we can give you a complete picture of where we are and where we're heading, and over which timeframe you can expect; both costs for the integration and also when the synergies are going to be realised, and when the EBIT is going to kick in. But we felt on this short notice, rather than give you fragments and not be able to give you a complete picture, we think it's wiser to hold that off. And I'm completely sure that David will be back with a complete picture that will satisfy your needs.

Thomas Brodin

Okay, great. Thank you.

Operator

I remind you, if you have a question for the speakers, you'll have to press 01 on your telephone keypad. 01.

Our next question comes from Mr Oscar Karlsson from Erik Penser Bank. Please go ahead, sir.

Oscar Karlsson

Yes, hello. Thank you for taking my question. Just a quick one on Italy, where the market seems to have been weak for quite a while. But it seems to have been a slightly positive



development in this quarter. Could it be interpreted as a sign of stabilisation, or is it too early to tell?

Bengt Baron

I would say it's too early to tell. I also want to say that the big thing that we should focus on, and what really is important, is the seasonal sales of the fourth quarter. That is basically what determines for Cloetta whether it's going to be a good year for Italy or not so good year for Italy. Q1, Q2 and Q3, I mean they are there and of course it's a core part of business, but the make or break for us is the fourth quarter.

Oscar Karlsson

Okay, perfect. Thank you.

Operator

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

Bengt Baron

Okay. Then I would like to take this opportunity to thank you all. This was my final quarter. It's been a terrific journey. Lots of changes. A lot of ambitions when we set out three years ago. I think we have come quite a bit on that journey, and I would like to thank you all on the phone line for the questions; the support sometimes, the challenges sometimes, but always in a very constructive manner. I would also like to emphasise that I feel very comfortable handing over to David and the remaining exec team. I know that it's a terrific team, and I know David will do a great job. And I think it's just super fantastic that he gets to hit the ground running with this Lonka acquisition, and then just focus on continuing the journey towards the 14%. So thank you all and I will be, as a shareholder, following Cloetta's future development.

Jacob Broberg

Thank you everyone, and have a nice summer.