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### Presentation

#### **Jacob Broberg**

Good morning. Welcome to Cloetta conference call. My name is Jacob Broberg, in charge of Investor Relations. As always I have Danko Maras, our CFO and Bengt Baron, our CEO here. So please go ahead, Bengt.

#### **Bengt Baron**

Good morning everybody. Happy to report from a third quarter of 2014. We feel that it is a solid quarter. We are satisfied – especially satisfied with the profit development and the fact that the restructuring that we've been working hard on over the past, almost three, years is coming to an end, on time, and as planned. If we look at the highlights our net sales including FX and acquisitions increased by 9.1% to SEK1.3 billion in the quarter. Operating profit was up by 36% to SEK178 million and the underlying EBIT was equally SEK178 million which is an 11% increase versus last year. And as you see they are identical, meaning that we are coming to an end and converging on the underlying and the reported profit which is very satisfying we feel. The cash flow also improved to SEK75 million which is SEK21 million better than last year. And the net debt/EBITDA is at 4.5x which is compared to last year 4.4x, but in fact if we compare to previous quarters actually improvement because we were 4.6x at that point. Also, as we mentioned in the previous call, we had come to an intention to supply Coop Sweden with complete pick-and-mix concept and that contract has now been duly signed as of 5<sup>th</sup> November.

Looking at the overall market and sales development and slightly positive markets, confectionary markets across Europe, except in Finland, where we still have a macro situation impacting consumer confidence and consumer spending. So there we actually saw a shrinking market, not dramatically, but it is under pressure without a doubt. Our organic sales growth was minus 0.6% for the quarter and we've had four consecutive quarters of growth. And we still, for the first nine months, we're plus 0.7% in organic growth. Sales grew or remained flat in all markets except Sweden and Norway. Looking at Sweden, the ones around the phones who stuck around in the Swedish market in the summer probably remember there was an extremely hot summer, and one of the things you don't consume when it's a hot summer is chocolate. And Sweden's market where Cloetta has the biggest presence in chocolate and that's where we also felt the impact the most.

And then there was also come and gone pick-and-mix and we actually had a contract that was not renewed in Norway impacting that market. We had a conflict in Netherlands with one of



the major customers which impacted sales a little bit, but that has since been resolved and we're back into a normal. Market shares grew and this is market shares measured in sales, POS sales, point of sales, i.e. sales to the consumer grew in most markets in the quarter versus last year. With that, Danko.

### **Danko Maras**

Thank you very much, Bengt. Good morning everyone. I'll go into page 4 and if you look at that I come back to the sales that we had in the quarter, SEK1.3 billion. As you can see there in the table this is consisting of 3.9% foreign exchange rates, structural changes 5.8% and then organic growth, minus 0.6%. Good to note that the euro continues to strengthen and you might have all seen and heard the fact that we have lowered the interest rate already in Q4. The Euro continues to be strong so that is the thing to note.

On the underlying EBIT we are at SEK178 million and the 14.9% EBIT margin is improved with 11.3% versus last year. And the operating profit margin equally at SEK178 million, improving 36%. And I will come back to that. We have a special chart on the convergence that Bengt was just referring to where the results are becoming the same, both on underlying EBIT and operating profit. Profit for the period is SEK87 million, SEK1 million above last year. So here I go back into the interest line and if you look at that in the income statement on page 8 you will see – in the quarter report you will see SEK52 million spent in the quarter. And here we have introduced a new table for you so you can actually see on page 9 what they consist of. The actual interest expenses that we are doing to the borrowing arrangement that we have is SEK39 million and is progressing well compared to prior year. Prior year you have a one-off benefit because we did not apply hedge accounting last year and that benefit is making the comparator a bit distorted. What you are seeing now is a true underlying cost of our interest expense, specified line-by-line.

On tax we also have – on page 8 you can see SEK39 million and in there, there are two items there effecting the tax rate a little bit. And one is some non-deductible interest expenses that we have in the unit that we had to book in the quarter. And then there is a one-time adjustment of filing positions that we do versus last year that will not be there in – it's a one-time adjustment that we've made for the period.

If we turn page and go into page 5, again you can see that trends by quarter; a nicely development of sales growing by quarter. Also on underlying EBIT, you can see in 2014, that we are picking up and it's pleasing to see the improvement we have with SEK178 million on underlying EBIT versus last year's SEK160 million. What you also see on the right side there, on the cash flow from operating activities, also very pleasing to see a positive delivery in every quarter and this is becoming more and more the normalised way of how cash flow streams are working. Again, we have to consider – compare those being affected by the manufacturing strategy. And – but here we are more and more coming out on a normalised business where we are collecting cash from our receivables and building up inventory for seasonals.

However, on page 6, if I can just have a minute on that one. What you see there is a few staples. Just first the 2012 and 2013 are full-year numbers, and then to the right from there you have quarters. So we just want to highlight the fact that in 2012 you could see an underlying EBIT of SEK423 million. In the operating profit level, we generated SEK125 million. The majority of that, as you know, were all part of the restructuring programme that



we announced. In 2013 you see SEK591 million which is an improvement for the EBIT versus 2012. And closing in on operating profit at SEK480 million, and yet again driving value in the underlying profitability, but also converging and reducing the spend on restructuring, closing the gap significantly. And now in 2014 you can see by quarter how we have gone from SEK77 million to SEK52 million ratio, SEK110 million to SEK85 million and now SEK178 million on both. And you can also see in the lines there how we are starting to converge also in the percentage term. The difference between the 14.9% and 13.7% is because we're using a different comparator in the underlying metrics of sales.

We have come to a point where we feel that the line item that refers to restructuring is completed so we are not going to report more on that table. We will have – as soon as we have material issues to report we will do so. But if we look at items affecting comparability which relates to currency translations, M&A and restructuring, they are actually equalling zero in the quarter. And that, to us, is a good testament of us continuing our journey to delivering value and we will more or less say that the restructuring phase that we've been into is no longer material enough to highlight on a specific level.

On cash flow, to come back to that point, a good cash flow in the quarter, I hope, coming from the operating results. The fact that we're improving operating results, the working capital movement is a specific seasonal build-up that we're doing for everything from Sperlari to Juleskum and that will be sold in Q4. And on top of that the – excuse me. That delivers the SEK75 million that we've been referring to. What you can see also on the capital expenditures that we are having, it's SEK38 million versus SEK42 million, so we are gradually actually declining that. That is also a result of the manufacturing strategy that we are investing less than in the prior period and we'll continue to do so, so that we come to the outspoken 3% of NSE level.

We do have a one-off in other cash flow from investing activity and that relates to The Jelly Bean Factory, a residual pay-off that we have to do on about SEK30 million. And that's the item you see in investing activities. But overall, we feel very good about the EBIT delivery, the cash flow delivery moving in the right direction. And with that, I'll give the word back to Bengt.

### **Bengt Baron**

Thank you, Danko. As Danko mentioned the restructuring programme that we announced back in Feb 2012 is completed and the final step was the insourcing of the production of Tupla which is a countline product, chocolate countline product that is big in Finland and actually also launched in Sweden. That is all done. That means that all the pieces that we set out on, it's easy to forget that actually 40% of all our products have been on the move over the past years – past two years. And we are now completed. We're over[?] that and we are in a structure that we feel is fit for the future, which is very, very good. And as we said, towards the end, and going into 2015, we should have the run rate of the savings.

We also mentioned that there was an intention to – there was an intention signed between Coop and Cloetta regarding pick-and-mix. That is now signed. It is about 700 stores that need to be refitted during the first quarter 2015, so that is of course a huge undertaking that is being planned right now. It is all in getting the product range right, getting the racks, getting the merchandising. We're talking a sizeable business. It will be approximately SEK200 million, somewhat less, depending on the build-up and the timing in 2015. We will work



together with SRBF and Rikstäckande Butiksservice which is one of the largest merchandising companies, to actually do the actual practical merchandising. And that cooperation is developing nicely. We will work under the concept names 'Godisfavoriter' for the candy and 'Natursnacks' for the natural snacks. So we will have a complete offering through Coop across the Swedish market.

Raw material prices deserve to be noted, even though the impact over the past year maybe in totality hasn't been so much in – and I stress in totality, because there is huge swings in between different raw materials. Cocoa prices, as you've probably seen, have been sky-high, at record levels. Hazelnuts and almonds have also been sky-high based on a poor crop last year. While on the other hand sugar prices have decreased. The only reason I'm highlighting this even though that it in totality is not a huge impact, is that because of the big fluctuations and our policy of that saving should be given back to the consumer and the increases in cost needs to be charged to the consumer, we also need to recalibrate to make sure that the products, on an individual basis, have the accurate and the correct pricing. So price changes will be necessary going forward on the individual basis. And that always is a process. It takes some time. It sometimes is a bumpy road, but it is something that needs to be done and will be done. Overall okay, but on individual basis, big changes.

So going forward the focus will, of course, continue to be profitable growth. That is sort of the star. We are working towards our 14% taking one step in the quarter and we are trading towards that ambition level. As I mentioned, refitting 700 stores in the quarter, being ready ahead of the Easter period which is a peak season is a big undertaking from a practical point of view. So that is getting a lot of attention internally and together with our customer. We're continuing to integrate and accelerate the growth of Nutisal, especially the branded business and The Jelly Bean Factory that is performing nicely. And then finally, as I mentioned, the changes on individual raw materials needs to be transferred or translated into pricing changes over the coming years and tracked going forward, because it has been quite volatile and as it is we need to pay attention to that.

In addition, as always a very active quarter, lots of [inaudible] making sure that we continue to be contemporary, exciting to the consumer. I would like to call the attention to two. One of them is the Ako relaunch which is – has received lots of attention, especially in social media. Old favourite and a lot of Swedes grew up with, is finally available again and everybody's very happy about that. And the childhood memories are coming back into life. And then secondly I think is also very exciting is that Cloetta chocolate products are now moving into, and the brand is moving into, the Finnish market and that's also received a lot of interest in the first couple of SKUs that we're launching. And there's also positive reception to the brand name, Cloetta in Finland. Of course a lot of Finns do recognise the brand as there's a lot of travel and interchange between the markets. But now the brand name is also available in a broader way in the marketplace.

We will continue to be active. We are an interesting category. On the one hand, we love our favourites that we grew up with. But on the other hand, we also love to try new stuff, just to make sure that the old favourites are still the best.

With that, open up for questions.



## Q&A

### **Operator**

Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad.

And we have a first question from Mr Erik Sandstedt from Handelsbanken. Please go ahead, sir.

### **Erik Sandstedt**

Hi there, thanks, it's Erik here with Handelsbanken. I have a few questions. Firstly, you – hi there. You mentioned the Coop contract is worth around SEK200 million, but can you say anything about the profitability on such a contract?

### **Bengt Baron**

The intention is that, that should definitely support our journey towards the 14%.

### **Erik Sandstedt**

Okay. Could you be a little bit more specific?

### **Bengt Baron**

Not really, to be honest. No. I mean, it's part of the overall, I mean, evolution. And our intention is firm. We are working towards the 14%. We have taken steps in that direction. It is a challenging ambition without a doubt. But the Coop contract will help us towards that.

### **Erik Sandstedt**

Perfect. I only have actually a few other more, sort of, nitty gritty questions. Firstly, the tax rate for the sort of medium-term, or specifically 2015, could you give us any more guidance there?

### **Danko Maras**

It's Danko here, hi Erik.

### **Erik Sandstedt**

Hi there.

### **Danko Maras**

As you know we don't make forward statements on what we expect. But you could always start with the Swedish corporate tax rate and then there are some international rate differences that we will always have. But we have to remember that we're coming from a background where we have some movements in tax that are – if you go into our balance sheet there are some deferred tax assets that we can utilise over time. And looking at the effective tax rate and the actual cash tax paid is perhaps relevant to do given where we come from.

In terms of calculating an effective tax rate going forward, it will be in that range of the Swedish corporate tax rate plus the international rate differences and those items which are non-deductible for us that we are working on. But that won't have material impacts. That's as much forward as I can do, for the time-being.



**Erik Sandstedt**

Yes, perfect. And also perhaps with a risk of a forward guidance, but CAPEX for next year and medium term?

**Danko Maras**

We continue to think that an appropriate level for our type of business is around the 3% so as we go into the years we hold that limit. If we don't have to invest, we will not, and if we think we have a value creative idea to invest more we will do so. But then we will announce that.

**Erik Sandstedt**

Yes, perfect. Yes. And finally for me, you mentioned there was a negative impact from currencies on the EBIT level in the quarter. I'm not sure if you said roughly how much that was? And also at current FX rates, what do you foresee for the fourth quarter?

**Danko Maras**

Yes. Yes, so that's a little bit the point why I was mentioning that the euro continues to be stronger. So from a translation point of view we have the benefit of turnover growth, but on the fact that we have transaction exposures in the Nordic countries, there is an additional SEK5 million to SEK6 million more of currency effects on the EBIT. So if you look at our underlying EBIT performance year-to-date there's approximately SEK25 million/SEK26 million of currency impact that we are mitigating. And the reason to why it's a bit less coming now in the second half of the year is because we are doing price increases. And it takes some time to get the full effect of that, but currently about SEK25 million. Then if you look at the reported results, there is a translation benefit, but I won't go into that. You can give me a phone call if you want to and I'll give you the specifics of how that works.

**Erik Sandstedt**

Perfect. Thank you very much.

**Bengt Baron**

Just as a comment on the FX also, I mean the – once it stabilises, if it ever does that then I mean we will catch up. But if it continues to weaken, then we will be behind the curve because we don't have as many opportunities to change prices in the marketplace as the swings are in the market when it comes to FX.

**Erik Sandstedt**

Excellent. Thank you very much.

**Operator**

We have our next question from Mr Mikael Holm from Danske Bank. Please go ahead, sir.

**Mikael Holm**

Hello, Mikael Holm here at Danske. Just a question on the production efficiencies. Where are you now in the – when you basically have completed the restructuring but where are you in terms of efficiency on the new lines? That's my first question.



The second question is related to the working capital. It increased by I think it's SEK130 million[?] trailing 12 month. How much of that is related to currency?

**[BREAK IN AUDIO] Q3** the level of total working capital, how much do you believe it's possible to lower that now when you are in the end of the restructuring phase?

**Danko Maras**

So I'll give it a shot and then Bengt can fill in. On the production efficiency we are still improving our production efficiency. If you remember, we talked a little bit about absorption in Q1. The machines are going full now and if we look at it on a year-to-date basis we think we are doing well on the absorption issue. But clearly we can produce more at the higher output and that is the ramp-up scales that continues in our ongoing business.

On working capital: it's important perhaps to notice also if you do the comparator on absolute there is approximately SEK60 million that relates to the acquisitions that are not part of the comparators prior year. So of course the nature of nuts is a little bit different to the confectionary, and then on The Jelly Bean Factory, those two together are about SEK60 million of it. I have not calculated exactly what the FX impact is on inventory, but we can do that.

And then I think the last question you had was on working capital as such and here if you look at it year-to-date I think it is SEK15 million. We work towards an ambition of keeping it structurally at that level. A structural change of inventory we've talked about before, we are moving towards the 10% level, around that level. We haven't specified it specifically and clearly it's a bit higher than it should be. And it becomes higher also now when we are building for the seasonal effect which we always have to do in anyway. So see it as a working capital movement should not be significant over a year unless we do structural changes and that's the ambition level for next year as we are starting to focus more on efficiencies on working capital.

**Mikael Holm**

Okay, thanks.

**Operator**

We have the next question from Mr Oscar Karlsson from Erik Penser Bank. Please go ahead, sir.

**Oscar Karlsson**

Yes, hi, Oscar Karlsson from Erik Penser Bank. In the report you mentioned a lost pick-and-mix contract in Norway. Could you please quantify that a little bit further?

**Bengt Baron**

Well actually we – we'd prefer to not go down on that level of detail and for the reason do that – if we do that on a quarterly basis we will be ending up in sort of endless sort of bridges and try to explain differences on a very detailed level. So it had an impact but it's, I mean – and it is in Norway in specific. It is not huge. It doesn't impact – I mean, it's not material on a global basis. Just remember that the minus 0.6% equates in percentage growth in the quarter, that equates to SEK4 million so it's not big numbers in the grand scheme. So we would prefer not to go down that level of detail because it will even out in the long run.



**Oscar Karlsson**

Okay but organic growth would have been higher if that contract would have stayed?

**Bengt Baron**

Yes.

**Oscar Karlsson**

Yes. Okay, perfect. Thank you.

**Operator**

Stefan Cederberg from SEB, please go ahead, sir.

**Stefan Cederberg**

Yes. Good morning. I have a question on starting on account receivables. You're saying that those increased in the quarter. Is that the seasonal impact or is that the growth rate was high in September?

**Danko Maras**

That's really – it's Danko here. Hi Stefan. The pattern over the three months in a quarter are very different and coincidentally if we are having more sales in an end month of the quarter than we normally have, then of course our receivables will have a temporary impact. And I think, in that respect, it's always better to look at it on a rolling 12-months or a full-year basis. That gives you a good idea about where we are in our day sales outstanding. And as a general statement, we think we are in a good position in those markets where we are. We have worked a lot on keeping the dates competitive. And also please remember that payment terms change in Italy so we have reduced our receivables to 60 days there, just like any other foods appear in that market. So I would not go to the deep into detail on a specific month, but it's a reference that we made for Q3, you're right.

**Stefan Cederberg**

Okay. And then on – and a question on the non-recurring items. You – you're write the reported the year-to-date it is SEK61 million. This gives an impact of SEK16 million in Q3 so should we read this as saying that the underlying EBIT adjusting for this is SEK194 million and this is the base of your 14.9% EBIT margin?

**Danko Maras**

No. We are excluding all the exceptional items in our underlying EBIT so it is what it is. It's the reported that's been impacted with the negative number that you referred to, offset by benefits in FOREX translations and M&A. So the impact of that is zero.

**Stefan Cederberg**

And – and when you're talking about impact from M&A, is that the profit contribution from the acquired business?

**Danko Maras**

Yes, you're right.



**Stefan Cederberg**

Okay. That means that if you look forward, I mean, this SEK60 million will – I mean, will not last while the profit contribution will last.

**Danko Maras**

And that's a very good point, Stefan, that as we go into the new year we will give you information on how we are defining our underlying and M&A will be a comparator because we acquired Nutisal in January. So your point is absolutely valid.

**Stefan Cederberg**

Yes. And in terms of the Coop contract, how much is – how much will you externally source for this SEK200 million? How much is internal?

**Bengt Baron**

It's not totally set yet. We're working together with Coop to make sure that we have an assortment that is competitive from the external and from the consumer point of view. So it's not entirely set yet. So therefore I'd prefer not to get to that level of detail. But it will be – I mean, as I say, it will be a significant improvement for us net versus what we delivered via Candy King in the old contract.

**Stefan Cederberg**

Okay. And on your contract structure in sourcing of raw material, how long is your contract structure and will your balance price increases up front so you have a – will have just a little impact from any prices changes in sourcing materials?

**Danko Maras**

We have a policy of working on replenishment and securing our raw materials so you see around about 6 to 9 months of forward contract in place entirely to ensure that we can replenish our production and deliver our products. And therefore also impact internally on prices are lagging, but equally as the price increases we're doing towards our customers. And this is a process where you do have these lagging effects, and as we are having high volatility of raw materials, we will have volatility equally in the profitability aspects of this area specifically. But over time, again back to Bengt's point about our strategy, the 14% that we are aiming for should be unaffected by price increases or cost increases.

**Bengt Baron**

So the challenge for us is actually not what level they're at. It's always the volatility when it goes ups – up and down.

**Stefan Cederberg**

Yes. Yes. And what's your feedback of your product launches Q3? Have you – Ako for instance, have you received any?

**Bengt Baron**

It's early – it's early to tell so I mean there's always – and also when we launch new products, there is always a so-called pipeline fill, meaning that in order to get this place and exposure towards the consumer you fill up a lot of shelves and that is typically quite consistent and predictable. Then the big question is, of course, okay, how's the consumer going to react? So what does it take off from the shelf? And the consumption and then the replenishments



phase's the same. But that takes a bit longer post-launch than probably a quarter, two quarters down the line. And then also when you look at launches and pipeline fills you always have to compare to what launches did you do the year before and the quarter before? And that's why again, that's one of the reasons why we are quite stubborn on not going into very detailed levels on a quarter-by-quarter basis, because we'll be reconciling numbers and reminding each other of, what did we do a year ago? And so on and so forth.

What I can say is it's been very positively received by the consumer. That we can track by our social media and also our customers are very excited about both the Ako and also, as I mentioned, the Cloetta chocolate launch in Finland. Also the other ones that you see on the page, on page 12 are more of line exs or replenishment. So they're not as big.

**Stefan Cederberg**

Okay. Alright, thank you.

**Operator**

We have a next question from Christian Hellman from Carnegie. Please go ahead, sir.

**Christian Hellman**

Hi, thanks. First question on the price changes there and the shifts in the raw material prices lately. We've seen some go up, cocoa has gone up, etc. and sugar come down. What do you think, given your product mix in the Group what will be the sort of net effect of prices changes going forward?

**Bengt Baron**

Quite honestly, Christian, going forward I have no good guess. I wish I would because then I would buy forward or hedge. So it has been so volatile that it's difficult. It's also very difficult in some of these products to differentiate between what is fundamentals and what is speculation. So therefore it's extremely difficult to make anything forward-looking. So we are more backwards-looking and saying overall our challenge is the movements in between and therefore we need to rebalance the pricing in order to live up to our commitment which is, we should not gain and we should not lose on raw impact changes. I wish I would know what it will do going forward.

**Christian Hellman**

Sorry. Yes, but my question is, will you have to raise your prices going forward or lower them more to balance the raw material price changes that have already occurred?

**Bengt Baron**

Absolutely. That has already occurred. I mean, there will be rebalancing so that is in process because as we mentioned sugar has been coming down and cocoa and almonds and hazelnuts have shot up. And then there's some other ones that move as well so there is a rebalancing that is being done.

**Christian Hellman**

Exactly and is the rebalancing positive or negative?

**Bengt Baron**

Fairly flat.



**Christian Hellman**

Okay. And also just a question in – on the first slide, I missed the beginning of the Q&A – of the presentation. You were talking about customer conflicts in the Netherlands. Could you just elaborate a bit on that?

**Bengt Baron**

No, I – in the quarter we were – as part of pricing, as always, we were heading towards a conflict and we were actually impacted on – during a couple of weeks where sales were significantly down to that customer, one of the major customers in Holland. However, that has now been resolved so it should have no impact in the fourth quarter and beyond and going forward.

**Christian Hellman**

Alright, thanks.

**Operator**

And I remind you that if you want to ask a question you will have to press 01 on your telephone keypad.

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

**Jacob Broberg**

Okay, thank you very much for joining our session.