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Presentation

Jacob Broberg
Good morning and welcome to Cloetta Conference Call. My name is Jacob Broberg, Head of Investor Relations. With me today I have David Nuutinen, CEO, and Danko Maras, CFO. And as always, we will go through the presentation and take questions afterwards. So, first of all I'll leave the floor to David, please go ahead David.

David Nuutinen
Good morning, it's David here. On the Q3 highlights, we are happy with our quarter results, with strong 12% top-line sales growth and operating profit increased to SEK212 million, as well as with strong cash delivery. On net debt/EBITDA, we have seen a significant decrease versus a year ago, and despite the Lonka acquisition, we only see a slight increase versus the Q2 3.3x, and now in Q3 at 3.39x. In the quarter, we announced acquisition of Lonka in the Netherlands, and Danko will come back to some of the numbers in more detail.

Looking at the overall market and sales development, we have, in the quarter, experienced market – significant market growth, particularly in the Nordic markets. In the Nordic markets this has been mainly driven by chocolate, where this quarter versus last year this – the weather was favourable. We achieved 4.2% organic growth in the quarter, with sales growing in all markets except for Norway, Finland and Italy. As you will remember, in Norway and in Sweden we have ongoing – we've had ongoing contract negotiations. In Norway it's still ongoing. However, with one larger customer, we have now finalised the negotiations. However, we have missed an important launch window in Q3, and the next window will be open in Q1 2016.

Now, for the numbers, I will hand over to Danko.

Danko Maras
Thank you David and good morning everyone. Let me then start on page 4 by highlighting the sales number of 12% growth, we feel very good about that. I will come back to that on a separate chart. Let me just dive directly into our profit; the contribution on the different line items.

As you can see, our operating profit in the quarter is SEK212 million, compared to prior year, SEK178 million. There is an improvement in the delivery of the operating profit. The margin is 14.5% versus 13.7% the prior year. If we correct this for one-off items, which I will come back to in a second, the adjusted operating profit is SEK194 million, equivalent to a margin of 13.3%, compared to SEK193 million last year, which is 14.8%. Now, just one point in addition to this, on the adjusted operating profit definition, as there is a slight restatement that you see, versus prior year. We've done this based on requests from yourself out there in the market. The new definition that you are looking at is at actual rates. It includes all units as the date of acquisition and it only excludes one-off items. And there will no longer be any historical adjustments; when you look at the adjusted operating profit it will be fixed. Why we're doing this is just simply to make it simple to review. So we have moved away from constant rate conventions in our underlying EBIT definition that we were using before, and we are now using actual rates.

Now, if I then go back to adjusted operating profit of SEK194 million compared to last year, there are two things to keep in mind. First of all, the gross margin. If you look at the gross margin, you will see that it improved from 38.4% to 38.7%. It's a slight increase of 30 basis points that we actually feel very good about, because what we need to consider here is that the improvement includes a diluted effect from the Lonka acquisition that we did in the quarter. Without the Lonka acquisition, our gross margin would, of course, have been higher. And that is affecting the margin, when you go down and look at the adjusted operating profit.

The other part that you can see from the reading of the CEO words in our report is also that we are investing more in this quarter, compared to what we did last year, in our marketing investments. The amount is approximately SEK10 million because of launches that we are having in this period. So if we compare like-for-like from last year, there is an additional SEK10 million spend that we are doing in the quarter. So that explains some part of the adjusted operating profit margin compared to last year; why it's just slightly above last year.

Now, coming back to the one-off items that you see. What you normally would expect is a reduction of operating profit compared to adjusted operating profit. In this quarter it's different; our operating profit is better than our adjusted operating profit, with SEK18 million. The main reason for this is that according to IFRS, as you know, we are doing an earn-out – contingent earn-out consideration adjustments that we have to do, related to our M&As. And we are assessing what the ultimate payout would be, with payouts that are occurring next year and the following year, and those adjustments have been taken into the income statement in Q3. There is also a cost related to the Lonka acquisition, the acquisition cost per se, which equivalates to approximately SEK9 million, as you can read in our report. Despite that cost that we have for acquisition, the net impact is a credit in this quarter of SEK18 million, and that is really why we're having an improvement from the adjusted operating profit to our operating profit with SEK18 million.

Now, if we go further down the line and look at the finance net, you can also see that we are having a lower finance cost versus last year, it's SEK43 million versus SEK52 million, and we are getting benefit from a lower interest rates, of course. And you can also see that our corporate tax rate is about 23%, when you calculate it. It's our normalised tax rate, nothing strange in the quarter occurring, meaning that the end result for the period is SEK130 million, to be compared to SEK87 million last year. So a good improvement versus last year if you compare the two quarters to each other.

If I then go back to sales on page 5, you can also see again the split on the 12% growth that we are having. The organic growth, it's a very nice 4.2% that David was saying. But also, the structural changes are entirely related to the Lonka acquisition, so it's not combined with anything related to Nutisal or The Jelly Bean Factory, or so forth; we really do have only the Lonka part being our structural impact. But it's a 6.6% growth coming from Lonka. And we continue to have a strengthening of the euro, although not as much as we used to have in the past, that adds another 1.2%. So in total that adds to 12% growth.

The staples that you can see below – it's a nice graph of showing the trend of our sales development in the last 12 months – you can see the split both between our organic growth and the acquisition growth that you are having by quarter. And it's a very nice trend, we think, in terms of the development since Q2 2013, where we mostly had growth in each and every individual quarter also related to our organic part.

If we move further on then, to page 6, you can also see, by quarters, the net sales improvement that we've had between 2014 and 2015. Also, our operating profit increasing every individual quarter, and then the operating profit adjusted for only one-time items, so that's the restated number that you can now see on the staples. Nice trend development on all three of them.

Then the last part that David was alluding to is also our cash flow. We have SEK174 million cash-flow delivery from changes in working capital. That is SEK100 million better than last year, and for those who are interested in calculating you can see that our rolling 12-month cash generation here, from our operating activities, is SEK850 million in total. Our cash conversion in the quarter is 87.7%, so above our target level of 80%. It might be notable to remember that the earn-out consideration that we have done as an adjustment is a non-cash item. So good cash-flow delivery coming through on all three quarters, and it's really showing up in our net EBITDA that I will come back to soon.

On the next page you can see more in detail the SEK236 million of cash flow from operating activities. You do have a negative working capital movement; we would consider this being normal, with the seasonal build-up that we're having for Q4 for the Italian sales, but also our cash collection that we're doing in the quarter. So the SEK174 million is really a good, captivating capability that we have, sort of, delivered in the quarter. You can also see that we are investing less versus last year; we are coming down to the benchmark level of about 3% of CAPEX of NSC[?], and we are actually trailing slightly below that level now. And then, of course, the actual cash tax paid – sorry, the actual cash paid for the acquisition is coming through in other investing activities; that's the SEK206 million that you see there on the net basis.

I'll stop there and then we'll go into look at the net debt/EBITDA on page 9. And here, as David was saying, last year, the same period, the net debt/EBITDA was 4.3x. Last quarter it was 3.3x, and we managed to have a net debt/EBITDA in the quarter of 3.39x, including a rolling 12-month definition of EBITDA for our Lonka business.

So with that, I'll give the word back to David.

David Nuutinen
Thank you Danko. As you'll remember, in July, when we announced the acquisition of Lonka; Lonka has a portfolio of products, including fudge, nougat and chocolate. This acquisition will strengthen, significantly, our position in the Dutch market and will also give

us an entry into the chocolate market in that country. In addition to these – the Dutch market, the Lonka portfolio offers us opportunities, particularly in pick-and-mix area, in the UK and the Nordic countries. The integration process is progressing according to plan, and particularly happy to see that sales development and profitability are moving and developing according to plan in the quarter. And, as stated already, at the time of acquisition, this acquisition will, overtime, support our Cloetta margin target of 14% adjusted operating profit.

Going forward, focus areas Q4 is now seasonal sales. And as we have noted earlier that there have been significant price increases on nuts, and therefore we are also implementing substantial price increases in our seasonal sales products in Italy. That's now in focus and in implementation. Second focus area is the continued integration of Lonka, which has started very well. And then third one is our initiatives in pick-and-mix. As you know and remember that we, as of beginning of 2015, had a contract in Coop in Sweden, that has been progressing according to plan, and we have now signed two additional smaller contracts in Sweden. And I believe that this demonstrates our capability and that consumers and customers believe in us and like our products. We are now focusing then on execution of these new contracts as of quarter one, 2016. And naturally, as a fourth focus area, is delivering continuous profitable growth.

Then on the last page, a nice selection of great products that we've been launching in the quarter. I think that this demonstrates a sample of line extensions, with some new flavours and pack sizes. It also demonstrates and shows, and highlights, some new concepts. A highlight, for instance, on the line extensions in Nutisal product range, where we are introducing the dry-roasted concept now into dry-roasted peanuts. Then we have the Crispy Bite product in the middle there, where we have a 'better-for-you' concept with wholegrain wafer and berries. And then on the Tupla product we are entering a new category and a new shelf in the stores, in the Finnish market, with our Protein and Energy bars. So a nice, big selection of active new product launches in the quarter.

Jacob Broberg
Thank you David. With that we open up for questions, so please go ahead those of you have questions.

Operator
Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad. Please hold while we have our first question.

And our first question comes from Erik Standstedt from Handelsbanken. Please go ahead. Your line is now open.

Erik Sandstedt
Hi there. Thank you. Erik here, with Handelsbanken. I have three questions, please. Firstly, you generate a lot of cash, but you're obviously still a bit on the geared side, so I'm just wondering how we should think about the dividend capacity for this year?

Danko Maras
Good morning, Erik. It's Danko here. As we have communicated, when we refinanced part of our debts with the corporate bond, we have a capability of doing dividend payments if our net debt/EBITDA is still below 4, so the capability would be there, and it's then following our

strategy that we should not actually pay dividend until we come down to 2.5x net debt/EBITDA, and then 40% to 60% should be paid out. However, that is a decision for the board, and the board will make those choices based on what the year-end results will be, and what they will recommend for. So, we are both awaiting their decision.

Erik Sandstedt
Yes, fair enough, thanks. Also, you mentioned that the conflict negotiations in Sweden has now been finalised, but that it will still impact Q4 as the next window is not until Q1. I'm just wondering how significant that is, given the importance of Q4 being sort of the Christmas quarter. Could it even jeopardise positive organic growth? You still of course did very well here in Q3, despite the fact that you had the same issues.

David Nuutinen
David here. You're right that it's now been resolved, and we did miss that launch window. However, as in any similar case, we would always try to find mitigating actions going forward. We did miss that launch window. The next one is in quarter one. I do not see that this would be a significant impact on our performance.

Erik Sandstedt
Perfect, thank you. And my final question also relates to organic sales, which was of course fantastic here in the third quarter, but on the other hand, adjusted EBIT was only up around 1%. So, I'm just wondering if you could elaborate a bit further on why adjusted EBIT didn't follow organic sales to a large extent? I know you've already mentioned higher marketing costs, the Lonka acquisition. I suspect maybe higher input costs might have played a role as well. But is there anything else we should be aware of?

Danko Maras
It's Danko here. Not really. I think the fact that we are including Lonka, I didn't itemise exactly how much that was, but it's approximately 100 points on a – effect on the gross margin that sort of flows down to the adjusted operating profit. Now, we feel confident because we are communicating about our Lonka acquisition as being part of delivering the 14% EBIT margin target in the long run. But of course we need to work on getting there, so the effect on the gross margin is quite diluted in the quarter. Underlying metrics are good. We feel comfortable on the gross profit levers, and then the fact that we are spending more. We would not highlight it unless there would be a little bit more material investments, because you know you move quarter by quarter. But approximately SEK10 million of additional marketing investment is a bit unusual for us, but that's the fact in the quarter.

Erik Sandstedt
So, just to clarify, SEK10 million more in marketing costs, and then the Lonka burden result by around SEK15 million then, if it was around 1%?

David Nuutinen
It's, yes, slightly less than that, so SEK12 million/SEK13 million, but you're right, yes.

Erik Sandstedt
Yes, okay, perfect, yes. Thank you very much.

Operator
Thank you. And the next question comes from Mikael Holm from Danske Bank. Please go ahead. Your line is now open.

Mikael Holm
My first one is just a clarification of this definition of adjusted EBIT that excludes the earnings impact from Lonka in the quarter. Is that correct?

Danko Maras
No, so now we are – the earnings coming from Lonka is now part of our adjusted operating profit. The operating profit is having an earn out credit in the quarter that is making the results better, which is a bit unusual. But earning streams from Lonka is completely included in our adjusted profit.

Mikael Holm
And is it – I mean, what kind of margins – I mean it is to be around – what is it? SEK80 million/SEK90 million in sales from Lonka in the quarter. What kind of margin did that sales carry underlying?

Danko Maras
I know you're good in maths, Mikael, but as you know we don't disclose the margins by individual brand. What we say is that we will contribute to the 14% EBIT margin also with Lonka in the long term. But with immediate acquisition now, we just simply consolidate it, and – although we are happy with the results from Lonka in the quarter, we do think we can drive higher profitability in the long run.

Mikael Holm
And – okay. And just a question on organic growth, is it fair to assume roughly SEK50 million in contribution from the Coop pick-and-mix contract in the quarter? And if that is correct, I mean, then the rest of the business is basically not growing at all. Are you really satisfied with that development?

Danko Maras
It's Danko here. I come back to the reference point that we have given to you, about SEK200 million on a full-year basis for the Coop pick-and-mix. We are comfortable in delivering the SEK200 million on a full-year basis. I'm not really saying that we are having a quarterly impact, that, that has a meaning for us. But when we look at it year-to-date, and full year, we are comfortable with the SEK200 million.

Mikael Holm
Okay. And I have two questions on the price increases. You mentioned that you have raised prices to compensate for unfavourable[?] FX[?], basically. At the current exchange rate, do you think you need to do more, or are you done with these price increases?

And the second question is related to the price increases in Italy. Do you believe those will mitigate the negative impact from higher raw material prices?

Danko Maras
Okay, it's Danko again. On pricing, as you know, the euro and SEK and the euro and NOK keeps moving, and I cannot say that there is a definitive impact where we will not do more price increases coming through. Both the Norwegian Krone and the Swedish Krona is affecting us in terms of profitability because both those units are acquiring our goods in euros.

So, if you have continuous deterioration of the currency, we have to go out to the market and do price increases. And that has a time lag for us, but we can't say that, if in a quarter – as you know, if we lose on the currency, that we can mitigate that immediately on pricing. We have to follow the price windows in Norway. We have done price increases due to FX both in Sweden and Norway, actually also in Finland because of input costs last year. But we are not completely getting the full run rate of those savings in our quarter. So, there will be some time lag effects on the pricing.

David Nuutinen
David here, on your second question on the price increases in Italy. As you know, our pricing strategy is very clear. When raw material prices go up, we pass them on to our customers, and in this case it is a substantial price increase that we're pushing through. However, it is too early to say where we will land with that. The negotiations are ongoing, and as you know the actual then sell-in takes place in November, and sell-out doesn't happen until in December, so we really won't know the end result until late December/early January.

Mikael Holm
Okay, thank you.

Operator
Thank you. Our next question comes from Virginia Nordback from Berenberg. Please go ahead. Your line is now open.

Virginia Nordback
Yes, good morning. I was wondering if you could give some more colour regarding the improvement in the gross margin in this quarter.

Danko Maras
When – it's Danko here. Hi Virginia. The gross margin has different levers in terms of volume, mix, price and supply chain costs. What I think we can say with good confidence is that the full run rate of the manufacturing strategy is coming through in our gross margin. So, we see efficiencies in our supply chain coming through, compared to both last year and the year prior to that. So, as we have been communicating, the full run rate of all the savings that we have initiated in the programme, they are really coming through.

We don't have any negative levers in terms of volume, mix or price in any major circumstance. It is really the benefit from the supply chain strategy that is coming through. And that being mitigated with the fact that we are including an acquisition that has a lower than Cloetta Group gross margin diluting it a little bit. That's what I can say.

Virginia Nordback
Okay, thank you.

Operator
Thank you. Our next question comes from Fredrik Villard from Carnegie. Please go ahead. Your line is now open.

Fredrik Villard
Thanks. Good morning. I have a question with the contractors being resolved in Sweden. Was it on your terms or on their terms that this was resolved? Did they meet you guys, or did you have to meet them to get it resolved?

David Nuutinen
As you know, it always takes two to tango, and in any kind of contract negotiations you find an amicable solution for both parties, and then you go on.

Fredrik Villard
All right, perfect, thanks. Just one more question. So, the SEK10 million that was – maybe we've covered it extensively, but just want to make sure: are there any such more launches planned for Q4 that are extraordinary year on year, you would say? Or, is this truly one-off in the Q3, or should we expect similar impact in Q4?

David Nuutinen
Well, as you know, we are now speaking about Q3 launches and of course we will be continuing to support those launches, and with regards with Q4, I would refrain from making any forward-looking statements.

Fredrik Villard
All right, cheers, thanks.

Operator
Thank you. Our next question comes from Alexander from Nordea. Please go ahead. Your line is now open.

Alexander Koefoed
Yes, good morning, gentlemen.

Danko Maras
Good morning.

Alexander Koefoed
I have three questions. I'll just take them one at a time. Firstly, you mention there's some problems in the elements in the confectionary markets, and I think also you mentioned that in the last quarter. Can you provide some colour on that, and describe what they are?

David Nuutinen
Can you please repeat that question?

Alexander Koefoed
Sure. I think you mentioned in the last quarter, as well as in this quarter, that you see some issues in the Netherlands.

David Nuutinen
Netherlands.

Alexander Koefoed
And could you – could you describe that, what those issues are and, you know, possibly also how you see that going forward?

David Nuutinen
Well, actually, in the quarter, as stated, the market saw – experienced some decline. However, as also as I stated, that we saw growth in all of our markets, including Netherlands in that list. So, I think that – I'm not totally clear on what you're alluding to.

Alexander Koefoed
Okay. So, you don't see any difference right now to – between the market in Netherlands, compared to Sweden, for example?

Danko Maras
It's Danko here. I think in the quarter, there was a negative development in the Netherlands, but if we look at it on a longer-term basis, it – contested markets, the market shares is the name of the game in Holland. But the development of the market is not in decline in the long run. So, you can actually see something in the short term, but not in the long run. That's not really what I think is the message that we want to give back to you.

Alexander Koefoed
Okay, fair enough. So, any words on what the events have been in the Netherlands during the quarter?

David Nuutinen
Sorry, can you repeat the question again?

Alexander Koefoed
Just what do you see as the contributor for the development in the quarter, in the Netherlands?

David Nuutinen
I think in the Netherlands what, in the quarter, we saw the market going down. However, our sales grew. And on a quarterly basis, you can see market developments based on whether there has been promotions or new product launches. But in this quarter, our market – our development in – from our sales point of view, was positive.

Alexander Koefoed
All right. And then the second question, with regards to sugar prices, how has the development been there in your cost base?

Danko Maras
Well, as everyone's seen, sugar prices are holding fairly steady now. We see all[?] market prices that are – have come down and they are fairly steady at this point. You do see some indications – slight indications of prices going up again, but I would – I would describe them in our environment as fairly stable at this point of view.

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Alexander Koefoed
Okay. And is that also the same when you're comparing it to last year, that they're stable?

Danko Maras
Yes, and as we've said a couple of times, we don't actually speculate in input costs or sugar, but we do buy in 6 to 9 months because of replenishment and securing that we have available stocks, so raw materials and so forth. So, when we start looking at it, please remember the time lag effect that we are having because of that. But if we look at the world market prices and the quota prices we have in Europe, they are fairly stable, yes.

Alexander Koefoed
All right. And then just one last question on the timing of your target on EBIT margin, whether you see any – or, how you see the timing of that, considering the Lonka acquisition.

David Nuutinen
David here. We have not given any definite timeline on that. My ambition is to continue on the profitable growth target path, and I feel confident that we will be able to deliver the 14% target. When? I don't know yet.

Alexander Koefoed
Okay, fair enough. And then perhaps just one final question, if I may? The cost synergies versus sales synergies: has there been anything communicated on the wait between those two, or where do you have the most – the highest ambitions, if that's possible to say?

Danko Maras
Well, we have previously communicated the whole restructuring programme related to our manufacturing strategy, where the cost and the savings was all about a margin expansion to help us to get to the 14% target. Since then, we haven't communicated anything else in terms of synergy realisations, but a very large part of the programme that we've been running since 2012 is about getting margin expansions from our EBIT margin that we used to have in the past of about 10.6% towards the 14% EBIT journey. So, margin expansion was the key deliverable that we had on – that we have communicated.

Alexander Koefoed
Okay, thank you very much.

Operator
Thank you. And as a reminder: it's 01 on your telephone keypad to ask a question. There will now be a further pause while questions are being registered.

And our next question comes from Mikael Holm from Danske Bank. Please go ahead. Your line is now open.

Mikael Holm
Yes. Could I just follow up on a question on the 14% margin target? Currently you're at 12.3 % rolling 12 months, so 170 basis points up to sort of 14. You have basically done all the

measures on the cost-saving programme that should be in the numbers. So, looking, where should this 170 basis points – where will that come from?

Danko Maras
Again, we have to remember the fact that we've done acquisitions that are not part of our regular gross margin targets, and Lonka is a good example of that, which affects the timing of the achievement of the 14%. So, of course the programme that relates to our acquisitions are supposed to contribute and that will take time. In some parts, where we've done acquisitions, they already have very good margins, and then the achievement of the delivery will be earlier. But there is a timing aspect that relates to the acquisitions that we've done.

It's also the case that we can continue to work on supply chain efficiencies that we haven't done in the same extent in the past. So, when we communicate our lean 20/20 programme, this is about getting significant yields coming through by operating with higher efficiency, lesser waste, but there's still work to do. And when we say that the full run rate of the savings have come through, that's a fact, but that doesn’t mean that we haven't driven our efficiencies further on operational efficiency, wastage, and so forth.

So, there's still a lot to come from our supply chain organisation that can deliver more. We also want to have more volume. As you know, we have communicated – our pick-and-mix strategy is contributing to our 14% EBIT margin because we have a vertical integration with our factories. And the more volume we have, the better we can utilise the factory and the cost of the units will come down. That will also contribute to the 14%. That's key in those areas to drive the profitability. And of course there are other items also that relate to the continuous improvement by our implementation of our ERP system and so forth. So – but I will stop there in terms of – the key ones, there's still a lot to do in our supply chain area.

Mikael Holm
Okay, thank you.

Operator
Thank you. There appears to be no other questions, so I hand over – our conference back to you, speakers.

Jacob Broberg
Okay, thank you very much. Thank you for this presentation, and speak to you next time. Have a good day. Thank you and goodbye.