Transcription: Q3-report 2016

Title: Cloetta Q3 Report
Date: 27.10.2016
Speakers: Jacob Broberg and Danko Maras
Conference Ref. No: EV00047497
Duration: 40:19

Presentation

Jacob Broberg
Welcome to the Q3 Presentation. My name is Jacob Broberg, Head of Investor Relations, and today I have Danko Maras with me who is interim CEO and also CFO. So please go ahead, Danko.

Danko Maras
Thank you very much, Jacob and good morning everyone. Today's presentation will be carried out by myself only. So please bear with me and my voice throughout the presentation. Hopefully you all know me by now, so I'm sure it will be okay.

So with that, I'm happy to go into the report of Q3. I'm happy to report a continued improved operating profit. Net sales for the quarter decreased slightly by 0.8% to 1.448 billion. It is a decrease of SEK11 million, and I will come back to that soon. We also have a negative impact of foreign exchange rates of minus 0.1%. However operating profit increased to 216 million, 4 million more than last year and our operating profit, adjusted, increased to 224 million, an improvement of 30 million versus last year. Our cash flow from operating activity was positive with 116 million, a decline versus last year, and I'll come back to that as well. Our net/EBITDA ratio decreased to 2.76, which was 3.39 last year, and 2.82 in the last quarter. And as you all probably know by now we have entered into a new loan agreement in the third quarter, and we have redeemed our corporate bond of SEK1 billion. So we paid it back and now we only have bank loans in place.

If we turn page - and I will come back to the sales part - let me start with the market development. Overall in those markets where we operate, the market is slightly positive, or actually unchanged over the quarter. There is a slight decline in Denmark and Norway, but not any significant movements overall. If I go back into and only look at organic sales, we mentioned it was minus 0.7% in the quarter. It's a mixed picture here, and you could have seen, as we wrote earlier that sales grew in Sweden. Sales grew also in Finland. We had a slight growth in Italy which was very positive, as we since 2013 have not had any growth. Although it's quite fragile in Italy, it is positive to see the growth. We also had good growth in Norway and the export markets. The decline that we saw was mainly in the Netherlands and the UK. Also slightly down in Germany and Denmark. In addition to that we had a planned reduction in contract manufacturing with about 50 basis points, or SEK8 million. And the positive sales trend that we see in Sweden and Finland is predominantly by Pick & Mix. And the drop in sales in the UK is partly attributable to the weaker British pound. In the Netherlands, sales of special products to discounters declined in the quarter, and had an impact for us in the Group.

I will come back to that a little bit later. But let me go into profitability and turn the page. You can see that if I start talking about our gross profit, we continue to improve our gross margin and gross profit. It's 574 million versus 565 last year. So the improvement of 90 basis points is coming through via our supply chain efficiency. We're now at 39.6% both year-to-date and in the quarter. And if you look at the rolling 12 months, you can see we have improved 40 basis points versus 2015. So we are moving ahead on the improvement on the gross margin. Our operating profit, adjusted 224 million is a combination of the improvement in our gross margin, and SG&A, and good cost control. If we look at it on a year-to-date basis, we are still having a higher OPEX than what we are having in the quarter, but through good cost control we are managing our SG&A. And that, of course, results in a good margin development of 15.5% in the quarter. And overall, if we again look at the last 12 months rolling, you can see that we are now coming up to 13% EBIT margin versus our financial objective of 14%. Our operating profit is 216 million; an EBIT margin of 14.9%. And you can see from last year that it's an improvement of about 4 million. We had an unusual credit last year, if you'll remember, and therefore the operating profit is actually higher than our adjusted operating profit. That related to an earn out adjustment of almost 20 million last year. So if you look at the current trend, the 216 million versus the 212 will be the one to look at.

Another additional point, is that we had an exceptional charge in net financial items because of the redemption of the bond. The impact of that was approximately 49 million, which was a one-time charge. We had expected it would be a bit higher, but we managed to redeem a little bit earlier and to get the benefit of a new loan contract in place. So the 71 million that you see there are a little bit lower than we expected in total when we did our announcement. And already now in Q4 we will start to see benefits coming through from this new loan arrangement with a more effective interest rate. And really, all of that is then falling through to the profit before tax and the profits for the period. Had we not had that exceptional item booked into net financials, of course our net profit would have been higher than last year. We had a slightly higher tax rate of 25.5% and they are just non deductible expenses that we had in Italy, and also some international rate differences because of the mix of profit generated temporarily for the quarter.

So all in all, if I go back then to sales, let me spend a second here, minus 0.7% is of course not satisfying. We are not happy with the negative growth in the quarter. We are having positive year-to-date growth of 20 basis points. So if you look at it from January to September, still growing and compared to 1.5% last year. But we understand that the important thing is for us to drive profitable growth, and we keep working on that objective. As regards to structural changes, please keep in mind that as of now Lonka is part of our organic growth. We acquired it last year in July, and therefore, our comparator is from now on organic. There is no M&A that are distorting the organic growth. Change in exchange rates is only showing 10 basis points and here I would just like to mention it's a net out of three currencies. What you've seen in the quarter is a continued strengthening of the euro and we have a positive retranslation effect in our results of about 50 basis points. However, the retranslation effect from pounds in the quarter was also 50 basis points. We have a smaller part of our business in the UK, but because of the significant devaluation, the impact in the quarter was 50 basis points and they offset each other. And we have an additional 10 basis points on Norwegian Krone that is the net impact of minus 0.1%. So the benefit of euros shadowing the impact we talked about on the British pound, so obviously, that had an impact for us in the quarter.

On the next page, you can just see the visual of the continued improvement on operating profit. We keep driving over the three year period, you can see the phasing when the profit contribution tends to come. We are now heading into our very important fourth quarter with the seasonals in Italy.

Coming back to cash, you can see the 927 million cash generation in 2015 has come down slightly. I would like to say that in the quarter we had the exceptional charge of the redemption of the bond, which was about SEK 30 million. And in addition to that, what we normally have referenced to is our benchmark of working capital. And we made a significant effort last year to reduce our working capital as a percent as a percent of sales. And we used to be at about 15%, but today we are hovering around 10%; so a significant improvement was done in last year. And you cannot expect that we will make the same significant improvement in 2016 as we are coming down to our target level. But it's still good cash generation in our business. We are pleased with the delivery that has come through.

And if you go to the next page, you can see the 219 of cash flow that you have in the quarter is impacted by these 30 million. It is very normal for us to have a negative cash flow in the third quarter, because – with the seasonals build up and we produce a lot of nougats in Italy. And we build up also seasonal sales for our receivables, but it's not unusual to have this negative cash flow. You can also see that our CAPEX of 42 million is a bit higher, but it's within the target range of 3% of sales and the extra spend we have here relates to the closure of Dieren and our expansion in the factory in Slovakia.

Cash flow from other investing activities relates to the payment of The Jelly Bean Factory.

So, we've had cash generation. We move into the next page and you can see that we continue to drive down our net debt/EBITDA range to 2.76. In combination with the refinancing that we've done, we have also slightly changed the terminology for net debt/EBITDA what is included in there. It's very small changes. They're not material. We might go back in to only using one decimal in the future. But for the sake of it, we just wanted to explain that to you. Very happy to see this progressing as we have planned and soon we will come to our target level.

On page 10, I will not go through this very much in detail. We have done a few press releases and I've seen that you have reflected on it. We are very happy with the refinancing. It's now coming to place and we are starting to see benefits as I mentioned before to come through already in our fourth quarter.

So, what's in our focus? Well, obviously, we were happy to see growth in Italy. But it is very fragile. Our profit has not developed in line with our expectations and now we're heading up for the seasonal sales. So, we keep monitoring what's happening in Italy with scrutiny and we are hopeful that we can get a good quarter. It's a very important quarter for Italy, as you know, but also for the group. Another part which might be worthwhile to mention to you is that there is an abolition of a confectionary tax in Finland from the 1st January. And this confectionary tax has been levied on confectionary products, and will cease to exist from 1st January, and sales will probably increase in the long run. But there could be some short-term patterns by order-taking from customers who want to wait in December month and order in January. The Finnish team is working very diligently with this in making sure that we don't have any unusual patterns. But there is a risk that there might be implications of that. The fourth quarter and the first quarter will not see any implications. And in the long run, we believe sales will increase with the abolition of confectionary tax. So, we keep monitoring that for the fourth quarter. We continue to drive our Pick & Mix initiatives to establish ourselves as a core provider to the markets where we are in. And we are negotiating and trying to establish better and more contracts. Our factory closure in Dieren is going according to plan. I have nothing to report that is deviating from what we've said before. Please remember that the full run rate of the savings will not come through until 2017, but we are very happy with the progress. It's working in a very professional and smooth way.

And then coming back to our core focus, happy with the improved profitability in total if we look at it year-to-date. But we want to, of course also be sure we are driving top line and profitable growth is our core focus. And that's why we are also focusing on Q4.

For Q3 there are some interesting new launches that we have done. You can see actually, our Lonka product, if you go to Sweden you can see under the Malaco brand we have something we call Mixed Fudge and Mixed Toffee. They are actually – Lonka products that are sold under the umbrella of Malaco. Please buy them. They are very tasty, very nice. And they are now established in the Swedish market. Also, the BonBons that you see there, they come from the Lonka factory. We're doing exactly the same in Finland with the Fudge Toffee, with the local brand positioning in Finland, but it's the same products as we are having in Holland. You can also see our expansion on the Crispy Bites and what people perceive as a great Munchy moment opportunity in Sweden and Norway. It's selling very well and we're happy to see that developing. And for those of you who like to eat pipes, the Skipper's Pipe is now being launched in an extra-large size and we are very happy to sell it in travel retail in Denmark. It's a big seller.

With that, thank you very much. And I think we are opening up for questions.

Q&A

Operator
Ladies and gentlemen if you wish to ask a question to the speaker, please press 01 on your telephone keypad.

We have a question from Erik Sandstedt from Handelsbanken. Sir, please go ahead.

Erik Sandstedt
Hi, thanks. It's Erik here with Handelsbanken. I have a few questions. My first one relates to the EBIT margin. If you look at the first nine months of the year, that margin is up 1.3 percentage points versus the same period last year. How should we think about the progression into 2017? I suppose it's fair to assume a much slower margin progression, otherwise you would be basically at your 14% margin target already next year.

Danko Maras
Hi Erik, it's obviously Danko here, I'll take that question. First of all, I think you know that we are not giving you any forward-looking statements about how we're progressing. We have also not disclosed when we're going to reach 14% EBIT margin target. We are pleased to see the rolling 12 months' progression of 13%; another percent is not easy to come to. We keep working on it, obviously. If you look at the split between the margin expansion in the gross margin versus SG&A, the majority of that improvement that we have had over the years has been in our gross margin. And then of course, you've heard that we have had input costs increases in sugar. And we have to go out and make price increases for that. And that's not an easy activity for us to do. So, let me just say that the timing of reaching our financial objective, we have never really said when that would happen. We keep working along and driving the margin up with a lot of basis points, but the reality is we also have to look at the external world and what is happening. And the pricing for me could have an impact on timing.

Erik Sandstedt
Yep, perfect. That makes sense. My second question relates to financial expenses. You have already touched upon this, where you have obviously said that they should be some 50 million lower in 2017. But what is the starting point here when you say 50 million lower? The way I'm looking at it is, it's for 2017. Is it roughly right to assume interest rate expenses of some 40 million and then some 60 million in those, sort of, non-cash charges, such as amortisation of capitalised transaction costs and so forth. So, that would total around 100 million in 2017, of which 40 million would be interest rates – or interest rate expenses.

Danko Maras
That was a long question, but you could say that – of course it's a theoretical calculation because we are assuming going concern with cash flow. We're assuming there are no acquisitions. Of course we are working on an average debt position. But the impact that you're referring to is not totally wrong.

In percentage terms, we have said that we would be approximately around 1% on effective interest if you look at that payment that we need to do to the lending part. So, that would be the reference point that I would give to you now. Then of course, if something happens with our debt position. If we increase our dividend, decrease our dividend, or make acquisitions, that would then implicate that we would have effect on the interest rate.

We also hedge our interest because of security reasons. So, we don't work only on a variable part. And then it becomes a little bit of an effect of what the swaps will cost us. So, my reference point to you would be approximately 1% of effective interest rate.

Erik Sandstedt
But is there any reason to assume that the costs not related to interest rate expenses would be different next year to this year? For example, the capitalised transactions costs and so forth?

Danko Maras
Yes, you are right. The capitalised transaction costs will be lower than our original borrowing that we had in the outset of 2012, it was more expensive to arrange than this year. And out of respect to the other parties, I will not say how much. But it will be lower. Another part which might be worthwhile to consider is that there are some statistical interest rates relating to the earn out adjustment, which is a requirement from IFRS. We have now paid off all our earn outs, so, there are no more earn outs in our balance sheet to consider. And therefore the earn out adjustments and the discount rate and the costs calculated for that has been eliminated from Q4 and onwards.

Erik Sandstedt
Perfect. And then sorry for taking up a lot of time, just one final question here. I also know that you mentioned the, sort of, relatively low administrative expenses here in the quarter. But how should we think about that going forward? Is there some quarterly volatility here and some phasing between Q3 and Q4? Or should we assume that the administrative expenses have structurally been lowered?

Danko Maras
If you look at the OPEX as a whole and you actually make adjustments, which you can do in our quarterly report with those parts that are items affecting comparability, if you do that exercise on a year-to-date basis, you will see that we are increasing our OPEX. It's not a lot, but we are increasing it and the bigger part of that relates to the fact that we're establishing ourselves in the Pick & Mix area. And merchandisers are employed and they are actually then extensively in the OPEX line.

I would, as you know, look at individual quarters can be misleading. It's better to look at it on a year-to-date basis, or a rolling 12 months which I think is the relevant metric. And if you have a significant benefit in a certain quarter, look at it on a year to date basis and then you see the structural effect on our SG&A. With the planned increase that we have, it should take out all the items affecting comparability, because of the merchandisers. But it's still something that we have a scrutiny on and good cost control.

Erik Sandstedt
Yeah, perfect. Thanks a lot, and well done.

Operator
Your next question is from Mikael Holm from Danske Bank. Sir, please go ahead.

Mikael Holm
Yes. Hello. A question regarding the organic growth 0.2% year-to-date. And now you're mentioning this lost contract manufacturing on – that affected the growth by 40 basis points in the quarter. Is it fair to assume this effect to be in the coming three quarters as well, from a year-on-year perspective?

Danko Maras
Hi Mikael. The effect on the lost contract has been there in different forms already in Q1, 2 and 3. And the fourth quarter is the last quarter there. The materiality of this is normally not that large. We had a very, very low share of contract manufacturing. But when we are almost on a break-even level on top line, I thought it would be nice to call out that this one as it is production that will cease. As of next year, there's no comparator anymore. So, this will be outside the organic growth part.

Mikael Holm
Okay – and just two questions on the Italian business. First, on the – more on the short-term outlook, I mean last year you did raise prices and competitors didn't follow. Do you have the pricing situation clear for you, from competitors as well, now for the very important fourth quarter?

Danko Maras
All of this is just going on Mikael, so we have reduced prices because of the reduction of hazelnuts and almonds. So, we have been able to come back to it in line with our policy that input cost increases or decreases should be borne by the consumer at the end of the day. So we are in the middle of this, also looking at what competitors are doing. It is our ambition to get this recovery on volumes. But it's too early to tell, and we will see how that will come out in the end of fourth quarter. The majority of it comes in December month, during a two-week period. So, it's a little bit too early for me to conclude on what competitors are doing.

Mikael Holm
Okay, and also you mentioned the report that you're reviewing the development of the Italian business. What kind of options do you see here?

Danko Maras
You know we have hope for an improvement in profitability in Italy this year and so far we have not seen that uplift, and therefore I wanted to mention it. But – I mean we are closely following this, reviewing the development to make sure that our Italian operations are developing well. We have a lot of scrutiny. Italy is part of the family. We are looking into and making sure that we do our utmost to drive growth in that region. And as you know, I've been down there quite a lot in an earlier stage, and it's a great team and they're doing what they can to drive the seasonal business.

Mikael Holm
Okay, and my last question is regarding the savings from the closure of the Dieren factory and the 35 million for next year. Because I noticed that the number of FTEs did decrease a bit from the second quarter. Is that related to this factory and implying that we could see the full benefit already in the fourth quarter from this?

Danko Maras
What I can say is that our Head of Supply Chain is very pleased with the development of the transition into the production in Levice, so we are delivering according to our timetable. We're happy with that. There might be one or two smaller differences, but I would look at it as a whole, Mikael, and then think about the full run rate in 2017. Then I would come back to also saying whether we have a few more, or a few less on a total basis.

Mikael Holm
Okay, thank you.

Danko Maras
Thank you.

Operator
We have a question from Anna Patrice from Berenberg. Please go ahead.

Madam, your microphone is open.

Anna Patrice
Yes, hello. This is Anna Patrice from Berenberg. Just a couple of questions. On the growth – on the organic growth, could you please give us the volume versus price development? I mean how big was this reduction in the prices in Italy affecting the overall growth?

And then another question, I probably missed it, sorry for that, about the pricing increases to offset the UK pound. If you already started negotiations, if you think that you will be able to increase the prices, or what could be the impact – transactional, translational impact from the lower British pound?

And then were there any one-offs because of their integration of lonka in the Q3? That's something I also missed. Thank you.

Danko Maras
Okay. Hi Anna Patrice. It was a little bit of a bad sound, but I think I understood your questions. The first question was about how much was volume and price. And I could say, predominantly what we're dealing with here is volume and the impact that you're seeing is volume related. There is one market, I don't want to disclose it specifically, where we had very good price development because we had to do price due to weakening currency. But overall, when you look at our gross, it is predominantly volume related.

And then your question on the British pound, I know it's not only us having a problem with the British pound. There's a lot of fast-moving consumer goods having a problem with the British pound. And we as a player in the UK market are not that big, and if something were to happen in a market where we are – having a strong position, we would be more forceful. But we have to follow a bit on what is happening in the UK market, and our team is working on doing price increases for next year to mitigate the purchases that are done in euros, as many others are doing too. So, the implication of 50 points that I referred to as translation, are an impact that is affecting us that we want to mitigate. But I wouldn't say that we are a leader here, we are a bit of a follower. And the positive thing for the collective group is, in reality, it's not a large share of our total sales.

And then as regards to the one-offs in the quarter, they were predominantly related to Dieren. There is a 1 million charge on SG&A which relates to a restructuring we did on individuals, but it's very, very small. The majority is in Dieren. And there is a reference that we are making today with – if you look at the quarter report, you can get a lot of details on page 13 where you can see where we are booking our items affecting comparability, what they are, and which line items. And hopefully they will be helpful for you.

Anna Patrice
Thank you.

Operator
We have no other question for the moment. Ladies and gentlemen, I would like to remind you that if you wish to ask a question, you can press 0 and 1 on your telephone keypad.

We have a question from Oscar Erixon from SEB. Sir, please go ahead.

Oskar Erixon
Yes. Good morning, Danko. I think most of my questions have been asked already, but could you elaborate a little bit on the abolition on the confectionary tax in Finland? You think that will have a significant impact in December on growth? Thank you.

Danko Maras
Hi Oscar. I'm not sure I said that. I think what I said was – is, the uncertainty is increasing and the Finnish team is working on trying to smooth out any kind of order patterns that might be happening because of – and naturally so, that the retailers are saying, why should I buy more expensive in December than in January? And the fact is that the confectionary tax is something that we have to invoice. So, we bear the burden of registering that confectionary tax to the authorities. And over the fourth quarter and the first quarter next year, we don't see any implications at all. But I want you to be aware that this is going on, and I think the team is doing a great job in not having distortions in the order patterns. And in the long run, we think sales will be positively affected by the fact that we're abolishing this confectionary tax. So, there is a certain level of anxiety that we need to work on phasing, which is important for us. But hopefully, it will not come through, but we will let you know, of course if that would be the case.

Oscar Erixon
Understood, thank you. And then just a question on working capital. You said that you did a lot of improvements last year and are quite comfortable with the current level. Can we interpret that as it should stay on a similar level to this going forward?

Danko Maras
Yeah, I think we talked a lot about this in the past. We used to have about 15% of working capital and at the end, most of that was inventory related because we had a lot of safety stock. And quite a significant effort was done now in bringing that down to about 10%, and it will fluctuate a little bit around that level. But to go down to 5% or even having a negative working capital; I'm not sure we either have the power to do that, versus our suppliers, or I'm not even sure it's good business practice to be on that level and push suppliers too hard. So, we've said that our target level should be around 10%. They're reaching that level. That doesn't mean that we don't continue to find ways to improve our capital efficiency. We are working in every way we can. But a radical shift from the 10%, I think, is not really in our plans. It would be difficult to carry through. That is our benchmark level at the moment.

Oscar Erixon
Excellent. Thank you very much. That's it for me.

Operator
Your next question is from Mikael Löfdahl from Carnegie. Sir, please go ahead.

Mikael Löfdahl
Yes, hi. I have three questions. First of all, on the sugar prices a. How – where are you right now in terms of effects on the gross margin? I mean there's a lag obviously in this. So, when do you need to get prices through without hurting the gross margin?

Danko Maras
Hello Mikael. I think it's the first time we are meeting. It's nice to have you on the phone. As regards to sugar prices, we have a normal time lag of six to nine months that we've talked about because we work on replenishment of sugar. But we have to act in good time of course because we are seeing that prices are coming up and we're looking into 2017. It's publicly available information, so everyone can see that sugar is actually turning up again and the implications are different by market. Unfortunately, there is no standard way of doing price increases in Europe. So, people work on trimesters in Finland. In Sweden, we work on calendar different time windows for price increases. Italy is very different to Finland. So, it's a combined effect that we have to think about and there's always becoming a sort of time lag of half a year to a year. So, my answer to you will be a little more general, that we are working on it already today. We are negotiating and actually entering into those discussions now as we speak. And the effect will come through in 2017 and I'll stop there.

Mikael Löfdahl
So, if you're unsuccessful in price negotiations, the negative effect will come sometime in 2017 then?

Danko Maras
Yeah, that's correct. That's correct, but we don't plan to be unsuccessful in doing that. We are quite firm on our thinking and our policy of increases and decreases should be carried out to the consumer. And we have even been in the situation where we have decreased price, like in Italy, when the input cost has come down. So, we are very consistent and firm about this policy.

Mikael Löfdahl
Okay, thanks. Also, just to be clear, previously the UK – the currency effects on the UK sales was actually affecting organic growth wasn't it? But you have changed that as of this quarter.

Danko Maras
Yeah, we have changed it. It's still not a material amount of sales in the UK. But because of our acquisitions of both The Jelly Bean Factory and Lonka, and our existing Chewits business in the UK market, it has become a little bit more sizeable in the UK market. And when we talk about organic growth, we want to talk about how much growth do we have, pounds for pounds. And that was not material at all in the previous periods. And that's why we have actually changed it going forward. When we talk organic growth, there's no currency impact. It will be booked retranslation, like we did in Q3.

Mikael Löfdahl
Okay, thanks. Also, when it comes to Pick & Mix, do you see any sort of desperate moves from – I mean we have Candy King obviously having some difficult times in terms of pricing and – on the existing contracts coming up for renegotiation and so on. Are you experiencing any sort of price pressure from these other players?

Danko Maras
No Mikael. I would say we have an interest of having a good category development on sugar confectionary. So, in the interest of the category, we hope everyone is doing well. We have our ambition level of becoming a strong player in the Pick & Mix concept. Remember we have 13 factories, and we can be very good in providing a good offer as a concept provider. But we have no interest of having a decline in the category. So, we don't really look at what is happening on that side. We try to do our best on our side.

Mikael Löfdahl
Okay, final question on the taxes. Could you give some sort of guidance where you believe you will be in 2017 in terms of tax rates?

Danko Maras
We haven't – that to us becomes a forward-looking statement, again. And what you could expect, which I've said before, is that, you know, in Sweden we are at 22%, but if we make a mixture out of the market where we operate, in Europe predominately, we land somewhere around 24%. And then it could be a mix that's impacting us because the rate is a bit higher in Italy, a bit lower in Finland. So, what I have said is somewhere around 24%. The actual cash tax paid it is much lower than that of course, but we're using credit. If you want a guidance from me, that would be 24%.

Mikael Löfdahl
Okay, thanks.

Operator
We have a new question from Mikael Holm from Danske Bank. Sir, please go ahead.

Mikael Holm
Hi again. Just a follow up on the raw materials situation and especially on the sugar price. I mean the chart that I look at is pretty flat over the latest year basically for prices within EU. But could you tell what you see, or is this an effect of the weakening of the Swedish Krona lately?

Danko Maras
Mikael, we will send you the sugar chart so that you – I don't know which one you are looking at – there's no official numbers and lately the sugar price has increased significantly. So, we will provide that to you, so you can make a reference to it when you talk to others.

Mikael Holm
Okay, thank you. Because I can see that the world prices is going up significantly, but that's also the case for – within EU.

Danko Maras
Yeah, I mean both of them are under. The world market prices and the EU market prices are increasing. Please remember that also the sugar quota system will be abolished in October 2017. And the implications of that is there are as many views on that as there are experts, to be honest. So, what that will mean for demand and supply is an uncertainty factor. But there will be an abolition of the quota system in Europe and we will be more normalised to those world market prices thereafter. That's at least what most of the people think.

Mikael Holm
And just your thoughts on that for saying that the world market price seemed to be higher for the first time in many years than the EU prices, is it fair to assume that that's been a negative for you?

Danko Maras
I come back to our policy on import costs. In 2012, we made a large-scale price increase because we had to. Now we are seeing pricing go up again and we are starting our pricing negotiation. It should be unaffected – our 14% and EBIT margin target should be unaffected by import cost increases. It is not easy when import cost goes up or down. We would prefer it to be very stable. But if it goes up then we'll have to move on pricing negotiations with our customers.

Mikael Holm
Thank you.

Operator
So, the next question is from Stefan Stjernholm from Nordea. Sir, please go ahead.

Stefan Stjernholm
Hi this is Stefan at Nordea. A short update from Italy. I'm sorry if I missed that earlier in the presentation, but apart from price adjustments, what can be done differently ahead of the Christmas season this year, compared to last year?

Danko Maras
I heard you a little bit bad there, but I think you asked me what I've done in addition to the price reduction. You know the preparation for seasonal sales is a significant effort that starts already in May month where you're settling the – some of the input cost price increases or the way to establish contracts with our customers. There's no real difference in the offering per se. Of course, we are rejuvenating the brand and making some differences in the packaging etc., but the core products that we have with our Sperlari nougat etc. it's a great assortment that every Italian loves to have and the team that does the execution and goes to market and does the pricing negotiations, that is what they're doing at this point in time and the price reduction per se is a key component in making sure that we can recover the volume. Then it's basically putting the feet on the street and making sure that we are getting sales in December month, so people go out; everyone in the company in Italy to drive sales through the stores. So I would say it's an everyday great execution that's expected from the team in Italy. And every time is an important time. And the key differentiator versus last year is that we can compete with different pricing versus last year.

Stefan Stjernholm
Okay, thank you. But there are no changes in your sales channels additional months or next month?

Danko Maras
No, not really.

Stefan Stjernholm
Okay thanks.

Operator
We have no other questions.

Jacob Broberg
Okay, then I will say thank you from our side at Cloetta and please do remember to buy our seasonal products in December, and speak to you next time. Thank you and goodbye.

Danko Maras
Thank you. Bye-bye.