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Presentation

Jacob Broberg
Good morning and welcome to Cloetta Q2 Conference Call. My name is Jacob Broberg. I'm head of Investor Relations here at Cloetta and, as last time, I have Henri de Sauvage Nolting, our CEO, and Frans Ryden, CFO with me here today in Stockholm so I start with handing over to Henri to start.

Henri de Sauvage Nolting
Yes, so thank you for joining us. Q2, as many of you were already predicting, had strong organic growth and also a lightly improved operating profit. Good to see that organic growth came up to 5.7% both in the branded and in the pick & mix. Also on the operating profit adjusted we made a step up to 161 and then operating profit 159 and the profit for the period 97, same level as last year. Cash flow very much affected by phasing effect Frans will come back to that later on and after the dividend payment, the net debt of our EBITDA was 2.7 versus last year 2.8.

If we look at the market, at the sixth consecutive quarter now of growth in the branded products, that starts to become a trend, I would say, showing that we are improving quarter after quarter the strength of the brand. Of course, still a lot of work to be done and we're just starting on this journey, but of course I am pleased to see the continued effect of that also because it is quite spread across all the markets which of course is also a good sign for the future. So the packaged confectionary, or brand confectionary market grew in all markets. Of course, it was a little bit helped by Easter in particular in the Nordics with chocolate.

Also pick & mix grew in all markets, in particular Sweden, with of course in absolute terms a lot of growth so it will impact the organic 5.7% that was a 1.4% growth with the brands and I already said that really starts to show we get some real traction behind the branded business. And then pick & mix, 18.1%, very good. A lot of effect, of course, in Sweden of Easter, and also in Norway to a certain extent. What we overshadow a little bit here is also the very good work we are doing in the other markets on pick & mix where we're growing and even in Norway there were many other contributing factors in, let's say, the implementation of the sales pressure which are leading to this great result, so that is good to see.

Of course, we still need to get the average profitability up so we also can start to earn some money on these increased sales. And market shares in the majority of our business up and again, another good data point to show that we are strengthening ourselves. If I look at the Cloetta core strategy. So the strategy was really focusing on our core business, our core brands, and our core markets, of course in Q2 we can see that the brands were growing, pick & mix were growing, but also we can see that brands are becoming stronger. We're getting new buyers into our brands and shares are growing and that is good to see. We made another step up in the working media. The amount of money we spent which is seen by consumers versus the money we spent on the agencies to research or prepare this kind of media.

So, that's also good that it becomes much effective now when we are more out there talking to consumers about our products and our brands. And also, we can see that the strategy of doing less innovations and making them bigger is actually also helping to become more successful. The pure innovations more aligned across the markets are starting to pay off. Then, to facilitate the growth: so the work we're doing on things like organisation, that's maybe the biggest progress also versus a year ago. We just had a leadership conference. You now can really see the top 60 people in Cloetta really working much more together. We call it One Cloetta and there's many, many examples. There's a few of them coming through on this presentation but that of course is really unleashing the value of being part of a bigger company.

So, one example is the Cloetta UK. We now don't call it Candyking UK anymore but Cloetta UK. They're on the M3 ERP platform of Cloetta which really makes the integration easier but also, they are now fully responsible for all the branded business which we as Cloetta had in the UK and where we had not been focusing a lot on and not been very strong in the last couple of years, very tactical, and now there's a good plan together with the leadership of marketing and the international markets and the UK is really implementing branded products in pick & mix channels and vice versa, working directly with customers. So that is really showing great progress.

Also, on the capacity, the drying investments is all on time. We're actually able to cut some timing on one of the factories by going faster we're moving to 24/7 production on Foam in the Swedish factory to prepare for the sales we can realise over there and the business units have now also made a five-year strategic plan by technology and by brand and that is now being used for the factory network to see where are we going to see the growth coming in five years, where do we need to increase capacity and come in with a CapEx plan to the Board of Directors somewhere in the second half of this year.

Then on the cost and the efficiencies, the value improvement plan which we also talked about in the capital markets day, very positively received by what we call the extended leadership, very much focusing on the non-people cost of a lot of very different work streams in the way we've set it up together with Accenture and the visibility phase and using the ZBB (Zero Based Budgeting) philosophy and a good traction and very many ideas, I would say, on how to tackle that and also on organization, we're now looking at getting more efficiency, and so good progress. Perfect factory rolled out now on six main lines in three of our factories, we're starting to also show good initial results. Of course, this is a longer project than just one year. After the summer, we'll extend to another six lines with very encouraging first results coming out, also showing where we have weaknesses, or in my terminology, opportunities to save cost or to get more efficiency out.

And in pick & mix Sweden we had already alluded a little bit on that. Great progress on the sales side, but also 50% of the volume more or less contract wise has been raised in price without having a huge impact on the volume. Very good progress I would say. There's a number of larger contracts which we're now tackling in the second half on the year where we also need to get a more decent profitability level, let's call it like that. But apart from the pricing, they're all big initiatives going on, so we're also taking quite some article numbers from the assortment and you might say, what is that going to do with EBIT, but less complexity means faster merchandising, means cheaper production, cost less obsolete, etc. So that is quite good and also on the merchandising we've seen first signs that we get better KPIs and better control over the cost of refilling the shelves in store. Then I hand over to Frans.

Frans Ryden
Thank you, Henri. So, let me just say when I presented Q1 results, I used the word 'despite' to describe the results in that quarter, given that we had a tough competitor with Easter in quarter one the

year before, as you probably recall. But now, for quarter two, we're obviously comparing versus a quarter without Easter, so I think it's important that we also keep an eye on the year to date to make sure that we see how we're progressing against our financial targets excluding that phasing impact.

Nonetheless, in quarter two, as Henri mentioned, we delivered organic growth of 5.7%. Our first quarter in some years where our total business grew. Branded business was up 1.4% which brings year to date growth to 1% which is within our targeted range to grow in line with or better than the market of 1 to 2%. Pick & mix business grew 18.1%, obviously supported by discount Easter sales, but as Henri mentioned also good success in other parts of the business. And of course everyone anticipated a strong quarter too but this also means that year to date, our pick & mix business is now delivering growth at 1.6% and it is starting to become a trend, Henri mentioned that, it is great to see that as a total company year to date and not just during an Easter quarter, we are delivering now organic growth.

Now, I would also pause here for a minute on the strengthening of the Euro, so the 5.7% organic becomes 7.5% in total growth. Now, with that currency effect, of course the top line looks nice, but we will also have some tougher conditions further down to the profit and loss and I'll touch on that as we go through this. Nonetheless, again, a quarter of very stable company performance and now also on the top line.

First also having a little bit closer look at the quarterly performance here. So, for this quarter, branded represented 71% of our portfolio and there you see the six quarters of consecutive organic growth that Henri mentioned and at 1.4% that's pretty much in line with the average of the preceding five quarters that we've had. And for the pick & mix business, the remaining 29%, you recall we've been talking about that here, the business is a bit more volatile given that it depends very much on winning contracts versus the branded business is about winning with each consumer every single time, and we have seen that the reduction in our sales over the previous quarters was at least the bar was getting shorter and it was getting closer and closer to zero and now of course it's great to see that with a big uptick in Q2 we are back in line with prior year and slightly better.

Of course, we have also said that as we're taking pricing action in Sweden, we may lose contracts and then we may have to walk away from contracts as well. So that may of course look different in the future. Coming to our gross profit, we improved by 20 million versus prior year and this is driven by this very strong top line growth, partially offset by the unfavorable mix given that pick & mix grew much faster than the branded. We also have high cost of goods sold. As mentioned, the forex doesn't help on the cost of goods sold and, as you're surely aware, sugar and gelatine prices are up.

Nonetheless, gross profit improved versus last year. Now, as we look at the gross margin, down 1.4%. Here I think it's interesting to note that the gross margin in quarter two last year at 38% was the highest we've had for quite some time. So there was a lot of good things that came together in that quarter. If you look at year to date 2018 gross margin, which was 36.9%, it's probably a little bit more indicative of what we were performing last year. Nonetheless, we do see a lower gross margin for the quarter and that's partly driven by portfolio mix following the strong performance of pick & mix, but also the euro, as the currency effected both our net sales and COGS. Just a little bit less than half of the gross margin drop that we see both for the quarter and for the year to date is on account of the forex impact.

The other thing here is on sales and general and admin. Of course, that's also impacted by forex and I want to dig into this a little bit closer on the next slide because actually our cost here is flat versus last year despite absorbing the forex and also increasing our investment in working media. I'll come to that on the next slide and I'll just finish here first on operating profit adjusted. It's up versus last year, both in absolute and as a percent of sales (NSV) and that's again on account of the strong top line and also cost efficiencies that we explore a little bit closer on the next slide. Again, partly offset by higher cost of goods sold, which includes the unfavourable forex.

So, on the sales and general and admin, you of course see that as a percent of sales (NSV) we have decreased versus prior year in line with what you would expect, but the most important aspect here is that last year in quarter two, we had a gain of 19 million in SG&A and you may recall that, and we actually had it in the CEO world at that time so we had a positive impact of remeasurement of the continued earn out consideration related to the Candyking acquisition. So that was 19 million. Now, it would not be fair to only strip out all the non-recurring items that we have reported, and then you can see that both for the quarter, and for the six month, we have net cost savings that basically are offsetting the forex. And on top of that, some of those cost efficiencies that we have on the indirects are all seeing the advertisement area where we are reducing our non-working span and we have been able to invest more in our working media which is seen by the consumer. I just want to call out here also that the forex number here is not the official IFRS number, it's our best calculation that we could do.

Then moving onto my last slide on the cash flow. So, similar to the top line, one really has to look here at the first six months because of a lot of phasing on account of Easter, and if I could direct you to the bottom right on this slide where we're showing the free cash flow, so cash flow from operating activities net of CapEx investment at 70 million. So that was a clear improvement versus last year. Now out of that improvement of 72 million, roughly half of that relates to just simple reclassification on account of IFRS 16 implementation. And the other half is fairly equally split between higher profit, once you adjust the non-cash items; slightly better working capital; and lower CapEx.

On the Q2 results not excluding the phasing, I'd like to point out here actually because Henri mentioned it earlier about the drying chambers, so in that CapEx number, there is a small but first spend here relating to the drying chambers that we mentioned earlier so that will help in our loaded capacity next year, so we now actually start having cash out on account of that investment. The other important item here for Q2 is the payment of the dividends under cash flow from financing activities that's 287 million and we also repaid some commercial papers. So then when you look at cash flow for the year to date under financing activities, there's really three pieces that you have there: there's the dividend payments; there's again the reclassification of IFRS that helps on the free cash flow; and then there is a slight increase in commercial papers as we are transitioning this quarter into one Cloetta cash pool that will help reduce complexity and also enable us to manage our cash slightly better. And with that note, I'll hand back to Henri.

Henri de Sauvage Nolting

Yeah, so summarising, three main priorities and if we look at the branded growth, I would say good. Another quarter of growth, 1.4% branded growth with EBIT of course already above the 14% target we have so just motoring on and keeping the growth levels up there is very important. And as I said good traction with our brand; I'll show two examples later on. And on pick & mix, it's still of course a hard battle in particular in Sweden to get the margins up. Good to see that with all the good preparation also our customers understood that we cannot continue with a loss making situation, so 50% of the contracts done.

Also, some other general price increases due to sugar prices and forex, so that's across the whole portfolio being done in Sweden and then in the H2 we have a number of larger contracts which we're going to re-negotiate on the same basis in pick & mix. And actually, a lot of things happening with that, as I said, on merchandising and assortment. Candyking UK, well actually we should call it now Cloetta UK, that's the new company name, being integrated not only on the ERP system but in all our processes in the marketing, sales forecasting, branding etc. So, good to see. And then we'll reduce the cost, I already mentioned that the VIP programme has started. Also good to see that the actions we took last year are also paying off in lower indirect or SG&A cost, as Frans was just showing, so that's important.

The perfect factory to really create capacity and also bring the efficiency and the material usage in our main plants up to scratch and not to be underestimated as the efforts we need. We are doing it. We need to do over there also on things like maintenance programmes to live in a new world where our lines are fully occupied in the big plants and there's less forgiveness if you have problems and reliability has to go up quite significantly. And good to see that also working media has increased. We also now have a new media director who joined us and the new CMI manager really looking at all the contracts we have with our agencies and questioning why do we pay this in this country and that has never been done before, so more money I would say to be gained over there as well.

Then two big things, one is the Läkerol relaunch which will come in September. Really good to see how this first of all has been done across markets with one brand manager for Läkerol and not anymore market by market with a lot of cooperation between the market, a lot of sharing of ideas, common platforms, common toolkits for implementation and that all will lead then to moving Läkerol more towards what we call a permissible treat. So, a small treat, sugar free, very sophisticated, that's what we also can see people are playing back, the sophistication of our taste. You can see that a little bit on the right. You can see we're using – this is for the Swedish listeners - a little bit what Systembolaget is using. So that's showing signs of the strength and the taste of the products so the level of sophistication should also help us to modernise the brand quite a lot, communicate these sophisticated flavours in that way and is a big relaunch, 360 as we call it. It's both above and below the line in store to also get further growth in this category.

We already have category growth in pastilles but of course we want to pick it up and also the profitability on Läkerol is good so that can really help us in our EBIT targets. And another one which we have been talking about with some of you, it's a self-scanning in the checkout zone so we see more and more across Europe, retailers are moving to self-scanning and they're also complaining and saying that is good from a cost point of view, we don't need to have checkouts, but then we lose the impulse sales and again a good example of One Cloetta, so the main markets coming together developing a number of different concepts which we then took out to retailers and said 'hey, this is how we think you could still capture those impulse sales on self-scanning checkouts'. That is more what you see on the left bottom picture than how it looks in reality.

You can see on the right top you can see the before, so self-scanning checkout without any impulse products, and then next to it you can see that we are having an impulse point of sale at the self-scanning checkout and actually very much like other retailers, we're proactive, we're also not only talking about our own products, we're then taking a category view so also in the markets where we have no chewing gum, we can offer them chewing gum as a solution as well. And I would say a good example of how do we partner with retailers in helping them to grow the category and also a very good example of how we use the collective knowledge within Cloetta across the markets to be more knowledgeable, you could say, in this kind of areas with retailers.

And that was it for presentations and we can now open up for questions.

Q&A

Operator
Thank you. And if you do wish to ask a question, please press 01 on your telephone keypad now. Please press 02 if you wish to cancel your question. And please note that you can also submit

questions via the webcast. The first question on the telephone line is from Nick Pharm from SEB. Please go ahead. Your line is now open.

Nicklas Fhärm
Thanks, Operator, and good morning to you. My first question would be thanks for a good presentation and a lot of very interesting details, but my first question would be, if you would estimate the calendar impact in the reported 5.7% organic growth rate for the quarter, that would be helpful please.

Frans Ryden
I mean, it's not an exact science, but we would say it's roughly 30 to 40 million Swedish krona is the impact.

Nicklas Fhärm
Yes, very clear. Thank you. And second question is actually relating to the pick & mix segment and I was hoping that you could update us a bit on your thoughts now that you have revisited, in particular the Swedish contracts, and the outcome and the expected impact from renegotiations onwards please?

Henri de Sauvage Nolting
As I said, we have gone out in March with the price increases on pick & mix. We have finalised all of them in the, how would we call it, concept sales through larger contracts to be done now in H2. We will have a price increase also in conjunction with a general price increase across the whole portfolio, so also the branded part based on currency and sugar prices, of course, not moving favourable to us. And, we have lost a few customers, single customer or groups of customers, but let's say much less than what I anticipated when we went in, so that's very positive of course to keep those volumes, so difficult to say real impact because of course you have to look at this maybe a few more months because some of these customers they might say OK, I accept this price increase, but they start looking and shopping around and looking at what our competitors are offering and they might come back and say 'hey, I found somebody else who is still willing to do this cheaper'.

The effect of that is still to be seen, but so far it has not had a major impact on our underlying volume in Sweden, so that's positive. And of course, also good to see a bit of a sidestep. The central teams together with the countries are becoming stronger and stronger in actually understanding pick & mix and helping retailers on how to grow this category based on consumer and shopper insights and that of course is sure to be the reason why the want to do business with us and not with somebody else.

Nicklas Fhärm
Just to be very clear, thank you Henri, just to be very clear, if any one of those customers that I assume are unprofitable actually come back, they say 'hey guys we found another supplier', I guess you would just thank them and move on, right?

Henri de Sauvage Nolting
Yeah.

Nicklas Fhärm

My question is really shall we still expect Candyking Sweden to break even say on an annual basis somewhere this year or the next year? I guess that's the plan.

Henri de Sauvage Nolting
Yeah and we communicated also in the capital markets day is that the run rate by the end of next year should be above break even. And that is very clear and also, we are willing to take the risk with these volumes. First of all, I've never seen a business becoming long term successful when you're selling

your products with a loss so that is actually very, very simple. Also we're not desperate for the volumes because we have good organic growth in our branded business, we've got good organic growth in the other pick & mix business, we still have insourcing opportunities, as we said, from Candyking suppliers and from other third parties so it's a good position to be in and we can definitely make that call.

Over here, we're always focusing very much on the pricing and of course that is also maybe the most difficult one to get that right, but I'm also very pleased to see that the team and as a new leader for the pick & mix team Sweden, very structured programme they have developed. It's also about the assortment, efficiency, the merchandising and the warehousing and distribution and I'll not give you exact details but the effect of that on the P&L is not to be underestimated.

And in merchandising we have done much better tracking on merchandising cost per store, merchandising cost per kilo, so that we can also benchmark that with the other countries and of course you need to look at the size of the country but we're really starting to pull this together as one pick & mix business under the leadership of Niklas and really starting to get best practices from one country to the other which never happened in Candyking and in Cloetta either and there's quite some benefits to come from that as well next to the price increase.

Nicklas Fhärm
Final question. Would it be okay to assume that you've had some volume growth in the calendar adjusted organic scales that you delivered this morning for the quarter?

Henri de Sauvage Nolting
Sorry, what do you mean with that?

Frans Rydén
You mean is it true that without the Easter effect would still be growing, is that the question?

Nicklas Fhärm
No, you will clearly still be growing, excluding the Easter effect. My question is, is it only price and mix or is there also some volume growth in the organic sales number?

Henri de Sauvage Nolting
Yeah, absolutely. There's a lot of volume growth in here. We don't disclose, actually I could, but there's a lot of volume growth in here, hence also the stress we put on our supply chain to produce that and there's a lot of volume opportunities and not only in pick & mix but also in the branded part and that's one of the reasons, for example, that we also took a decision to go to 24/7, that means that we're going to produce 24 hours a day, seven days a week, on one of the main lines in Ljungsbro in Sweden in order to create the capacity and not having to invest in CapEx. And that is not coming from pick & mix it's purely the volume growth we're seeing in the branded business. Of course, Easter was important, which Frans alluded to, but we should underestimate it. Also, in the other markets we're having good traction on the branded business and on pick & mix.

Jacob Broberg
I have a follow up question from the web from Mathias Ledenger at Praktikertjänst, he asked about how a big part of the pick & mix contracts are a loss making today and the remaining term of these contracts?

Henri de Sauvage Nolting
That's a little bit dangerous to communicate because my competitors might be listening as well, and they would love to hear that, so I think even from a competition law perspective I would not be able to answer that in that detail. You know, there are loss making contracts there also contacts which are

marginally at 0% EBIT. You can always question how do we allocate the cost to all of these contracts, both merchandising and central, because the whole thing needs to just lift up and marginally loss making, or marginally profitable contracts are actually not such a big difference. It needs to lift up to a higher level both on the price and on the cost. And that's the journey.

Jacob Broberg
Okay, thank you.

Operator
Okay. And the next question from the telephone lines is from Stefan Stjernholm from Nordea. Please go ahead. Your line is now open.

Stefan Stjernholm
Is it fair to assume lower year over year losses for Candyking from Q3?

Henri de Sauvage Nolting
Yeah, I think that is a fair assumption, right? If we're going to bring this back to black figures, it is not going to be one big bang in September 2020. It's quarter after quarter that there are activities coming into the business and in the ultimate into the customers and even towards consumers. So yes, we are planning for continuous improvements and, of course, some things are coming sooner than others, some of them we'll have to do in steps. The pricing will not be something which will all be done this year. We need to work on that for next year as well and then it doesn't stop either. So, yeah, I think you are fully right to assume that.

Stefan Stjernholm
And can you comment on EBIT for Candyking for the first half of this year?

Henri de Sauvage Nolting
No.

Stefan Stjernholm
Relative from last year? No, but it will start to deliver from Q3. And then another question on marketing spend. If I remember right, the marketing spend was quite high, both in Q3 and Q4 last year. What can we expect from the second half of this year?

Henri de Sauvage Nolting
Yeah, if I show you the example of Läkerol, which is one of our bigger brands also going across all markets, then I think a fair conclusion would be that we're going to spend quite a significant amount on that so that the spend will go up on the working media, let's call it like that, and my own estimate is that we will not be able to compensate that increase in the working media with even more savings on the non-working media because we're already progressing quite a lot and a lot of the low-hanging fruits on the non-working media have been found to now also over there it's contract renegotiations with the agencies, with the media buying companies, but that will take a bit more time. I think that will come more into fruition next year. So, yeah, I would say you should be able to expect a step up in net marketing investment for Q3, Q4. But that's of course also something we monitor ourselves quite closely both on the budget but also on the efficiency of it and whether it works and it delivers against the targets we set for the marketing so it is one of these things where we can accelerate or not, and like last week we took a decision on 30 per cent lower sugar which are doing really well to increase the net marketing investment to get even more traction on that in a specific country. And that's the way we work with marketing investments.

Stefan Stjernholm

I see and are you willing to share with us a range of this increase every year?

Henri de Sauvage Nolting
No that is too detailed. Again, I would not like our competition to know exactly the amount of money we are putting in then they can do some marketing mix-modelling themselves and see how they could compete with us. But it's going to be a step up and the effect you will see in the P&L, of course, is then the net effect of the increase in the working media and the decrease in the non-working media and that is still something which is challenging to forecast really that precisely so even if I would like to, it's something we monitor month by month. But, overall it should be an increase and then of course on the indirect part on the SG&A we continue to look for savings and also with the VIP+ programme coming on board so that we are able to get savings as well to offset investments at least on the full year.

Stefan Stjernholm
Okay, thank you.

Henri de Sauvage Nolting
But you're right they should lead to high Läkerol growth which should lead to better gross margin or gross profit coming in.

Stefan Stjernholm
Okay, thank you.

Operator
And next question is from the line of Mikael Löfdahl from Carnegie. Please go ahead. Your line is now open.

Mikael Löfdahl
Yes, hi. First just a clarification. You mentioned the Easter effect that you estimated to be, I think you said 30 to 40 million, was that correct? And was that on a group level, so also for the branded packaged candy or only for pick & mix?

Henri de Sauvage Nolting
No, I'm referring to pick & mix impact here.

Mikael Löfdahl
And I guess there's an impact also on the packaged side, would you—

Henri de Sauvage Nolting
I think in Sweden there's a little bit of impact, but in the other markets it's very little and in some markets its absolutely absent. In the markets outside of Sweden I would say then it's actually more chocolate, branded chocolate bars, which you can see with Easter eggs and things like that and we're not playing in that segment, so very limited I would say, maybe even sometimes negative because people are moving their purchase more to chocolate eggs away from regular candy. So, it's mainly a Sweden thing and then it is in Norway also on the pick & mix part and for the rest I would not assume big impact.

Frans Rydén
I mean I would add as well if you had a family with children maybe they when they get the Easter egg with pick & mix candy then they won't get the bag of Gott & Blandat for that weekend.

Henri de Sauvage Nolting

I mean in Sweden the Easter egg contains candy and the other countries the Easter egg is a chocolate egg wrapped in aluminium foil like in Holland or in Finland.

Mikael Löfdahl
Okay, because I would have assumed slightly higher than the 30 to 40 actually for the group, but nevertheless. Just one more on this Swedish pick & mix and the turnaround process here. First of all, you spoke about the timing and when we should expect positive impact and I guess all of these 100 plus contracts that you have been renegotiating now I guess the price increases are they in effect as of that date or is it like?

Henri de Sauvage Nolting
1st of July.

Mikael Löfdahl
1st July for all of those. Okay. Secondly, when you speak about your ambition to reach breakeven by the end of next year when you just think about it now if you have raised prices to a reasonable level already by the 1st July for half of the volumes, just reaching, first of all reaching breakeven seems like a very cautious ambition given what kind of possibility you have in the other countries for pick & mix and secondly the timing as well. Of course, things can happen, you can lose contracts on the way, but if everything works out, I would assume that you are planning to make money and the timing seems a bit cautious also. Is there something to comment on that?

Henri de Sauvage Nolting
Yeah, there is because I think you guys are over-estimating the effect of the pricing on the bottom line. And that’s why I also alluded to the other factors we are addressing like warehousing, to warehouses still at the whole distribution, to stores maybe versus central and all merchandising efficiency we talked about and also the assortment. And that is also very important factor in the profitability journey because in some areas we need to come in, let’s say, on the cost level which is also competitive versus our competitors because we will not be able, from where we are right now, to just take pricing to solve our own internal inefficiencies and ask our customers to pay for that when our smaller competitors do not have these type of cost disadvantages and would be able to offer them more or less the same service for a lower cost.

So, it’s not just a matter of pricing and it’s also not just a matter of pricing once which we now have done with half the volume. We need to come back with another round of pricing and it’s actually also a little bit more complicated than what we are just talking now. It’s not just the contract, it’s also the balance between our bulk sales and the sales to other channels and then the individual contracts and how we get that pricing right. So, there will be more rounds of pricing in order to get this right and that’s why the timing is not so optimistic in that sense because, as we also said in the capital markets day, the simplest decision would have been to just delist the whole pick & mix business and the problem would have been gone and we said no, strategically this is such a big segment, it’s so important in confectionary we’re going to keep this business and bring it to profit and then we’re going to grow it as well and that’s why we need to be a little bit more conscious about the world around us and that we’re not pricing to mask our own internal inefficiencies.

Mikael Löfdahl
Okay, thanks. But is it fair to assume that if— Let’s say that you reach breakeven in Sweden and I know all these high allocate costs and everything that can be done differently, would a breakeven business with the current cost allocations that you have still be positive for you on a group level? I guess you fill the factors with volume and production and so on. I guess there are other benefits from having a big pick & mix business in Sweden, so maybe breakeven is good for you anyway?

Henri de Sauvage Nolting

I would not stop with breakeven. I think we need to first put a stick in the ground and the timing we just discussed to get the pick & mix business in Sweden in black figures. How do you say that in English? Hell or high water, we will get there. By that time we will also have a much better position I think on things like category visions, category drivers, different concepts for different channels so that we can also start to work with our customers on how to grow the category and how to attract shoppers with pick & mix etc. And that should allow us, I would say, to bring the Swedish profitability on pick & mix to the kind of average level we have in other markets. So the journey is not just stopping and if we get there then I would agree with you that it starts to contribute to the overall, let's say EBIT journey of Cloetta. I mean, of course, making it breakeven that's already 1% EBIT versus last year, but it should be a bit more than just breakeven.

Mikael Löfdahl
And, you mentioned also that of course there's a risk that some of these who have accepted the price hikes now will come back and feel differently in a few months' time, but have you so far seen any activities from your competitors? I guess they are listening now to what you are doing and might see opportunities to either raises prices themselves or take prices.

Henri de Sauvage Nolting
I will not answer that directly, but normally what you would see within FMCG is that the number one in a certain market takes the first step to raise prices in particularly in an environment where price is so sensitive like in retail and certainly also in pick & mix, so I think we've done the right thing to go out with this price increase and then normally the smaller players they can follow, that's then their decision, they follow or they try to take advantage of it and try to get volume.

Now we do this not by coincidence but also in a timeframe where sugar prices are going up and of course the Swedish krona has weakened, and a lot of this candy is also being produced outside of Sweden. I don't know what our competitors are doing on an individual basis, certainly not on an individual store basis, but of course the fact that we are not losing that many contracts is probably of course a signal to me and to you that probably our competitors are not having this similar problems. Let's call it like that and they take the opportunity to follow and at least not to cut their prices.

Mikael Löfdahl
Okay. Final question from me on the synergies with Candyking or the insourcing of production of their assortment and how that is progressing and I know that you've been having some bottlenecks within the drying capacity and so on but I think the last guidance you gave us was around half of the total 100 million in synergies were to be realised in 2019 to 2020, but that there will probably be a lag now because you need to invest in this capacity. So, in this quarter, where are we in this remaining let's say 50 million or 45 million or something like that? Where are we and how would you see the timing of those synergies coming through?

Henri de Sauvage Nolting
Yeah, I think you said the right thing. So there is around 40 still to be insourced in benefits. On the moulding we are constrained and the insourcing every time we need to put it next to selling more organic growth on branded products and what do we want to use the capacity for an of course if there's more profit to be made from the organic growth before we have the extra capacity of the drying chambers then obviously we are making the right business decisions if that is more profitable.

Then of course there's a lot of other technologies where we still have capacity from hard boiled candy or the chocolate products, the Lonka products, the jelly beans etc. and there we are still having insourcing benefits during the year because we took some of these products in, not on the 1st of January but during the year 2018, and those benefits will come and then there are also some smaller still indirect savings which are coming in. Take for example the UK business going live. They had another third-party provider for their ERP system and, of course, those costs are going out. So, we are on track, but the insourcing of the moulded part will speed up again after we install the extra drying chambers, but it is a continuous balance between organic growth and more insourcing.

Mikael Löfdahl
Okay. Is it fair to assume of the remaining 40 million more than half of that will come 2020 then? Is that fair to assume?

Henri de Sauvage Nolting
Yeah. That I think is a fair judgement.

Mikael Löfdahl
Okay, thanks very much.

Operator
And there are currently no further questions registered on the telephone line, so I'll hand the call back to the speakers.

Jacob Broberg
I actually have one final question here from the web that you mentioned that you have a cost disadvantage against competitors in pick & mix. I would assume that this is a scale business and that you are one of the bigger players in the market. First of all, is that the right assumption and what would you say is the main reason, the disadvantages, and what is your goal to shift these advantages in the future based on scale?

Henri de Sauvage Nolting
I think that's a very good conclusion. I mean it is a scale business. We definitely have scale of course in the production versus buying this third party, but then on the merchandising part we have competitors who also have a lot of other products which they are merchandising in store and there we don't necessarily have a scale benefit. But I think we need to look at ourselves and we need to look at the business we acquired. It was just not in very good shape and the merchandising efficiency and the merchandising control in Sweden, sorry that was Sweden I'm talking about now again, and we just did not have good control of the merchandising cost and the route planning and the time spent in store and the merchandising cost per kilo and that is now all getting under control and we just need to bring that to the level where our competitors are working.

Of course, we don't have exact numbers on how they are doing this, but we can see it versus our own benchmark, benchmarking our own countries on things like merchandising costs per kilo; we can see there are still some more gains to be done. The fact that we have two warehouses still for pick & mix, I don't think any of our competitors will have two warehouses. We have Candyking warehouse and we have the old pick & mix warehouse of Cloetta and that also needs to be joined to one to get scale benefits.

Jacob Broberg
Okay. With that I would say thank you for today and have a good afternoon and a good weekend when the weekend comes. Thank you and goodbye.