Cloetta

# SEB 7 January, 2020

Frans Rydén, CFO

# This is Cloetta

FOUNDED IN
**1862**

ANNUAL SALES
SEK
**6.2**
BILLION

SALES IN
**50**
COUNTRIES

**8**

**2.500**
EMPLOYEES

NASDAQ
STOCKHOLM

LEADING
BRANDS

CANDY

CHOCOLATE

PASTILLES

CHEWING GUM

NUTS

PICK&MIX

Munchy Moments

THIS IS Cloetta

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# Cloetta's strengths

## Strong brand/category positions and scale in North Western Europe

### Cloetta's strategic strengths

- Strong leading local brands
- Locally tailored innovation
- Core markets in growing North Western Europe
- Own manufacturing network
- Route to market with own sales force
- Scale benefits in North Western Europe vs local competition

| Market | Category position | | | | |
|---|---|---|---|---|---|
| | Candy | Pastilles | Chocolate | Chewing gum | Pick & mix |
| | 1 | 1 | 2 | - | 1 |
| | 2 | 1 | 4 | 1 | 1 |
| | 1 | 2 | 3 | - | 1 |
| | 2 | 1 | 3 | - | 1 |
| | 1 | - | - | 2 | - |
| | - | - | - | - | 1 |

Based on Cloetta market share in respective category in 2018.

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# Strong heritage brands liked and trusted by our consumers

## Local

Malaco
TUPLA
Polly
xylitol JENKKI
AHLGRENS bilar Sveriges godaste bil
SPORTLIFE
Mynthon Fresh and effective
VENCO PASSIE VOOR DROP
KEX CHOKLAD
Sisu

Local Global Balance

## Global

Läkerol PASTILLES
THE JELLY BEAN FACTORY
Red Band
CANDY KING
Nutisal

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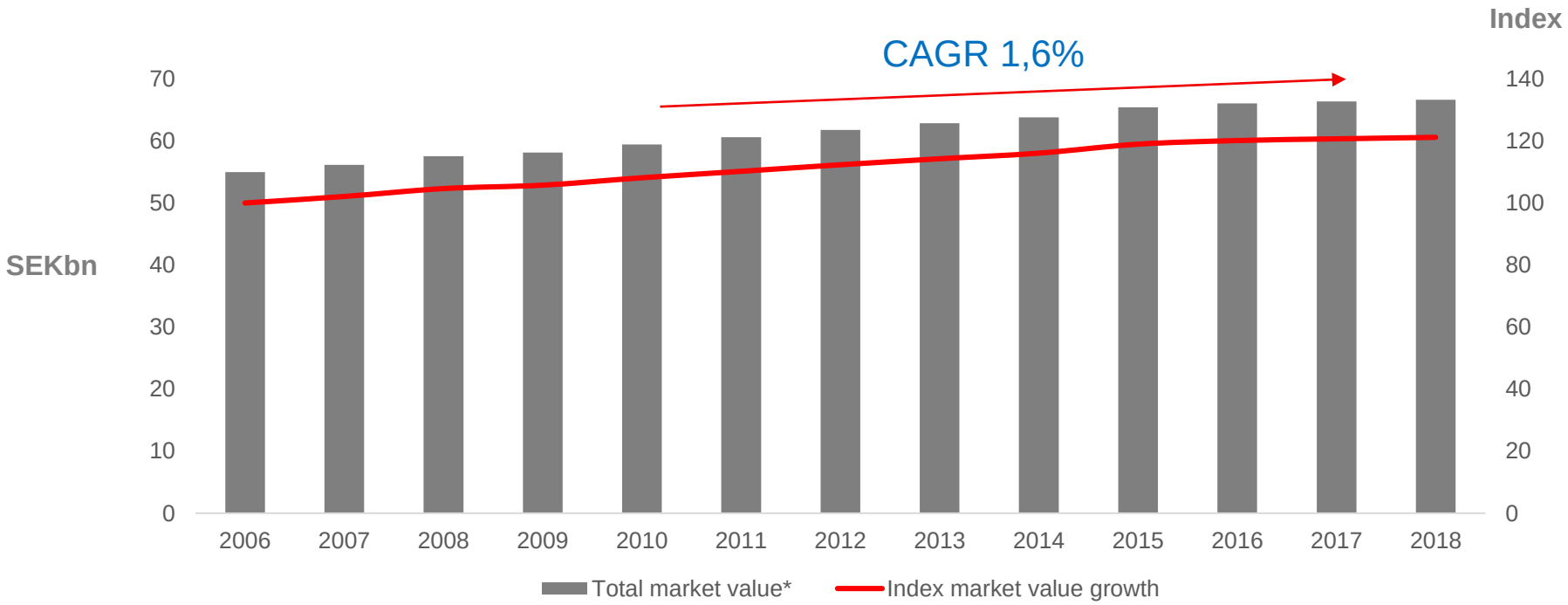
# Stable growth in branded confectionery market

## Value growth aided by premiumization




160 gr

140 gr

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*Source: Datamonitor/ Mintel
Markets: Sweden, Denmark, Norway, Finland and Netherlands

# Responsible growth

## Cloetta offering informed choice for consumer

- Consumer as boss
- NAF/NAC
- Increased resource efficiency
- Responsible sourcing of raw material (UTZ)
- Employee development and health
- Plastic reduction
- “Choice for you” strategy

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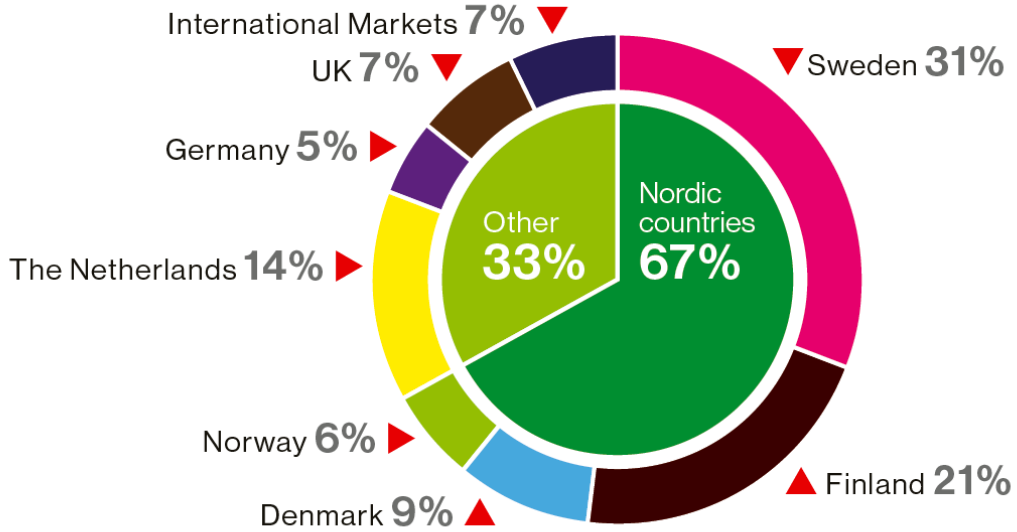
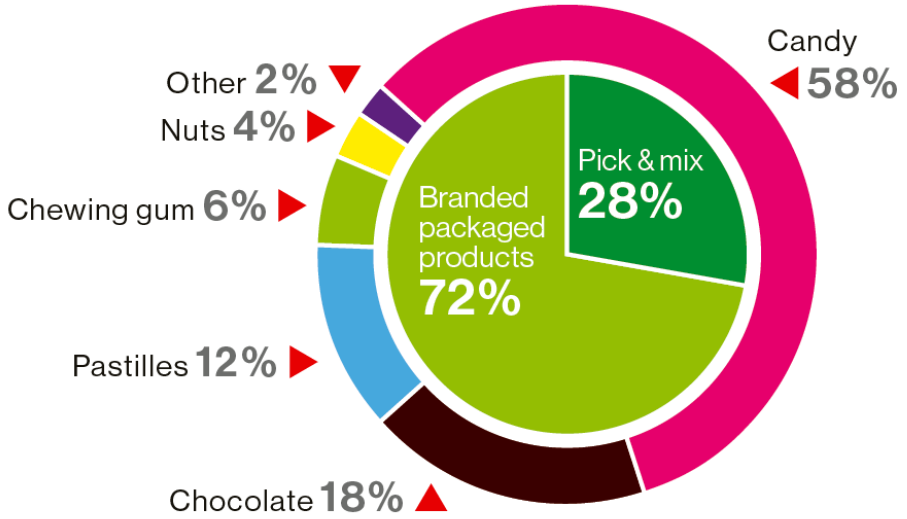
# Focus on core markets and core categories

## From acquiring new munchy moment categories to organic growth

### Cloetta's net sales by country




### Cloetta's net sales by category



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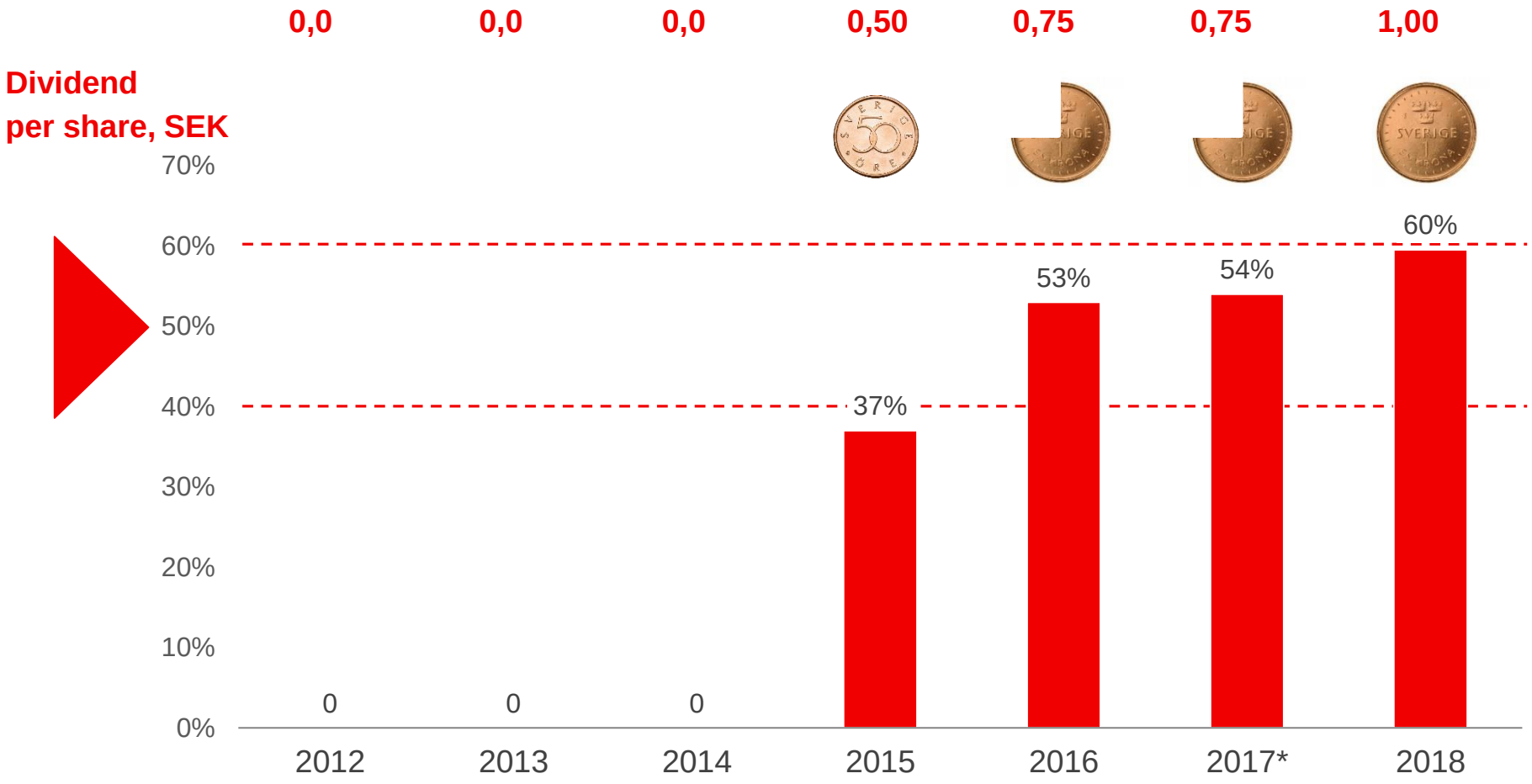
# Cloetta's Financial Goals:

## Organic growth positive YTD, VIP+ plan to deliver EBIT

| | 2017 | 2018 | Targets |
|---|---|---|---|
| Organic Growth* | -1.2% | -2.8% | 1-2% (In line with market) |
| EBIT Margin, Adj | 10.4% | 10.9% | ≥ 14% |
| Net Debt / EBITDA | 2.4 | 2.3 | ≤ 2.5 |
| Dividend Policy (share of profit) | 54% | 60% | 40-60% |

*Growth at constant exchange rates

# Continue attractive dividend – doubled in 3 years




**Target**

Dividend payout of 40–60 per cent of profit for the period

* 2017 excluding special dividend

# Key Business Priorities

## Cloetta to organic growth and 14% operating profit margin, adjusted

**Branded growth**

- Packaged sales back to organic growth, EBIT >14%
- Absolute higher media investments on top of efficiency
- Pricing needed to offset raw materials and FX

CANDY KING®

**Pick & mix to sustainable value**

- Price increases implemented on 50% of the contracts in Sweden: goal is to get to black from – 60 m SEK 2018
- Assortment optimization to reduce complexity & costs

**Reduce costs and drive efficiency**

- “Value Improvement Program+” and “Perfect Factory”
- Five-year capacity investment plan to improve service levels and fund further growth

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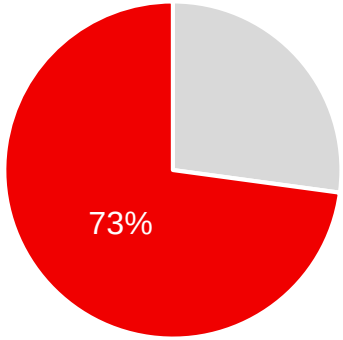
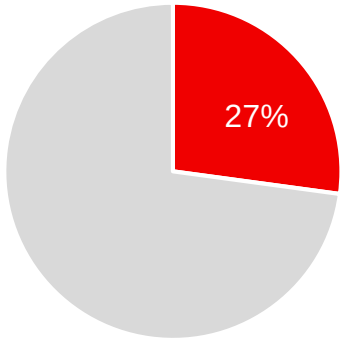
# Branded Growth: Organic growth now a trend

## Seventh consecutive quarter of growth in branded packaged products

**Branded, % of Q3 '19 sales**




**Pick & mix, % of Q3 '19 sales**

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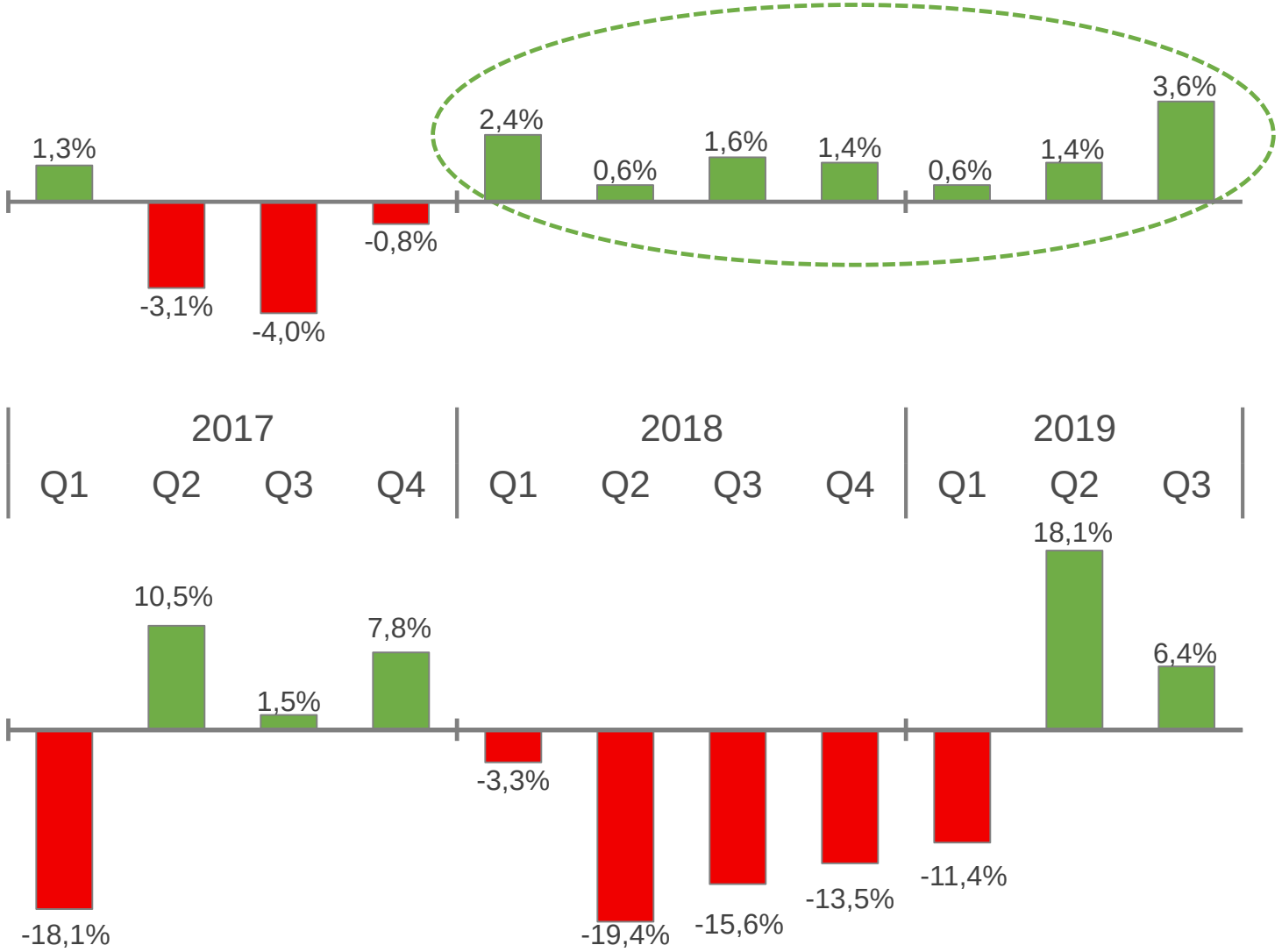
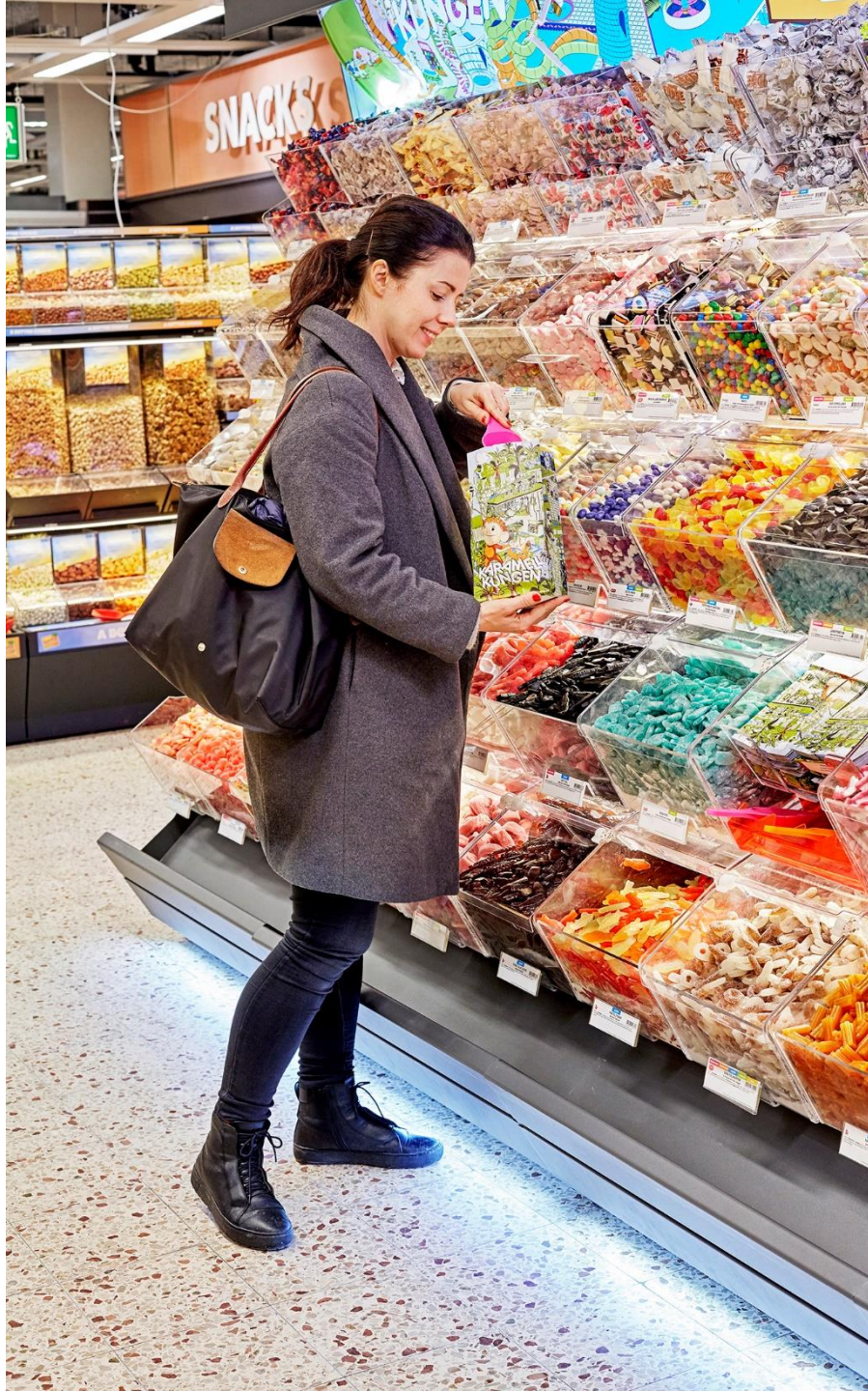


# Pick & Mix to Sustainable Value

## Short term plan (by year-end 2020)

- **Turn around EBIT** in pick & mix in Sweden from ~SEK -60m in 2018 to average pick & mix EBIT
- **Contract and price models** being re-developed
- **Reduce distribution cost** in Sweden
- Continue to **insource Candyking** volumes
- Drive **merchandising** efficiency
- Optimize **assortment**



# Pick & Mix to Sustainable Value

## Medium term plan

- Drive penetration in Finland, Denmark, Norway and the UK
- Develop pick & mix category and brand offering
- Develop concepts to fit all markets
- Create “Shop in Shop” concept to increase value
- E-commerce:
  - Scale e-commerce
  - ‘In-store theatre’ needs

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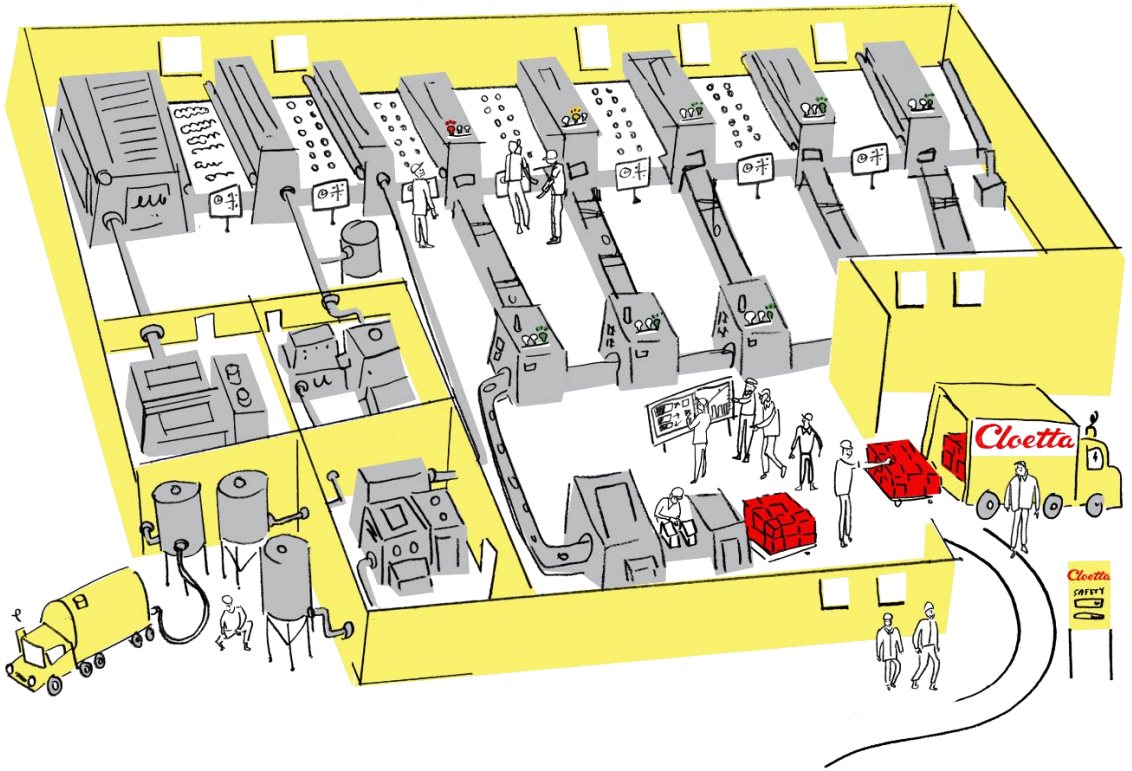
# Reduce Cost and Drive Efficiency

## Cloetta Leading Performance Program launched in 2019

The **Perfect Factory** programme creates

- **Repeatable** lines
- **Measurable** lines
- **Capable** lines
- **Competent employees**.

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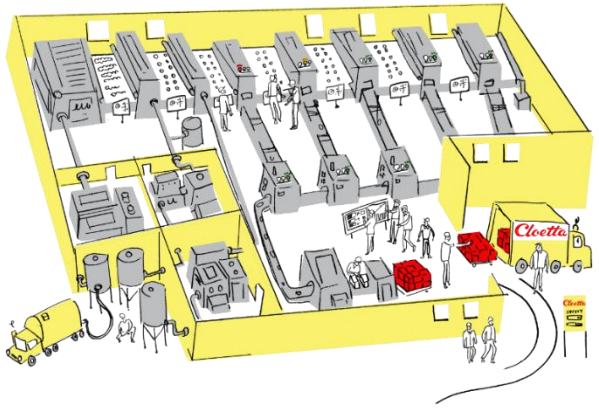
# Reduce Cost and Drive Efficiency

## Invest to Grow: Capacity investments ongoing




- 10% capacity increase in **moulding technology**
- **Additional capacity will support**
  - Growth in branded packaged products
  - Realization of additional Candyking synergies (insourcing)
  - Insourcing of volumes produced in previously Cloetta-owned Italian plants
- Investment approximately **SEK 100m will debottleneck** current lines in Turnhout and Levice
- New capacity will be **available from mid-2020**

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# Reduce Cost and Drive Efficiency:

## Well-stocked road-map to deliver targeted 14% EBIT margin, adjusted

EBIT margin, adjusted, %

10,9%

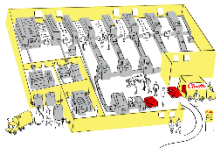
2018

Branded growth

Pick & mix portfolio

CANDY KING

Perfect Factory



Reduce indirects using ZBB

ONE Cloetta and other programs

Value Improvement Program+

≥ 14,0%

Mid-term

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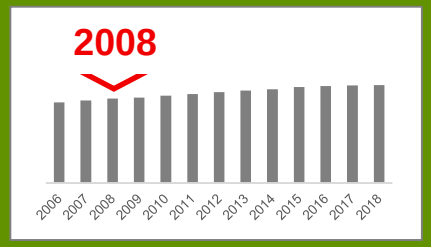
# “Navigating a Peak in the Business Cycle”

## Cloetta in stable category/market, yet we keep reinventing ourselves

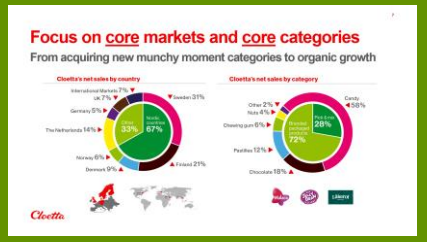
### Point of Departure



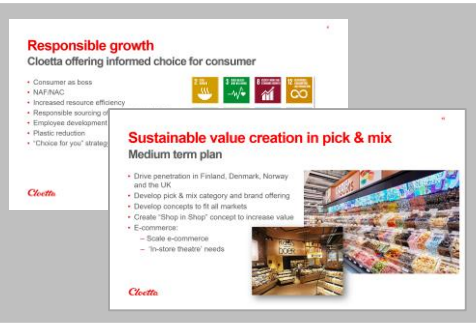

- **Non-cyclical category**
- **North Western Europe**

- **Strong heritage consumer brands**

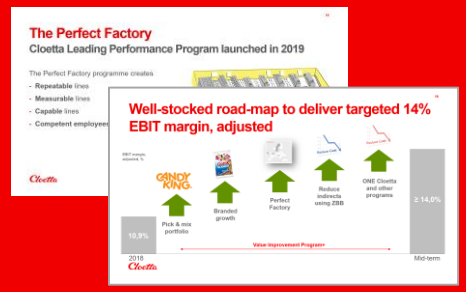
### Working with Uncertainty




- Professional approach to **white-space markets**
- **Capital deployment** and acquisition strategy




- Choice that puts **consumers first**
- Opportunities in **changing retail**




- **Agile manufacturing**
- **Cost concious** culture

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# Core Strategy: Organic growth and 14% EBIT

## Commercial focus on our brands whilst increasing cost consciousness

| | From | | To | Healthy |
|---|---|---|---|---|
| Topline | Acquisition growth | → | Organic growth | 1-2% |
| Bottom line | Margins through synergies and restructuring | → | Organic margin expansion | 14% |

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# Q&A

bila
Sveriges mest köpta b
SALTLAKRITS
CENTER
KING
PEPERMUNT
Original
Malaco
Läkerol
ORIGINAL
Gott&
BLANDA
VENCO
Schoolkrijt
Ons beste recept!
Djungelvrål
Red Band
ZOO
PLOPP
TV MIX
Parrots
SPORTLIFE
SMASHMINT
CRAZY FACE
AHLGRENS
bilar
Sveriges mest köp
Mynthon
Lonka
SINDS 1920
THE JELLY BEAN FACTORY
36 Gourmet Flavours
GLUTEN FREE
GELATINE FREE
NUT FREE
TUPLA
MAXI
30% MINDER SUIKER
Red Band
Läkerol
SOUR MANDARIN
Nutisal
Polly
Original
Sifu
SOKTON
Parrots
Sweet 'n' Salty
Life is FUN with CANDYKING!
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# Appendix

bila
Sveriges mest köpta b
SALTLAKRITS
CENTER
KING
bites
SPORTLIFE
SMASHMINT
CRAZY FACE
TUPLA
MAXI
Red Band
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Sifu
SOKTON
Nutisal
DRY ROASTED
Sporty
Parrots
Sweet 'n' Salty
Läkerol
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# Group Management: New Team, relevant experience

**Henri de Sauvage Nolting**
President and CEO

**Unilever**

**Frans Rydén**
Chief Financial Officer (CFO)

**Mondelez**

**Regina Ekström**
Senior Vice President Human Resources

**Cloetta**

**Thomas Biesterfeldt**
Chief Marketing Officer (CMO)

**L'Oreal**

**Michiel Havermans**
Senior Vice President Cloetta International

**Perfetti van Melle**

**Ewald Frénay**
President Middle

**Cloetta**

**Katarina Tell**
President Cloetta Sweden

**Kraft Heinz**

**Christian Boas Linde**
President Denmark and Norway

**Mars**

**Marcel Mensink**
President Operations

**Mars**

**Ville Perho**
President Finland

**Cloetta**

**Niklas Truedsson**
Chief Pick & mix Officer

**Unilever**

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# Cloetta's Core Strategy

## "To bring a smile to your Munchy Moments"

**Drive growth**

- Strengthen the equity of our core brands
- Focus on core categories and core markets, double international
- Fewer and stronger innovations to drive valorization
- Create value concepts and penetration in pick & mix
- Selective acquisitions on core categories and markets

**Facilitate growth**

- Zero tolerance for accidents
- Create "One Cloetta"
- Strengthen brand and category management competence
- CSR to drive consumer agenda
- Create a winning culture
- Develop, attract and retain skilled leaders and employees

**Fund growth**

- Drive cost saving activities – "VIP+"
- Embed "Perfect Factory" and Lean in the supply chain
- Insource production
- Improve profitability in pick & mix
- Improve marketing efficiency and internal systems and processes

**Target: Organic Sales growth in line with market and EBIT margin, adjusted – at least 14%**

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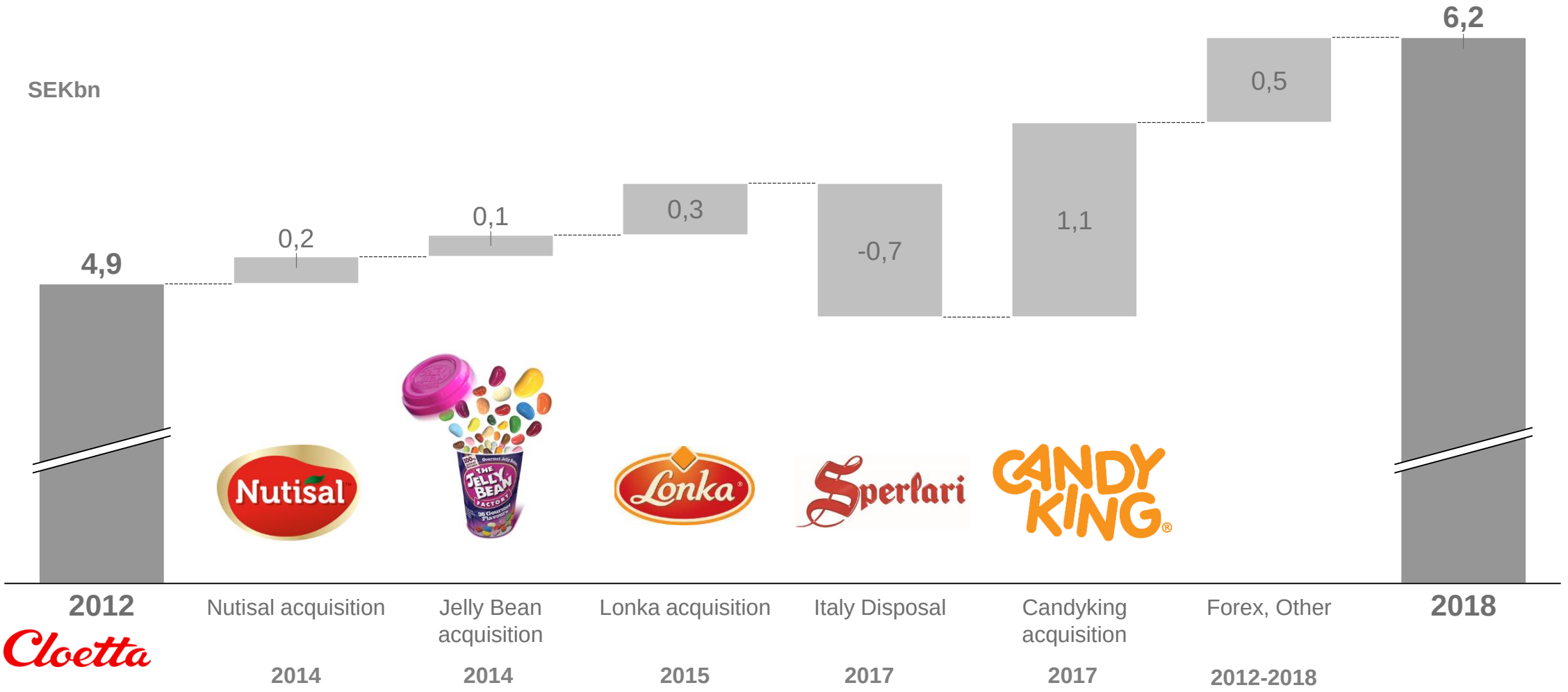
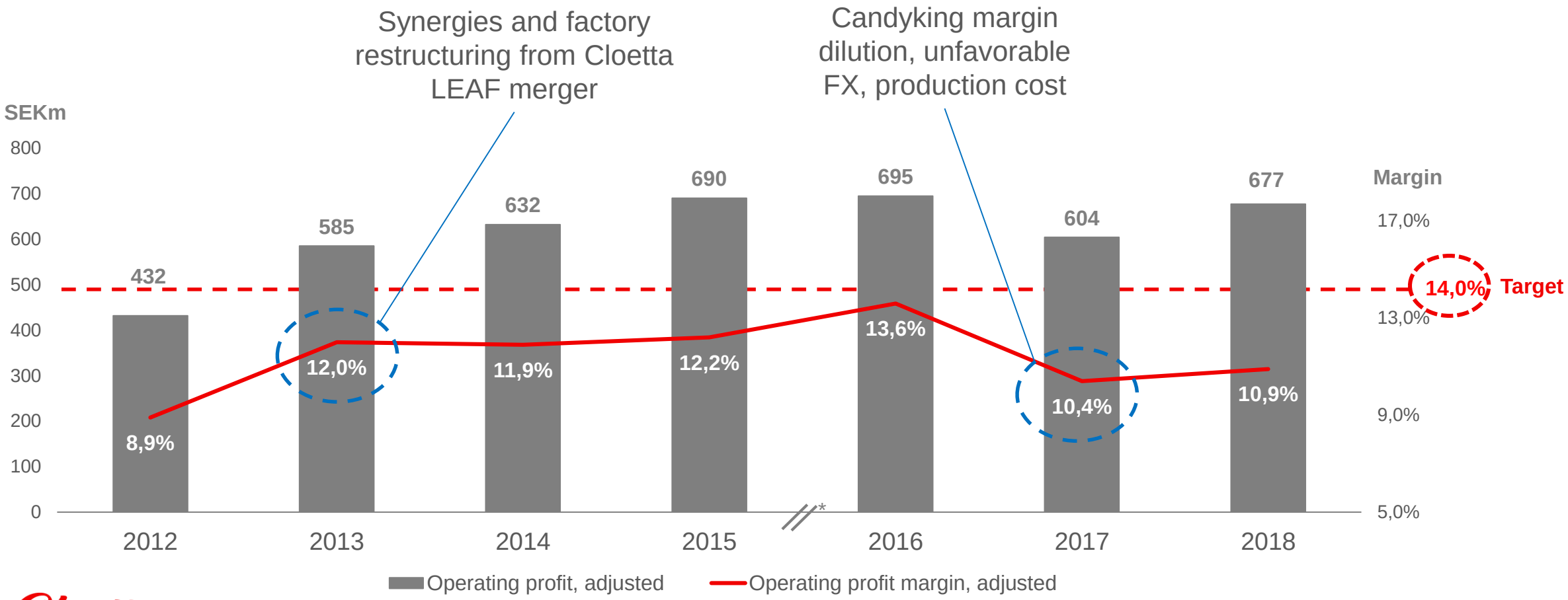
# Sales growth historically driven by acquisitions

## Shift to organic growth with selective acquisitions on top



# Track record of margin gains through restructuring and synergies




*From 2016 and onwards, Italy is discontinued operations and excluded from result

# Core Strategy: Organic growth and 14% EBIT

## From acquisition growth to organic growth

### 2012: New company

- Merger Cloetta-LEAF
- Listed on Stock market
- HQ in Stockholm

Nasdaq

Cloetta LEAF

### 2014: Harmonization

- One ERP system
- Factory rationalization & LEAN
- Smaller acquisitions

### 2017: Structure change

- Disposal of Italy
- Acquisition Candyking
- Overload moulded factory network

CANDY KING

Sperlari

### 2018: Shift to organic growth

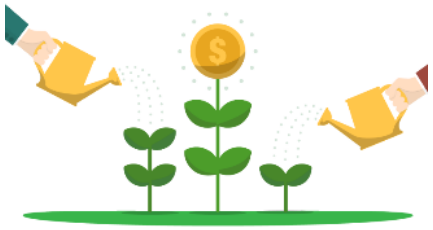
- Consumer as boss
- New management
- ONE Cloetta
- Organic growth
- Sharpened strategy on the road to 14%

# Value Improvement Program Plus:

## Holistic and company-wide program to safeguard delivery of the road to 14%

**One program for value-creating initiatives, using industry-leading practices and grounded in Zero Based Budgeting principles, launched in Q1 2019.**

- **Transparency** to confirm effort and money is spent where it matters the most to deliver profitable growth and targeted EBIT
- **Accountability** for building blocks, with overlaps managed and no drill-sites missed
- **Rigor** in tracking of actuals and fulfillment of commitments



**To help kick-start reduction of indirect spend in SG&A and Operations, Cloetta engaged Accenture for spend analysis and value targeting including benchmarking and best practices**

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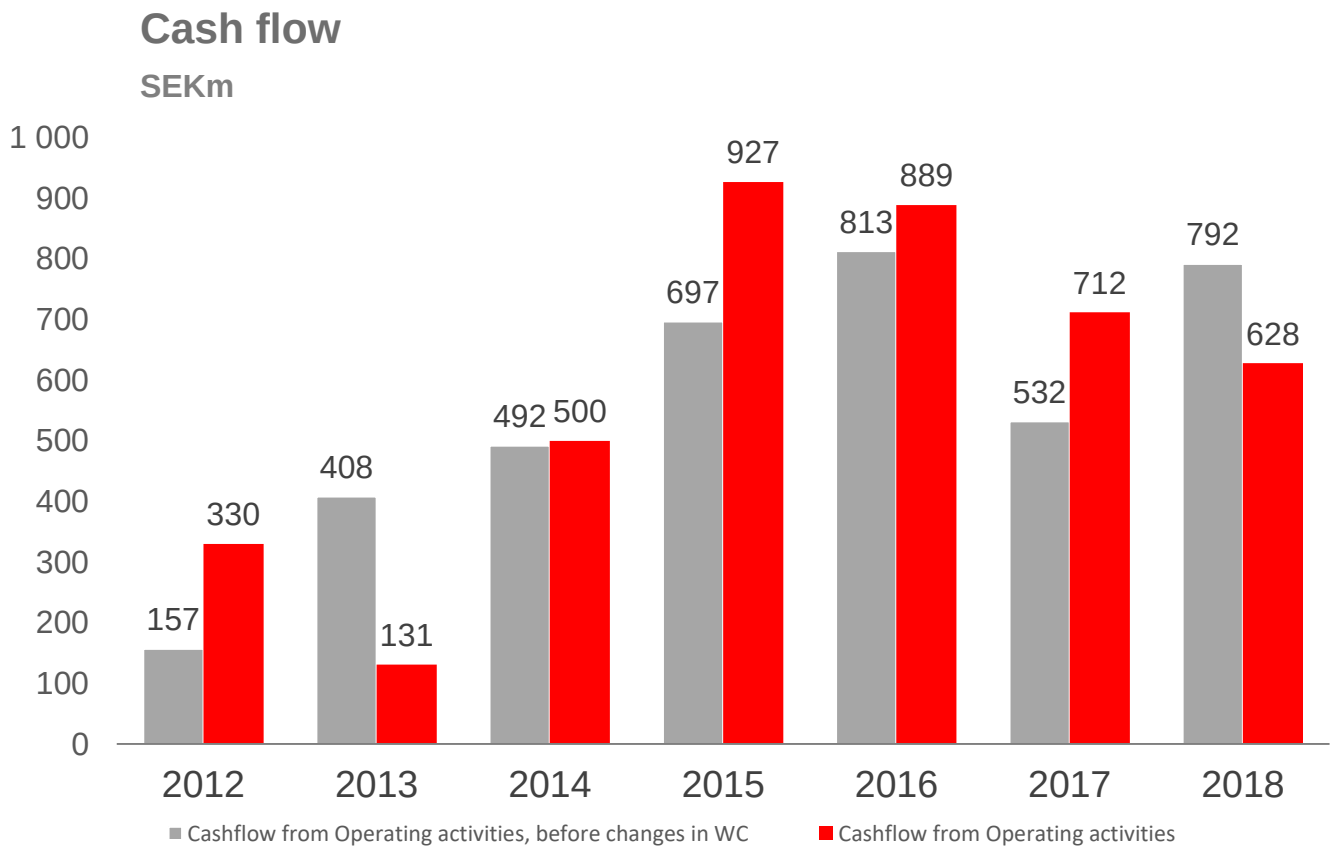
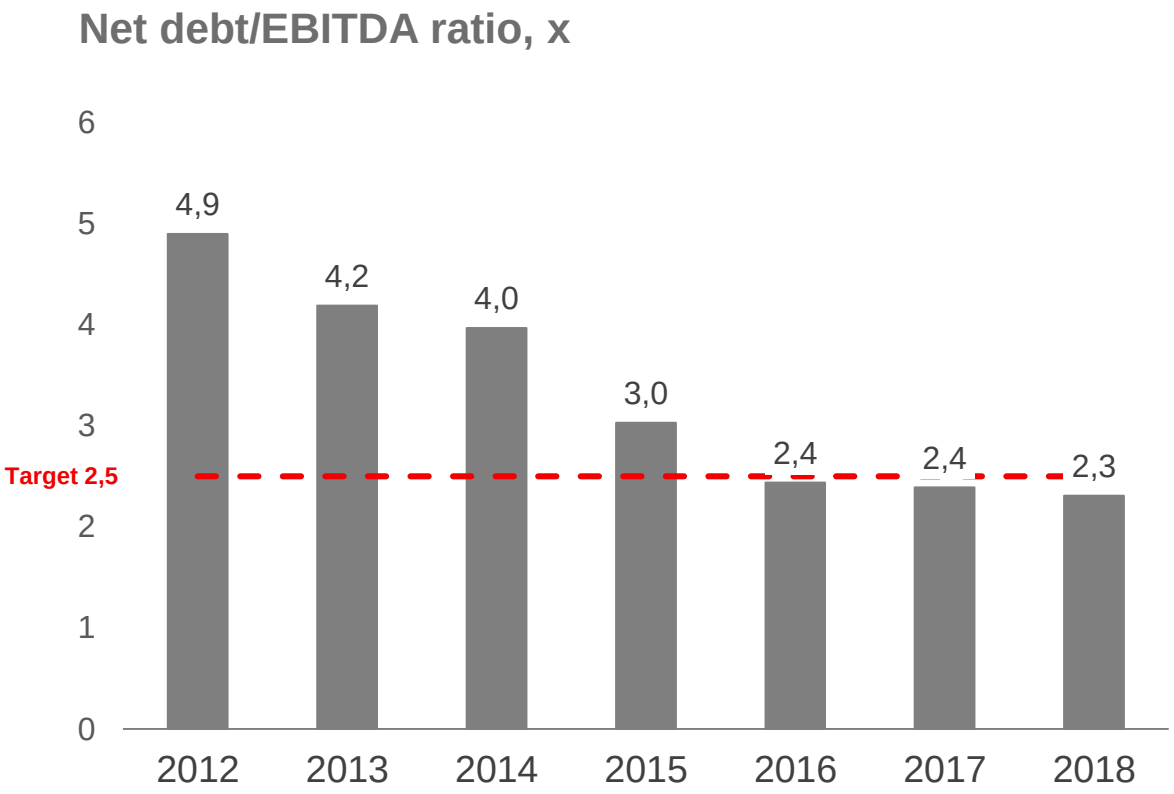
# Solid cash flow and healthy leverage

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# Capital allocation principles

## Supports growth and continues to prioritize dividends

| | |
|---|---|
| **Invest for growth** | • Increased investments in working media to fuel branded growth<br>• Investment in production capabilities for growth and future insourcing |
| **Dividends** | • Maintaining attractive dividend target of 40-60% of profit for the period |
| **Targeted M&A** | • Footprint in existing core geographies and categories of Cloetta<br>• Clear objective of synergy realization and solid financial returns |
| **Repayment of debt** | • Keep stable debt ratio in line with target to maintain flexibility for M&A |

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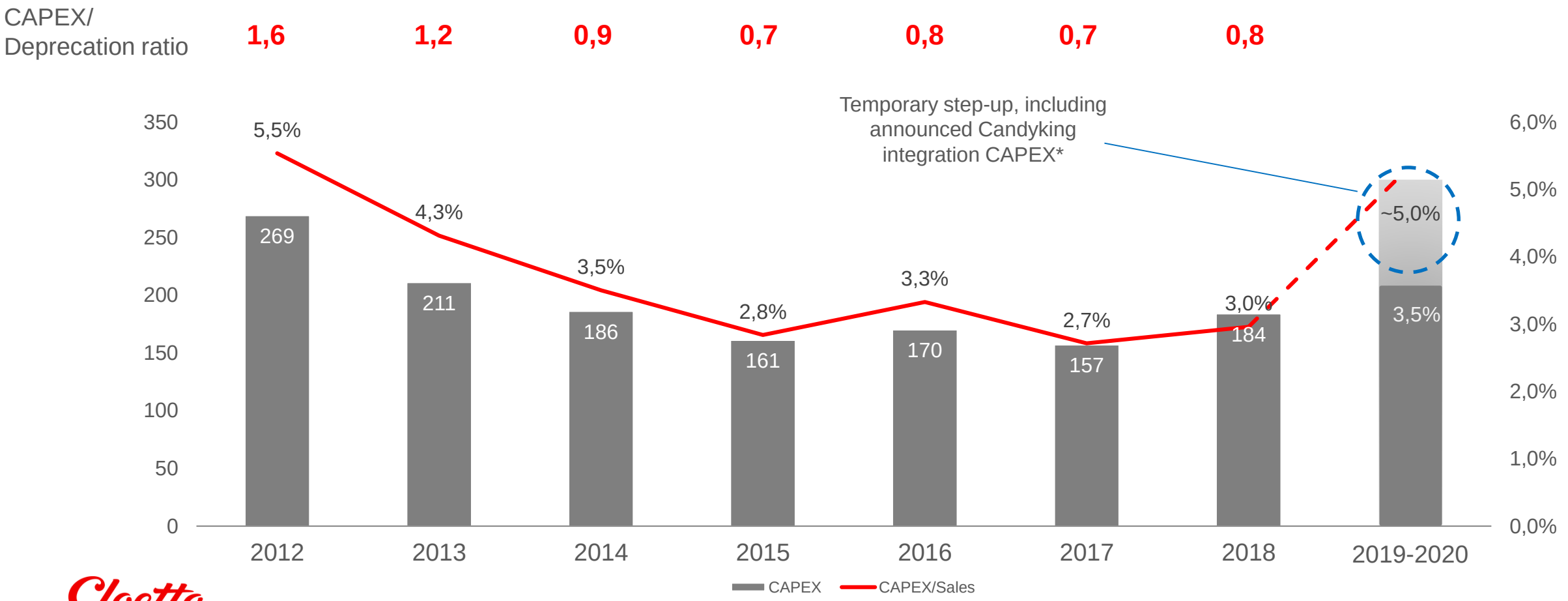
# Cash Flow supports temporary step-up in CAPEX in 2019-2020 including Candyking insourcing




*Part of the previously announced Candyking integration cost of SEK 175m

# Pick & mix – this is how it works

## Service concept not only selling individual products and brands

## Selling services

### Assortment

- Wide range of products
- Consumer preferences vary by market
- Mainly products from candy and chocolate categories

### Fixtures

- Play an important role in a successful pick & mix concept:
  - Branding perspective +
  - How products are displayed

### Merchandisers

- Fill up products into fixtures
- Keep fixtures fresh and clean

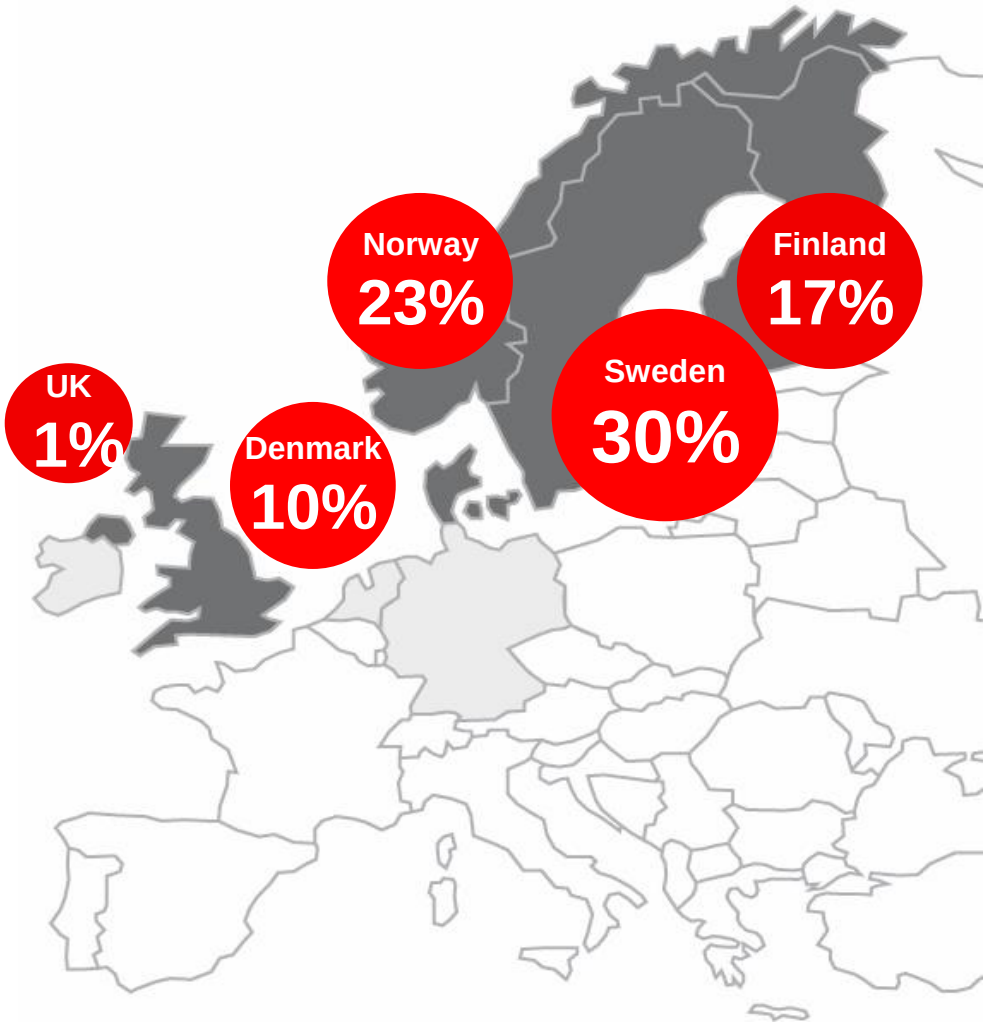
# Pick & mix strengths

## ► Geographical spread

- Very strong position in the Nordic countries
- High share of total confectionary consumption

## ► Consumer trend: Individualization

- Pick & mix concept catering to consumers seeking to satisfy individual needs
- Consumers choosing products and services individually




Pick & mix share of confectionery market **volume**

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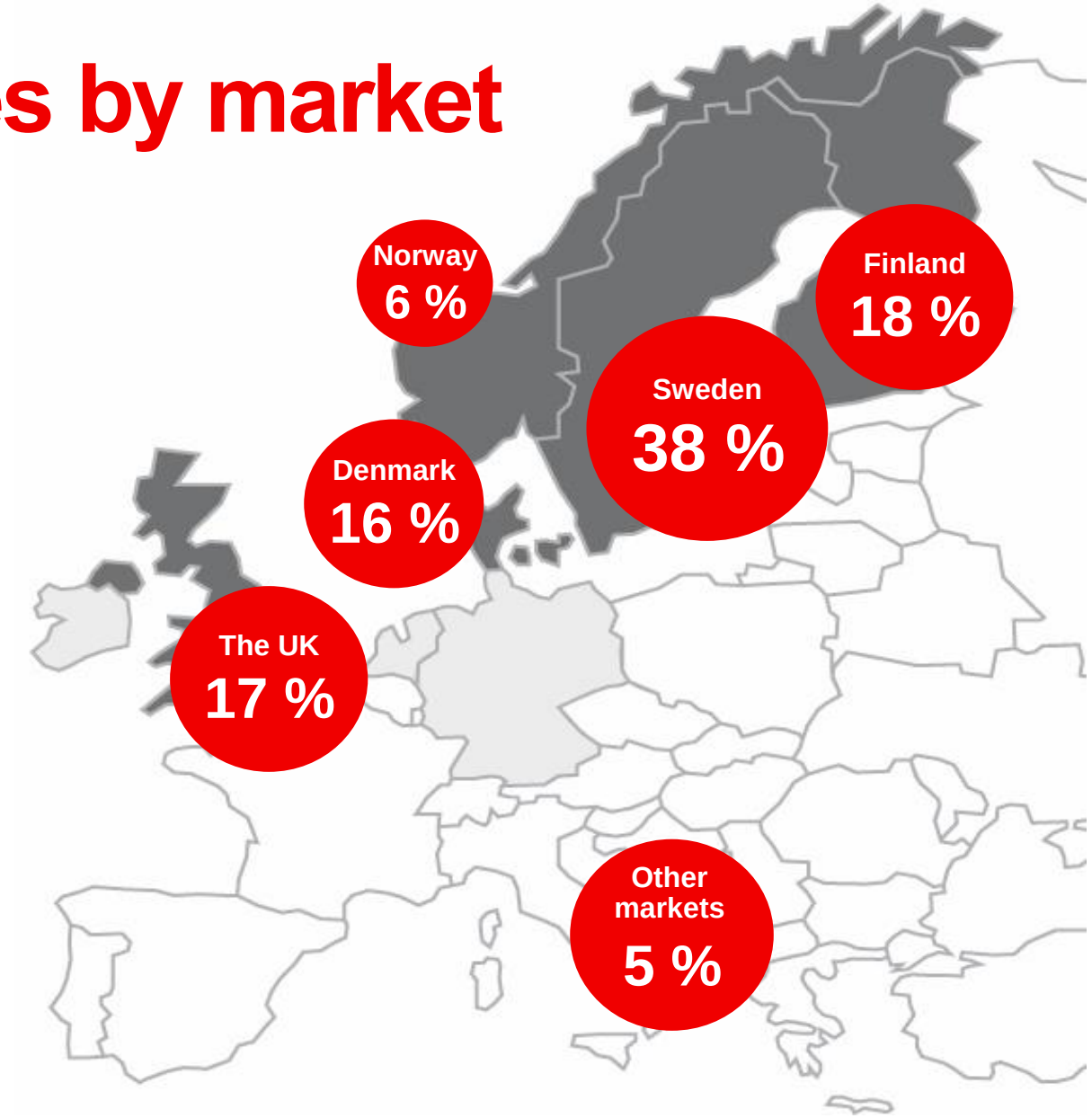
# Cloetta's pick & mix sales by market

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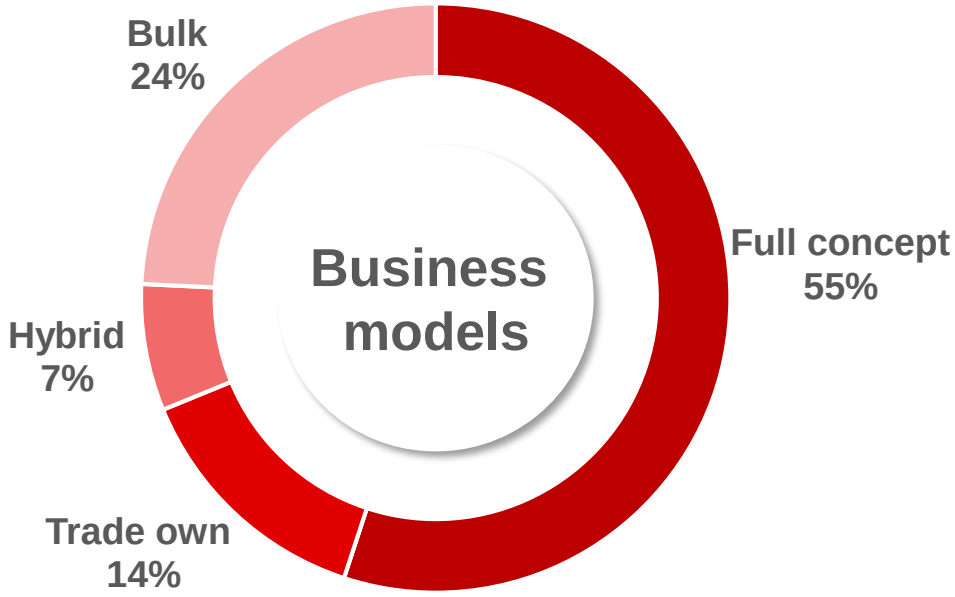
# Four pick & mix business models

- **Full concept** covers everything from branding, assortment and fixtures to merchandising
- **Trade own** concept is similar to full concept but with a retailers own branding
- In **Hybrid** models e.g. merchandising can be handled by the customer themselves
- **Bulk** business is products sold to someone else's pick & mix solution

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# Offering consumers the choice

## Indulgence

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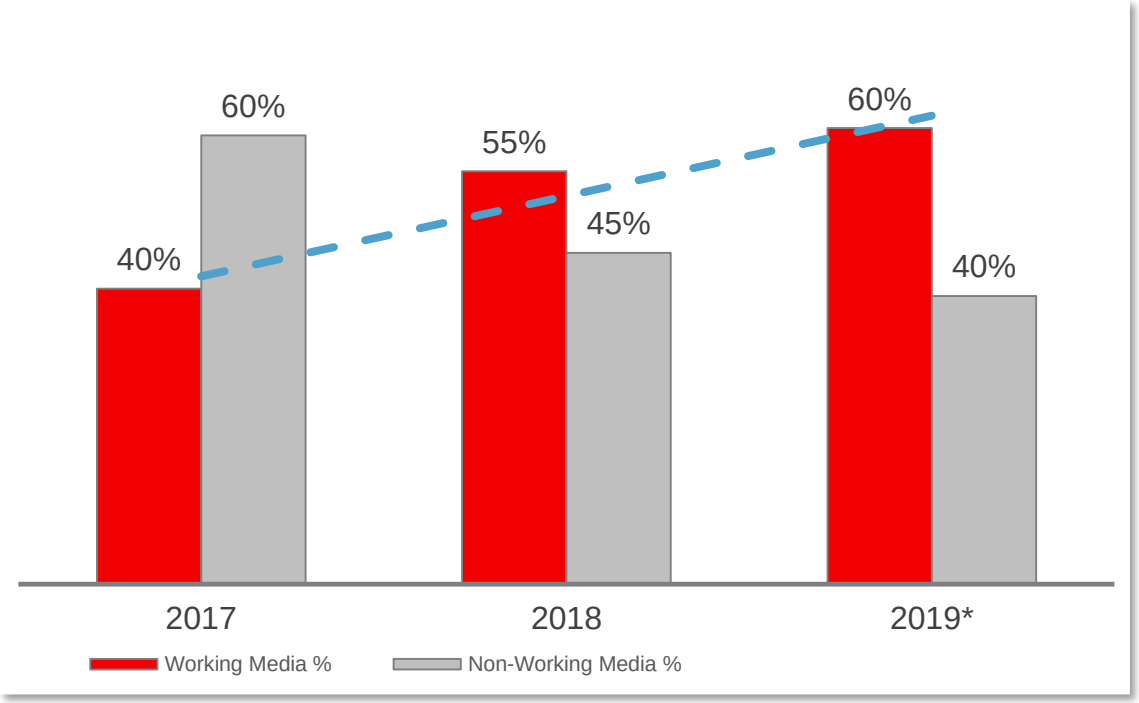
## Functional & conscious

23 % of Sales

# Accelerate Marketing Return On Investment

## Step 1: make 70% of marketing spend visible to consumer




* Ambition for 2019

## Step 2: Maximize effective pure media 70% (boost hard, measure fast)

*Nielsen 2018, Sweden

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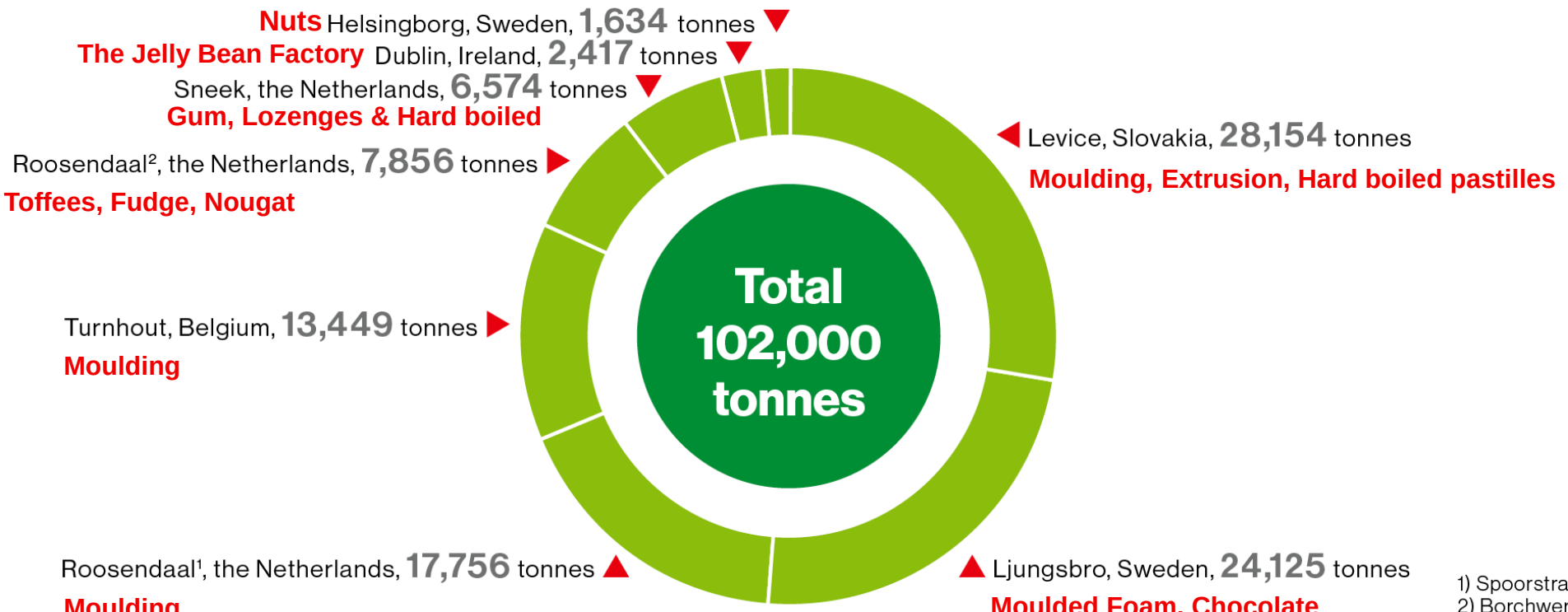
# Creating Centers of Excellence

## Volume and technologies in 2018, tonnes




1) Spoorstraat
2) Borchwerf

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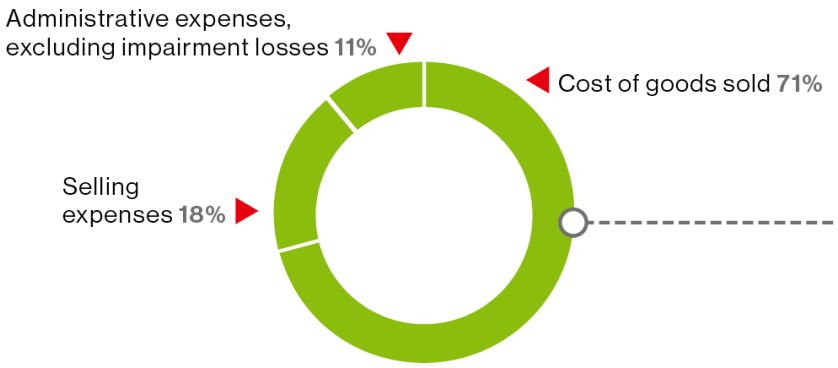
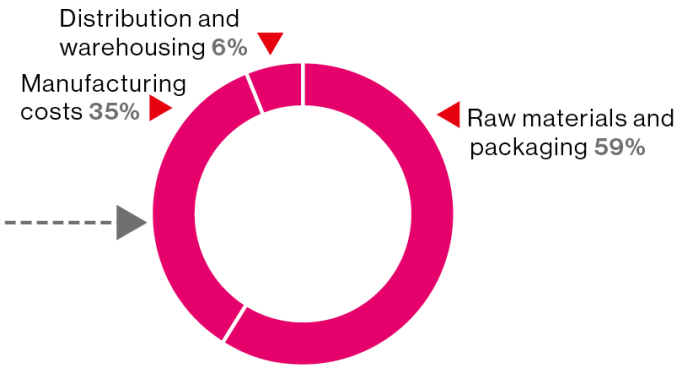
# Cost structure 2018

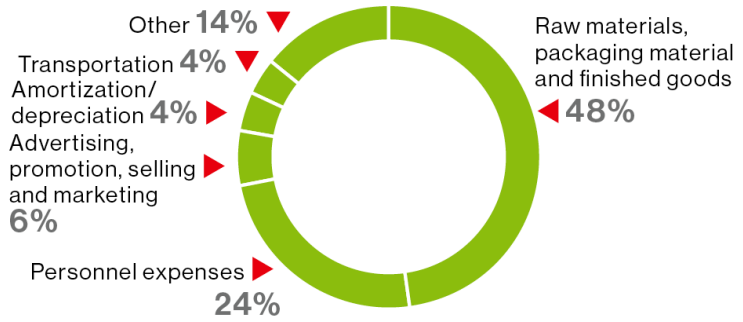
## Total operating expenses, excluding impairment losses



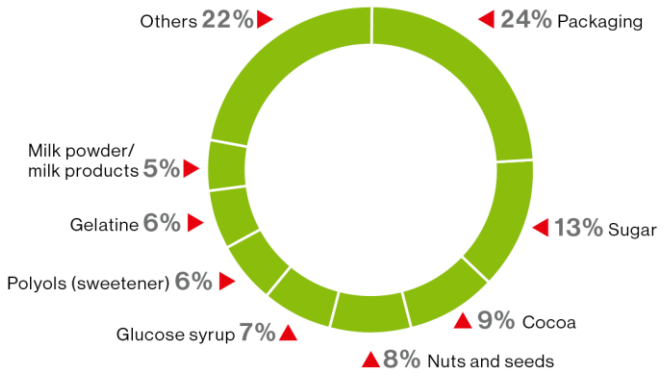

## Cost of goods sold




## Operating expenses, excluding impairment losses




## Breakdown of raw material and packaging costs

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