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# Creo Media Group AB

## Cloetta, Interim report Q1 2024

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## COMPANY REPRESENTATIVES

Laura Lindholm, Director, IR & Communications
Henri de Sauvage Nolting, CEO
Frans Rydén, CFO

## PRESENTATION

**Lindholm Laura**

Thank you for joining. My name is Laura Lindholm, and I'm the Director of Investor Relations and Communications. Our CEO Henri and CFO Frans will first run you through our Q1 results, after which we will move into the Q&A. You will there have the option to either dial in and ask your question live, or you can also choose to post your question in the chat. We will first then take the questions from the telephone lines and then we will move ahead to the chat. Over to you, Gentlemen.

**De Sauvage Nolting Henri**

Thank you, Laura. We had a good quarter. In particular, I think I'm very pleased that we were able to protect our profits on an absolute level of 192 million SEK, despite the historic high cocoa prices and food inflation.

If we take one second for the people who are new to the call, this is an overview of Cloetta. Very nice to see last year we reached the eight billion mark in turnover. Never been so big. And another maybe interesting fact, we're not a Sweden only company.

Towards the right you can see the kind of distribution of the sales in the different countries, and in particular, you can see that we are starting to get really some nice base sales and presence in countries like Norway, Germany, UK and also international markets, which is a big growth motive for us. It's an historic position which we're strengthening and growing step by step. So, that's really good to see because the mix of this totality also helps us to achieve our organic growth journey in the future.

If we then zoom in on the quarter, as I said, we protected our profit. Very good to see, because the operating environment for us is still very much affected by food price inflation in our raw materials. And although some things have come down, we can see that sugar prices are still on an historic high level, and of course, anybody looking at the chocolate raw material prices, you can see that it's only going up.

And of course, we always react to that in the same way as we have done so far, by increasing our prices at the same absolute level as the raw materials are going up towards our customers. So, that will continue, but that always takes a few months before we are able to do that.

Another very important message, and something I'm really proud of, is that despite the organic growth, which is all price-related, and it is price on price because we had a lot of pricing in the first quarter last year as well, we can see that our volumes are stable. And what does that mean, and why is that so important? It actually means that, through all the work we've done in the last couple of years to strengthen our brands and to also invest more in our brands, that consumers across our markets are keeping buying our products even though they're now a lot more expensive due to the food inflation than before.

And this is something which you could say really shows and proves the resilience of this business and our strategy of the last couple of years. And this is something special. There's not that many businesses in FMCG who are able to keep their volumes flat in Europe, given the economic situation.

Our profit hence has been impacted by higher gross profits, but we also are still investing more in our brands, like we told you in the previous quarter, and that continues, and Frans will unpack that a little bit more.

But we're also looking all the time for cost savings and efficiency savings as one of our four pillars, and we continued also this quarter to streamline the product portfolio but also the brand portfolio and looking at which brands are the important ones going forward for the future.

And then we also, as you will see later on, had a good quarter cash-wise, and like last quarter, the net debt over EBITDA is at an all-time low of 1.6. Why is that important? Well, A, money is more expensive, but this is also a very good thing for the greenfield investment which we'll be doing in the future, that we're able to generate the cash and have this buffer when we go into that period of construction.

So, those are the highlights. Protected profits, volumes stable, and I hand over to Frans to unpack that a little bit more.

**Rydén Frans**

Thank you, Henri. So, for quarter one, we continued to report further growth, with net sales of 2.1 billion Swedish kronor. That's a growth of 6.1%, of which 5.7% is organic. This is also the third consecutive quarter where we have over two billion in sales, and this growth is driven, as Henri mentioned, primarily by the successful fair pricing to offset cost inflation, with the stable volumes mentioned.

Now, compared to the last number of quarters' double-digit growth, around 6% may appear a little bit less impressive, but then you have to note, and Henri alluded to this as well, that that's on top of a lot of pricing that we had in quarter one last year. So, now we're meeting a tougher comparative set of figures, and we will for the rest of this year.

Now, the long view on this is that 6% growth is of course still a lot higher than our ambition to grow in line with or better than the markets, which we have pegged at around 1% to 2% in the long term. And if you compare to quarter one 2019, so the last year before the pandemic hit, our sales are up 34%, and that calculates to a five-year CAGR of 6%.

And actually, if you look into it in real detail, it's actually 6.1% five-year CAGR, which is exactly the same as the 6.1% growth that we had this quarter. So it's a bit of, I thought, a funny coincidence, maybe mostly for finance people.

Now, moving on to the net sales by segment, branded packaged sales grew organically by 3.6%, and you can see here that growth comes on top of 20.5% growth we had in Q1 2023. Now, that 20.5% was also the highest growth we've ever had since we started segment reporting, and probably also before then.

The pick and mix segment, on the lower half of the slide, grew organically 11.7%, and that's on top of the over 30% we grew in Q1 2023. And this is also despite the loss of the Wilko customer in the UK last year, when they went bankrupt. So, there is Wilko sales in the comparator here. And 11.7% makes this also the twelfth consecutive quarter with double-digit growth for pick and mix, and I think that shows that our plans for pick and mix are generating some really good results.

For both segments, pricing is the main driver of the growth, and for both segments the volume is stable, and again, despite the loss of Wilko. We have mentioned it before, FMCG and many retail chains have experienced a lot of pressure on volumes as consumers navigate the inflation. We do too, and we will continue to face the same. So we're really, really proud of stable volumes.

The volumes show that the strategy is working. We are investing in the long-term health of our brands, especially our core brands. That makes us as a supplier attractive, also with the fair higher pricing we've been taking. So our customers know that they can in turn sell our Cloetta products to their shoppers, and to do so at a price that helps their businesses.

Now, on the theme of investing in core brands, we can move to the next slide. I flagged in the Q4 earnings call that we were going to step up the standard marketing in quarter one compared to last year by about 10 to 20 million. We did that, but given how strong the volumes came in during the quarter, we held this step up to about 10 million, so at the lower end of that range.

So, with an operating profit adjusted of 192 million, or about 200 million without the extra marketing spend, we have been able to protect our profit despite the steep increase in input cost since last year. Of course, the most talked about increase in media recently has been the price of cocoa.

So, at the highest level for total Cloetta you could kind of stop there to explain the operating profit adjusted by saying that we have protected it to fair pricing and with stable volumes.

Now, going further down in the analysis, and you have the graph on the right, you can see that our mix is favourable. Remember, the volume is stable, so this is mix. And the favourable mix is driven by increased focus on optimising the portfolio and on net revenue management.

Then on the cost, in the middle of that graph, in addition to the higher marketing spend, there is also a one-time effect of the recognition of the provision relating to finished goods inventories that we have blocked from sales. That, as many of you know, is because of traces of a component that doesn't meet our quota standards that was found in the raw material used when making chocolate products.

We're of course keeping the products blocked until they've been cleared by our quota team and the relevant health authorities, and we're currently in a discussion with the supplier about these materials provided to us. This is a company with which we have worked for decades, and as such, we will not quantify the provision at this time. We expect that this will be resolved in a good manner. It is an isolated case, and we don't expect any material negative effect going forward.

That said, based on the lower profit this quarter, despite the favourable mix, it's not something that should pay for higher input cost. And as costs are continuing to go up, again, I'm thinking primarily about chocolate, we intend to stay on course with our strategy to take fair pricing for our increased cost, and we will also continue to support such fair pricing, and in Q2 we will again increase the spend on marketing versus last year. And that again would be in the range of 10 to 20 million Swedish kronor.

Now, while total Cloetta profit is stable, there are very important differences in how the profit developed versus last year when looking at the branded packaged product segment separate from the pick and mix segment. So, let us look at that.

Starting with the branded packaged products on the top, the segment is down 32 million, despite the stable volumes. The favourable mix I mentioned is of course also in this segment, but so is most of the provision, and of course, all the extra spend on core brands sits here. As I mentioned, though, mix shouldn't pay for higher cost, and as the costs are continuing to go up, we will stay with this strategy to take pricing.

Nonetheless, our underlying profit, if I would exclude the provision, is of course better than what you can see here. And I will revert more on that topic as we learn more on the matter with our supplier.

For pick and mix, the quarter looks very different and also requires a bit of an explanation maybe not to get ahead of oneself there. The profit increased by 24 million, which is a doubling versus last year, and we have said in the past that our midterm ambition is to reach an operating profit adjusted of between 5% and 7%. And now in this quarter we are reporting 6.9%.

So, what you see is a lot of work over a long time that is really coming to fruition. Pricing has been caught up largely, and despite higher prices, a healthy volume and higher efficiencies relating to merchandising in assortment, fixtures, etc.

I must add though that the profit is clearly boosted by the Easter sales, not just with respect to gross profit but also scale benefit, as higher volumes were managed much more efficiently per kilo. And I said you should probably knock off a bout 3% of profit as a percent of sales to get to the profit excluding the Easter gains.

But even at that lower profitability, the quarter would be a clear improvement and would be approaching the range of 5% to 7% that we set for ourselves in the midterm. So, that is really great and encouraging, and it's not that often I get to present these types of numbers for pick and mix.

Then moving on to an overview of the road to 14%. So, without making a detailed update on the efforts to drive bottom line profitability, I did take the Bridge that we presented also in the annual report recently, and I updated the first light green arrow for pick and mix to a shade darker, given the strong result.

The branded light green to the right of that is obviously ongoing, and while margin is down, there are as I said some distorting factors in this quarter, and those are not related to the long-term outlook.

Of course, we did see good benefits from net revenue management in the quarter in the form of the mix, and we will continue that alongside driving for efficiency in supply chain to the Perfect Factory programme.

With respect to the greenfield delivery, based on what we have previously presented, it will secure and improve on our ability to deliver the targeted margin. In Q3 2023 we reconfirmed that despite the higher interest rates, the net investment remains in line with what we've communicated. And I can again stress that we had shared previously and we said that we had taken headroom at the time of the original announcement for the uncertainty.

So we also confirmed in Q3 2023 that we would generate higher up in the range of 220 to 260 million EBIT upside per annum from the project, given that part of the upside comes from savings on payroll costs, and those costs have increased a lot with inflation since 2022.

We will be able to provide a more detailed update on both investments and savings when we have sufficiently progressed or even closed the ongoing tendering and contracting process, and that in turn depends on the complete finalisation of the required permits. So, we will revert to this in the future.

Now, going back to the quarter, sales, general and admin in the quarter is pretty straightforward here, where the cost excluding currency is higher, driven by the higher spend on marketing. I think we might have moved one slide too much here. That said, there has of course been salary inflation relating to our own workforce since last year, and the same effect for suppliers, and often there are contracts that are indexed. Yet, again, however, we've been able to offset those increases, and with SG&A at 21.6% of net sales, that is the lowest we've ever reported for a quarter one. So we're very happy with that, but it's not the end of the good news.

Let's move to cash. So, there is a seasonality to our cashflow, and I've spoken about this in the past. Most of the cash generated is generated in the back half of the year, and quarter one is normally not very strong because the quarter starts with low working capital at the receivables from the sell-in to Christmas has largely been collected, but we haven't sold a lot immediately before Christmas and after Christmas.

Now, despite that, we generated a healthy free cashflow of 99 million Swedish kronor in Q1, and that's 122 million better than what we did in Q1 last year. Part of the improvement is due to the efforts to increase the focus on cash across our organisation, and part is due to the inflation having slowed down somewhat, not to the point that we are in a deflationary environment. Our working capital did increase in Q1, but it didn't increase as much as it did last year.

Now, 99 million is also not just better than quarter one 2023. It's also the best quarter one free cashflow delivery we've had in the last five years, which brings me to my final slide. And I'm really pleased to share that on account of the strong cashflow, we closed the quarter with a net debt EBITDA of 1.6 times. That is the lowest not just for a quarter one but it's the lowest we've had in any quarter since, well, technically, anyone can remember.

Naturally, as quarter two will have a set of dividends being paid out, as is normal, the leverage will go up in quarter two, but then again, based on the seasonal trend, the leverage will start to improve again the back half of the year. And you can see that on the graph here, that that is our normal pattern.

Now, if you look long-term, however, our financial position has consistently been improving over the last years. This was expected, but I think it's worth it to emphasise. And this also means that we are consistently, quarter by quarter, positioning ourselves better with respect to the upcoming investment for the greenfield.

Similarly, on that note, we currently have access to additional unused credit facilities, commercial papers and cash on hand, for 4.1 billion Swedish kronor, which is well over double the need for the greenfield, based on what we have previously communicated.

So I feel I can conclude that our financial position remains strong. With that, back to Henri.

**De Sauvage Nolting Henri**

Thank you, Frans. So, we're getting into a strategic update. This is not new for the people who've been on the call before. We basically have four strategic areas. The first one is covering our branded business and the expansion of margin and growth over there. The second one, Frans alluded to that, is how do we get more value out of the pick and mix business. Happy to see that 7%. And then of course there is cost and efficiency, which we want to bring down, and it all is being underpinned by sustainability.

Over the last couple of quarters, we've been talking about these things, but we want to give you a bit more of a structure behind this so that you also see what initiatives we are driving, and putting the updates also into a strategic framework. So, I'll do all four of them, some of them with some examples, and if we can go to the first one, Laura, on the branded.

So, what do we want to do? In the first one, of course, it's very much focused on consumer brands and strengthening our position over there. So, there is a profitable growth through product mix. Of course, the recovery of mix after corona on mainly pastilles but also gum, and there is market share targets in our core markets, and that we do by supporting more our key brand positions, so whatever, Gott & Blandat in Sweden, Red Band in the Netherlands.

And then, as I showed you, we have two big markets where we have our own organisation. We have a few brands which are in good positions challenging the market leaders, and that is UK and Germany, 64 and 80 million-plus people, so really an ability for us to grow over there.

And then we have the international markets, 7% of Cloetta historic positions, getting stronger and stronger and really showing good growth and also contributing to our EBIT, so also very important for us.

And then we're also focusing more on making use of our scale, so focusing on fewer but bigger innovations, which are going across markets, maybe not all under the same brand, but innovation technology platforms are then being implemented across brands in our markets. And we are really looking at valorisation through selling higher-value products because they have an added benefit for the consumer, and also giving us a competitive edge.

And then, of course, new channels, and that is everything outside of the regular supermarket channel, can be a lot, but of course, ecommerce and q-commerce are really growing. I'll show you one or two examples.

So, this is the first one. This is the mix. So, Läkerol Strawberry launched, doing really well in the Nordic markets. I have an example here of Sweden. Why is it important? Well, through the fruity flavours we are able to reach younger consumers, which is something which we need in Läkerol, and it's very pleasing to see that we understand those consumers and we launched something, and we also get success.

Really great execution. We all this 360, so you both are in the media but also instore, and a nice example on the top right is an activation we did together with Foodora, where all the people buying Foodora products are getting them delivered in a paper Läkerol bag with a new product. So you can see yourself that it really adds 10% to the volume, but more important is that we are getting younger consumers into the brand.

Then the next, also on area one, is innovation and valorisation. This product Sour Bites is something which we launched one and a half years ago with a lot of success in the UK, and then later on in international markets, under the Chewits brand. Now we've brought exactly the same product under Red Band in the Netherlands, and it really did well sales-wise but also last week we were awarded the Best Product Launch in the confectionary category by the most renowned institute who is measuring and also asking our customers about what are the best launches of the year.

So you can see our team, in front of the office building, receiving the Wheels of Retail award, as it is being called, and that of course is also saying something. It's not only the consumers but also our customers really happy with the innovation power we have in this company.

And then I think the last example in this area is then ecommerce. You know that we have the brand The Jelly Bean Factory. In the US we had to name it Jelly Bean Planet. And that brand we are now launching through ecommerce with Amazon, based on the very good cooperation we have with Amazon in our core markets here in Europe. They are 100%, or more than that, supporting us in the US to launch this brand.

And that is very interesting because you are launching it in a sales channel, but a sales channel which is also a communications channel. So you can be very targeted in your communication and how to build that brand. And pleasing to see US$200,000 in a month of sales. That, in the biggest jelly bean market in the world, of course is a foreboding to more success later on. But we'll build this step by step, but really good to see.

Then, just to give you a feeling for the other areas, what are we doing, without having examples everywhere, for the sake of time. But of course, pick and mix we want to get to 5% to 7% EBIT, and again, that is including all the allocated costs into the pick and mix, because it's a full allocation model of supply chain and offers an indirect cost into pick and mix.

Four trends, or four important areas.

One of course is the consumer trends of individualism, but also sustainable packaging, because people are not buying this in plastic, they're buying this in carton or paper bags. That's really growing. The second thing is that we see that our customers are really looking at how do we transform our stores from something which looks like a nice warehouse into something where you can get inspiration.

And pick and mix is one of the categories where consumers are standing willingly, nicely, three or four minutes to pick their individual products. And that is something they're really looking for. So, a lot of in-depth cooperation with our customers who see this as an important addition to their concept.

The we also want to earn money on that and not just compete on price, so we're really driving premiumisation in pick and mix by adding features or adding good products and consumer activation, which is also relatively new in this category, and we're gaining good traction on that.

And then of course, last but not least, we're constantly looking at how can we optimise our cost in here, either by using our scale, but also the whole merchandising cost routing and also how we act as a retailer towards the companies who are delivering their products to us. And that is also quite an important one for the 5% to 7% going forward.

So, that's pick and mix. In the future we'll come back on examples over here. And then the third business one is the lower cost and greater efficiency, because, as you saw in Frans' part, that is also contributing on the road to 14%. So, it's the Perfect Factory where we increase the efficiency of the production line. We talked about the fact that we have volume, and that means also that volume is stable, but some volumes are really growing. And our factories are quite full, as we discussed before, so we need more efficiency on the lines to produce more, so that we can also sell that. And that's really working. Also, reducing waste and also energy, of course, in our plants.

Then we have the greenfield. We'll come back to that. This FBB methodology for the indirect, Frans alluded to the fact that we were able to keep our indirect within the SG&A flat, with the savings even despite the fact that we have in all the markets salary inflation. So, that remains an important one.

Then the net revenue management, that is all the money between the list price towards the customer, and the net price we are receiving, does that money work for us in a good way, and what can we improve? And that is quite exciting. We're rolling that out together with an IT tool for our category and sales and finance people to constantly evaluate where do we get the bang for our buck. And that is something going forward where we'll get more efficiency out.

Then the whole media thing, we talked about it. So, how do we get also over there really good uplift on our media spend, and that of course starts with the whole preparation, in clear brand positioning, slogans, but then also the media buy-in and, more important, that the working media is now reaching the 70%. So, out of every 100 SEK we spend, there's 70 SEK which is being seeing by you and me and all the other consumers on Google, on TV, on outdoor, etc. And then 70% of that is pure media, which is really the communication media part.

So, one of the big components in why people continue to buy our brands in the same amounts, even though the price levels are higher.

And then also over here, of course, the cash generation. Frans talked about that. That's now really well embedded. And we can do more over here to get the cash even up.

And then a quick update on the greenfield. Just one more time, why do we do this? Well, it's a big cost saving, and the cost saving goes directly into the EBIT, so we're talking an EBIT effect of 220 to 260 million. It's a big investment. Net is 1.9 billion, and we'll come with an update on that to show everybody that we're progressing nicely in that way. It is also 15,000 tonnes of extra capacity. And given the fact that in particular our candy factories are quite full, we will need more capacity if we want to keep on growing our volumes.

And then, last but not least, it's full electric. So, a really important step in our sustainability journey and the climate cause we have underwritten.

What has happened during the quarter? The municipal government has decided to grant us the permit. So, that is let's say the coalition government, majority government, in the city of Roosendaal, they have decided that they will grant us the permit. And then in May let's say the parliament, so the whole city council, will have to vote on this, and then that is the first big step in the permitting process.

And all the internal project workstreams are going on as planned, which is mainly all the preparation to get the bidding process up and running, like Frans alluded to, that when we have the permit, that we start to negotiate contracts in the final stage. And that's probably then also the moment when we can do a good update on the process.

Then, as you know, we're closing three factories. And given the delay of the project, we have been looking at other ways we can speed that up so that we also bring down the complexity.

And what we have decided, and I think we talked about that before, is that the second factory we have in Roosendaal, it's called Roosendaal Borchwerf, it's the Lonka factory, fudge and nougat and Soft Bites, that plant we are closing now in quarter two 2024, so we bring that forward.

Part of the products are being outsourced into a third party, and another part is being insourced. That was the product which we just showed you in the Netherlands on the Soft Bites into the Sneek factory, which is good. We have an agreement with the labour union on the effects on the people who cannot transfer into the new factory because, of course, that is the first thing we are looking at as a responsible employer.

We also have an agreement with the facility owners. This was an acquisition. We were renting the building year-on-year, and we agreed with the owner on the state of the building to come back, and that's actually quite well done by the team. And then all the equipment which we are not going to use or want to use, we have sold to a third party who will also be responsible for taking out all that equipment from the building.

And that means that over the next quarter, so already this quarter we transferred part of it, then during quarter two another big chunk will go to the third party, and then the Soft Bites will go into our own factory, meaning that by the end of June we will have the last production. Then, of course, dismantling, cleaning and handing the building over to the owner will start. So, savings will start to come in as from quarter four 2024, but we will update you on the exact effects of that when we also do the greenfield business case update, because this was part of that.

And then number four, last but not least, is the sustainability agenda, For You, For People and For the Planet. I will not go through all the initiatives, but maybe important to say on the For People, as we just had the Cloetta engagement service, so this is about how happy and engaged our employees are, very nice to see a big step up versus the last time when we measured this, which is now two and a half years ago, across all the countries but also all the supply chain and all the factories have really stepped up.

And of course, there's a lot of hard work we put in here, both from communication but also our leadership academy on different levels is really starting to pay off over there. And scientifically it is proven that people who are more motivated also deliver better results, so for sure, this is also helping us in our road to 14%.

And I think I'll stop over there because otherwise we run a bit over time. So, I would like to open this now up for questions.

**Lindholm Laura**
Operator, please go ahead.

## QUESTION & ANSWER

**Operator**
We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star on one on their touchtone telephone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use only handsets while asking a question. Anyone who has a question may press star and one at this time.

Our first question comes from Skogman Niklas with Handelsbanken. Please go ahead.

**Skogman Niklas**
Thank you. Good morning, everyone. I have a couple of questions. The first one is on the comment or the explanation that mix effect was positive. But I find it a little bit strange, given how much faster pick and mix was growing in the quarter compared to packaged. That's the first one.

**Rydén Frans**
Yes. No, it's true. We've said before, when pick and mix grows faster, there is an unfortunate, if you will, effect on the profitability as a result of that. But the way to think about this is that there are other mixes than just between the two segments. We also have mix within the packaged portfolio which can be between the brands, it can be between markets, it can be between channels or customers, etc.

So, the big difference versus before is that we're seeing some really good effects both on the portfolio optimisation, where we take out skews to have less profitability, so that's a fable  mix, and what you saw from the net revenue management house.

 

It’s not only about promotion and trade spend. It’s also about channels and product and really to go deeply in and make sure that we direct our sales in the most profitable manner. And that is really coming to fruition in this quarter, and it’s offsetting what you otherwise would have had as a negative mix with the pick and mix segment growing faster.

**Skogman Niklas**

Okay, so it’s a bit of channel mix as well then. Okay. Second question is on the provisions. So, you haven’t mentioned the number, but I guess I can roughly guess based on the decline in profits in branded packaged and also considering the step up in marketing there. But does that encompass expected damages received from your supplier, or is this sort of a gross provision?

**Rydén Frans**

Yes. The short answer is it’s a gross provision. So, the way we do this is obviously that we’re holding back on these inventories until it’s fully clear. And based on what we have there and the conversation with the authorities, we have taken a provision for the value of inventories if we would have to destroy that. Now, we’re not quantifying this because, again, this is a supplier we’ve had for decades, and we are in conversation with them. I would assume that this would be resolved in a good way. And if we then would have money coming back, let’s call it that, that is something that we have not factored into the Q1 results. That would be resulting in a net effect later on.

**Skogman Niklas**

Okay, very good. And it sounded like you didn’t expect withholding these products from the market to impact sales.

**Rydén Frans**

Yes. We’re still shipping. So we’re talking about several hundred tonnes, which is a lot, and for maybe a consumer or someone it sounds enormous, but we’re selling several thousand tones of product a week. So, we are continuing shipments. We don’t expect any material negative effect in the quarter now, quarter two.

**Skogman Niklas**

Okay, very good. Then a question on the SG&A costs in the quarter. If I look at the adjusted year-on-year increase, it’s 12 million kronor. But we know you spent ten million more on marketing, which takes us to about a two million increase. I also note [unclear] probably mostly in the cogs. So, I was thinking, two million growth, that’s basically flat SG&A costs year-on-year. And given salary inflation and so on, what is driving this, and then what should we expect in the coming couple of quarters?

**Rydén Frans**

We lost you just when you said something about cogs.

**Skogman Niklas**

I said depreciation is up year-on-year, but I guess most of that depreciation is in the cogs, so maybe [overtalking].

**Rydén Frans**

Yes, exactly. So the short answer of course is that we're super happy with this. There is the increased spend on marketing, and of course, we have inflation, etc, but we have also had a lot of focus on the [unclear] spend now for several years. And what's really coming through strong in this quarter, and which you see also in the profitability of the pick and mix, is that the merchandising costs are basically held below inflationary rates, despite the increase.

So, there is some savings, and the other part is just basically holding back. So, that is very strong. Can we continue to do that throughout the whole year? I wouldn't promise that, but I can tell you that our focus on cost is not going to let up.

**Skogman Niklas**

Okay, very good. Last question on cocoa. Prices going up. You said you are going to carry out price hikes to compensate for that, but should we expect to see any lag effect in regards to your input costs versus price hikes to customers?

**Rydén Frans**

Yes. And you know this, and it's probably helpful maybe for others, of course there always a bit of a lag where we see that costs have moved, and then we can have a conversation with our customers about how we should change our pricing, and there is a dialogue. And then there is a period to implement that. So there is always a lag, but there is also a lag when costs start to come down. So, it depends also very much on what's going to happen with cocoa for the rest of the year. But yes, there is always a lag.

In this quarter of course we are offsetting a lot of this lag, or all of it, you could argue, through the mix effect. But the mix effect is not something that should be used to pay for the higher cost because, of course, that would be deviating from the strategy. So, with time we should catch up on the pricing and the mix effect should then drive further profitability.

**Skogman Niklas**

All right. Excellent. Thank you very much.

**Rydén Frans**

Thank you, Nicholas.

**Operator**

As a reminder, if you wish to register for a question, you may press star and one. Ladies and Gentlemen, there are no more questions over the phone.

**De Sauvage Nolting Henri**

Good. Well, then I think, quarter to 11 nearly, we will finish this quarter one update. Important messages, good organic growth of 6%. Our volumes are stable, have really been proud of. And then an EBIT of 192 despite the big hike in cocoa prices is also showing the resilience of the business and that we are, I think at least, having the right strategy to deliver not only the quarterly results but also that we're on the way towards the EBIT target we have set ourselves and which is the biggest thing to achieve for us.

So, with having said that, I thank you for the call, and we'll talk in one quarter. Thank you.

**Rydén Frans**

Thank you.

**- END -**