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Cloetta

Digital Investor Event Conference Call

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COMPANY REPRESENTATIVES

Henri de Sauvage-Nolting, Chief Executive Officer
Frans Rydén, Chief Financial Officer
Marcel Mensink, Chief Operating Officer
Nathalie Redmo, Head of Investor Relations
Henri de Sauvage-Nolting, Chief Executive Officer

PRESENTATION

Operator

Ladies and Gentlemen, welcome to the Cloetta Digital Investor Event Conference Call. I am Moira, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode and the Conference is being recorded. The presentation will be followed by a Q&A session. You can register for questions at any time by pressing * and 1 on your telephone. For operator assistance, please press * and 0. The Conference must not be recorded for publication or broadcast. You will now be joined into the Conference room.

Nathalie Redmo

Good afternoon, and welcome to Cloetta's investor event. My name is Nathalie Redmo, and I'm Head of Investor Relations. The purpose of the event today is to provide you all with an update on the announced plan to invest in a new Greenfield facility in the Netherlands. With me here in the studio are the presenters of today. That is Cloetta's CEO, Henri de Sauvage-Nolting, COO, Marcel Mensink, CFO, Frans Rydén.

And we do estimate that the presentations will take about 1 hour. And after that, there will be a Q&A session. And here you do have 2 different options. You can either submit your questions in writing, or you can give us a call, and you'll find all the information that you need in order to do so, in your browser just below me.

Thank you again for joining us. I will now handover to Henri.

Henri de Sauvage-Nolting

Right. So let me start by looking shortly at the agenda. I will open and give a bit of strategic background why we take this decision to propose the new Greenfield. Marcel will then go into the technical details of the Greenfield and Frans will take you through the business case, the financials and the financing before I wrap up in some conclusions and then we open for question and answers.

But let me start first by going to the 6 main key messages of this investment. The first one is that we are investing in a new sustainable manufacturing facility in our core business area, the middle region, while we are closing 3 plants. This will give us, 1, a lot of savings; 2, it will enable our growth and 3, a major step forward on our sustainability journey.

The investment will give us around SEK 220 million to SEK 260 million of EBIT delivery, and this includes quantified in-sourcing and growth. We can split this in 3 different areas. There is a SEK 160 million to SEK 180 million, coming from savings and some quantified growth. That's the first block. We have not taken into account current inflation on labor and energy into the business case, and Frans will come back to that. Secondly, there's SEK 20 million of savings through identified in-sourcing. And then the third part is around SEK 40 million to SEK 60 million coming from enabled growth up to the period of 2032.

The net CAPEX is quite important. Over the period, '23 to '32 will be SEK 1.9 billion, whereas the Greenfield itself is SEK 2.5 billion. There is around SEK 0.6 billion of CAPEX, which is avoided because we are closing 3 plants, and they will go out of the equation on any maintenance CAPEX or investments we would have to do over there.

Frans will also take you through the financing, where we now have a new credit facility of 160 million Euros committed by our existing banking group. We think it is at good rates and also our net debt over EBITDA will come back in several projections to the 2.5 in 2026. This new Greenfield will actually secure and improve upon the long-term financial goal of 14%, which we have as Cloetta, so in that sense, very important. And last but not least, the Board expresses the ambition to continue paying a stable dividend in line with 2021, which was SEK 1.

So let me go a little bit further into the strategic agenda of Cloetta and how this fits into our overall strategy. If you look at our strategy, we have the 4 financial goals. One is growth, 1% to 2%, in line with market. The second one is EBIT margin, 14%. Then we have net debt over EBITDA of 2.5 and the dividend policy. Out of the financial targets, we have 3 strategic priorities and the fourth one, which is the sustainability one in the middle. It is growth through our branded business because it gives us above-average EBIT delivery. It is sustainable growth of our pick & mix business and Block 3 is the lower cost and greater efficiency. Of course, we talk a lot about lower cost and efficiency, but also about growth. And it's all underpinned by our sustainability agenda.

If you look at the current economic development in the market, we can see that we have strong brands as Cloetta in resilient categories. We have a pick & mix, which is now delivering profits, also really positive. But we would like to become more efficient in our production network and reap those benefits as well, both on the savings as well as the growth. And of course, the sustainability agenda becomes more and more important for both consumers and customers, and I'll show you a bit of data on that as well.

If we first look at Cloetta's strength, I think it is really important that we have been driving our local brands from strength to strength. In the last couple of years, we have been investing behind them with strong innovations, more support, and we've seen positive developments in how consumers look at our brands. We're also in a category, which is relatively insensitive to recessions as we have seen in previous recessions in the last 2 decades.

We're also mostly operating in Northern Europe with relatively stable political and economic climate and also good payment behaviour of customers. That's also a very nice thing to have in the times where we're getting into. We're a strong leader in pick & mix. We have strong scale in the markets where we operate, and we can really work on a tailored innovation model. As you can see, our category positions are quite often 1 and 2. So that's a really good foundation for this business.

Now to the fourth bullet, which is in the middle of the strategic ring that's sustainability. And I'll not go through into it in big detail, but we see both consumers and customers really stepping up their interest in companies and brands, which have a sustainability agenda, which is really true. We have developed a sustainability strategy on 3 blocks: the For You, the For People and For the Planet. And also, the ASF as well it internally, the project, the Greenfield is answering to these sustainability questions and demands from our consumers and customers.

So, let's now move into the more of the why, and that is our growth journey in Candy. So the foundation of our business are what we call Core Candy brands. Now what is that? That's a new thing. We think about in consumer language as wine gum and foam products. And we've taken a few examples here on the chart of Europe and international where brands like Gott & Blandat, Aakkoset, Venco, Red Band are core candy brands. And you can see that core Candy is nearly half of our total volume, 46% of the total, and we are growing year-in, year-out.

Where are we producing these products? Well, actually, on the next chart, we show you the first 4 factories are the 4 factories where we are producing the core candy. So that's Levice in Slovakia, Ljungsbro, very much foam in Sweden, Roosendaal in the Netherlands and Turnhout in Belgium.

And for now, what is most important is to look on the right side of the table, and that is the capacity utilization. Those plants are running flat out. We cannot produce more in these plants. But we're selling more year after year. So all those sales we have to take outside to third party, and that comes at a cost, which is one of the reasons why we want to propose this new investment.

So let's look a little bit at the growth. So on the left-hand side, you see the same sales volumes, the 46% core Candy. And if we go back to 2018, and we project forward based on the CAGR we have shown from 2018 to 2022, you can see that we need around 12’000 tons of extra capacity by 2032. And at the moment, we have zero of that. We cannot expand in the current factories to create that extra volume. So there's a really strong need for us to get extra capacity to enable our growth, which is our first financial goal for this company.

So then you would, of course, ask us, okay, what have you looked at? Is it just a new Greenfield? Or are there other alternatives you have considered. And of course, we have looked at different alternatives. And I just want to take you through them on a high level. This is the way we looked at it. So I'll take you through the different alternatives, but savings, I would say, that is EBIT, yes? So does this alternative enable our EBIT target of 14%? Growth is very clear. That's also a financial target. Then sustainability, risk, is the risk high or low? And what kind of CAPEX demand is it?

And if we then look at a bubble chart, I'll take you through the different scenarios we've looked at. So the first one is to take our current facilities in core Candy and upgrade them. Yes, that would not give us any savings. We would just be able to produce what we are producing. It will not give us any growth. It would not give us a lot on sustainability because we are still transporting stuff between the different plants. But of course, the risk will be very low because we have those factories. There's nothing new to be built, and the CAPEX is also somewhere in the middle. It would still be a big investment, but not as big as the Greenfield's.

Then we could make a combination of upgrading part our facilities and then taking part of the volume outside. Of course, there will be no savings. By going outside, we would, of course, be able to get some more volume from them. So we would be able to grow. The sustainability would be the same. The risk would be low and the CAPEX would still be somewhere in the middle.

Then we looked as well, is there a manufacturer, a third party we could potentially buy. And then we add that capacity to our network and maybe bring some of our volumes in there. So again, there will be a little bit more savings. There would be possibilities for growth. We would still be shipping around. The risk would be a little bit higher because you never know exactly what you're buying, but there would still be significant CAPEX because you would have to invest in the third party to make it ours and also upgrade some of our own facilities.

Then we looked at, okay, if that 12’000 tons of growth is coming, and we can't produce that. Could we divest parts of the business?

Could we get rid of brands or countries or to make space in the existing network? Of course, that will not give us any savings. It would certainly not help us on the growth. It would also not help us on the sustainability, but the risk would be low and the CAPEX would be also very low, so attractive from risk and CAPEX, but not on the EBIT and the growth.

And another one, which is something which was mentioned by some of you in the past couple of months, why didn't you put the Greenfield in a low-cost market, i.e., somewhere in Eastern Europe, like you have the experience with the factory in Slovakia. The savings would be good, probably the best. The growth would also be very much supported. Sustainability would be still orange because it would mean a lot more transportation towards the core markets where we are now producing and there is not a lot of access to green energy in those areas. And at the moment, for example, on electricity, we already are sourcing only green energy.

The risk we deem is higher because in those countries, apart from Slovakia, we do not have people there. We would have to build up engineers. We would have to attract people over there. We went through a diligent process with some outside consultants, who have been working with in FMCG. It is not so easy at the moment to attract people in those countries and you pay quickly quite a premium to attract people to an unknown company. And the CAPEX will be more or less the same as the Greenfield.

And then the Greenfield, the one we've chosen, it gives very good savings. It enables the growth. It's a big step forward on sustainability, and Marcel will show you later on. The risk, of course, is not green because we're building something completely new with new technologies and the CAPEX is high, and that we realize as well, and that's also why we're organizing this call here today to give you much more insights in the plan.

So where would this leave us at the end of this journey. At the moment, in 2022, we have these 3 factories, and we will move from 3 factories to 1 factory, and that's a lot less cost. In all the stuff you have around your production facility, production lines, you only have that once. At the moment, we have 3 management teams; you would have only 1 management team. At the moment, we have about 30’000 tons of Core Candy and we would have now the possibility to gear up to 45’000 tons, so we could really keep on growing this business. At the moment, there's no room for expansion. What do we mean with that there is just no physical space in or around these factories to put 1 or 2 new lines in there?

The plan, which Marcel will show you, shows that we have ample space, land, to expand if we would even have to go further after 2032, if we just keep on growing and growing. At the moment, we have about 13’000 tons of CO_2 coming from these plants with new technologies and by going away from fossil fuels for a lot of energy consumption, we bring this down to 3’000 tons. And also on electricity usage, you can see we go from 53 gigawatts to 34. So the Greenfield answers to cost savings enable future growth and also a big step forward in our sustainability agenda. And that's why with these 3 together; we really believe this is the right decision.

But in order to give you more insights and details, I would like to hand over to Marcel, to give you a better view of what are we building when and where. So Marcel...

Marcel Mensink

Thank you, Henri. Let's have a closer look at what we are planning to execute. As Henri already mentioned, we are looking to build a facility that enables growth, consolidating the current network and delivering savings as well as contributing towards our science-based target agreement. If we then have a closer look at the new facility, this facility will focus on the core Candy category. As mentioned, that is wine gum and foam, brands like Venco, Red Band and Ahlgrens bilar. What we have secured today is effectively a plot of land in Roosendaal that would facilitate us to consolidate the current network, bringing 3 sites into 1. Beyond that, we will also have sufficient Greenfields, literally Greenfield available to expand beyond what is currently considered the project.

As we are building a new facility, we will with that enable the growth, but we will also bring in and have the opportunity to bring in new technologies that will enable us to reduce the carbon footprint and deliver the savings through the fact that we need less labor in this highly automated facility. While we are consolidating, bringing new technologies in, with that, we also actually enable further innovations that are in the pipeline for Cloetta as a business.

Let's then have a look at what that looks like, and I will zoom into a slide and a graph that Henri showed before. So on the left-hand side, you see the red bars. Those red bars effectively indicate that the current network is full. We are running at the maximum capacity of our network. What we will do during the construction phase of this project is we will try to seek for further efficiencies within the current network as well as work with our strategic third-party suppliers to enable this growth. But then later on, when the red bars turn green and then we're looking at the end of 2024, when this new facility comes on stream, we will start up 2 new lines. And from there onwards, we will be able to facilitate that growth through our own network.

If we then move into 2025 and into 2026, you actually see that the grey bar becomes less. That grey bar becoming less means that we are able then to in-source the current volume that is with our third-party suppliers. And this roughly equates to 3.5 kilotons, and Frans will show you what that means in terms of the financials.

Then further on, when you look to the right, you see that we are increasing the volume produced. This has been done through our current network, the sites that are still then part of this core Candy category by increasing shift pattern, maximizing the delivery through this network. Now then you might question, how are we going to deliver that... those savings? And that's what I'd like to show you here. So point 1, we are building a Greenfield facility. We're building this Greenfield facility, we are able to challenge the current ways of working.

Our current network isn't necessarily set up in the most efficient way. What we will do based on all the latest insights, industry insights, I should say, here available, we are looking to streamline our current setup. And with that, we effectively enable them the possibility to use less labor through those streamlined sites and using technology available that facilitates that. That equates roughly to like-for-like 150 FTEs less in the new facility than we have currently in our 3 facilities that we are consolidating.

Secondly, which is point 2, we are consolidating 3 sites. That would mean, as Henri already said, less management. But with that, also the requirement of indirect cost related to operating those sites. For instance, as an example, maintenance required to run that consolidated site will be less than the money currently spent on those 3 sites, individually. And then thirdly, but not lastly, we will also create savings by producing right first time and using new technologies that in itself enable us to produce less waste or what we call rework that goes back into the process. So that is how we are planning to deliver those savings.

Then if you look at it from a sustainability point of view, as already mentioned, we have a big clean tech box on the sustainable electricity use in our current facilities. But we do expect further savings from this consolidated network and working with our suppliers, which you see in the bottom left and the middle left, working with our suppliers to challenge the current status quo, reducing the units used to produce our products.

As well as and then I go to the top middle, we will seek for technologies that use less gas or move to sustainable sources or even totally engineering out the use of gas in the future.

Also, then I move to the right, is with a consolidated network, we will have less transport movements within the network, i.e., meaning less road kilometres, so therefore, reducing our carbon emission. And then last but not least, by reducing... sorry, by producing, I should say, less waste, you also use less resources to produce that product, meaning less carbon emission.

So then let's look into the timeline of this project. We're standing here 2022. And I do appreciate that we are looking at a timeline up to 2026, and it takes a while, but it is also realistic. Unfortunately, I don't have a magic wand and the ability to say, hey, let's start a new facility today. In 2022, we have, like I said, secured a plot of land through an option with Roosendaal Council.

We are currently going through all the processes that are required before we can put a stake in the ground. And obviously as well, and I should not forget that is we need to reach an agreement with the unions in Belgium because we are closing 3 sites. We are remaining effectively the opportunity trends to bring our current employees from the current sites to the future site, but we also need to take care of those employees that cannot move with us to the new facility.

In 2023, we will start the building of this new facility. And then into 2024, we will bring new lines into that new facility to start production. That in itself, as I showed in the volume graph, will take us up to 2025, and Frans will show you the financials related to that into 2025 to bring this new site fully up and running and then into 2026, we will decommission our current sites and sell off those facilities, but they are owned by us.

So where does this leave us in total? So Henri showed you the top graph. And what I can say here, all the sites will then show green. We will have created a state-of-the-art facility and a network that is sufficient for the future. And we'll be able to deliver that growth. We will deliver the savings through effective consolidation as well as delivering our commitments to the science-based targets that we signed up to.

Equally, and let's quantify that a bit further, we also, with this, will deliver savings, as I said earlier on in one of the slides in the total overhead cost, i.e., maintenance. And that's what you see at the bottom left. So if I project and I would use the last 5 years' figures, and I would project it on to the future, we see a significant saving potential by not having to maintain those facilities that we currently run. And one could even say that going forward, that cost would increase because an older car would require more maintenance than a new car that we would put on the road. Factories are no different to that.

So with that being said, I'd like to hand over to Frans.

Frans Rydén

Thank you. Let us start with the EBIT delivery from the Greenfield. So when we announced the Board's intention in May this year, we talked about adding 15’000 tons of capacity and SEK 160 million to SEK 180 million additional EBIT as a result but not so much because of the capacity added, but because of the efficiency savings and only a minor portion was coming from the growth that was enabled. We also shared that we would be able to in-source products pending further growth, but at the time, we were not able to quantify the value of that.

Today, we're able to quantify the value of those efficiency savings, SEK 135 million to SEK 155 million and also the value of the initial growth of 3’000 tons that has been built-in. In addition, we're able to quantify the value of the in-sourcing, which is the 3’500 tons that Marcel mentioned, for SEK 20 million additional. And we're also able to quantify the value of an additional 6’000 tons of sales, which will come in line with the growth projection that both Henri and Marcel shared to reach consequently an initial saving of SEK 180 million to SEK 200 million, and then within 5 years to 6 years, bring that up to SEK 220 million to SEK 260 million.

Now I also want to talk about what is not included still here. And there's 3 things. 1, and maybe top of mind for many right now are the increase in cost for raw materials and energy. In these savings, we have based efficiency on the cost that existed in 2021. That means that if the increases we see today eventually do not come down to the 2021 level, the savings for the Greenfield will be higher, that is not included.

2, and as you can see on this graph, they are the main outsourced volumes throughout this time period. That is because we have quantified the value of the volumes that are currently outsourced that we would bring-in. Now if it wasn't for the Greenfield and at this growth, we would likely need to seek further outsourcing. Now the cost avoidance of not having to do that is not included.

And thirdly, the 3’000 tons initial growth, the 6’000 tons of more long-term growth and the 3’500 tons of in-sourced capacity adds up to 12’500 tons and not the full 15’000 tons of capacity added. So that means if the growth will come faster, there is further EBIT upside during the time period that we're looking at here.

Now, let's look a little bit closer at the initial savings.

So Marcel spoke about that the plant will be up and running end of 2024 with the new lines and in the first half of 2025 with the refurbished, relocated lines. Now from a financial point of view, we have assumed no EBIT upside in 2024 and only a very minor upside in 2025. And we're also not assuming that we will be able to in-source any volumes until 2026. Now, if we're able to accelerate these time lines, bring the EBIT upside earlier, of course, as we draw near, we will inform you of that.

I can also confirm that the total non-recurring net cost of implementing this of SEK 100 million that we shared in May remains, and I'm now looking at the grey and striped arrows. And this is predominantly relating to what we did in quarter 2 this year, we took an impairment on account of the plants that we're closing, plus provisions, including for severances as employees would leave the business.

Now on the other side of this, which is the arrow pointing upwards, we have the proceeds from selling our plants. Of course, from a timing point of view and cash point of view, these arrows are really much closer to each other because the severances will be paid when we sell the plants, which is roughly when we also will receive the proceeds from selling them.

Also on the CAPEX, on the SEK 2.5 billion that we have spoken about earlier, as Marcel mentioned, the net increase will be SEK 1.9 billion and that's based on the last 5 years' average spend on the plants that we're closing. Now this SEK 600 million reduction, about half of that will come in the next 5 years, but towards the end of those 5 years given projects that are ongoing and the other half will come in the 5 years subsequent to that.

As of today, we are not revising that SEK 2.5 billion. But as you remember, that includes headroom for uncertainties. When we're done with the engineering and the contracting for the plant and also for the machinery beginning of next year, we will be able to revisit this and assess to what extent did we need to use the headroom built-in. What I can confirm today is that the phasing is different from in May.

Originally, we expected to spend roughly SEK 200 million in CAPEX within this year. That will not happen because of the payment terms negotiated for the land where we only do a deposit now, and then that will be paid only beginning of next year when the contract is closed based on receiving the appropriate permits for the manufacturing site. On that note, generally speaking, from a financial point of view, the real commitment will only start during the beginning of next year and quarter 2 next year. Something else that we couldn't share before was how we will finance this.

And I'm very pleased to say that our existing banking group will extend us further facilities, large enough and appropriate enough for this type of investment and what we believe are at competitive rates. So first, there is a new term loan facility of 100 million Euros for 3 years plus 2 extensions, options for 1 year each. And the intent is that this will be a green facility, and we will work through the details with the banks during the autumn.

Secondly, a new backup revolver facility of SEK 60 million for 4 years with a 1 year extension option. We have also agreed that the net debt EBITDA covenant of 4.0 will be increased to 4.5 during 2024 and 2025 when we expect our net debt to be the highest. And with respect to the rates, again, we believe that these are competitive. They are marginally higher than the rates that we agreed with our banking group 1-year ago when we refinanced Cloetta and it's an indication of not only the strength of our business case, but also our long and strong relationship with our banking group.

Now, keeping that in mind those EBIT upsides, the investment and this financing, we project that our net debt/EBITDA will be back to current levels, which is around our target of 2.5 by 2026. We also don’t expect that the ratio will go above 3.5 to 3.8, including in 2024 and 2025. And it's that, we will not require the extra headroom provided in our agreement. Access to financing will remain strong. And in addition to these facilities that we will draw down on, we will have another SEK 900 million accessible plus another SEK 800 million from Cloetta's Commercial Papers program.

Now in this, I'm obviously providing you a projection for the future. And as a company, we tend not to make forward-looking statements, but of course, we believe that we need to serve US investors by providing really good information relating to this decision. So I'm going to come back and talk a little bit more about the projection that leads to this, but I first want to talk about 2 sensitivities that are included on this slide.

The first sensitivity is what would happen if the 3 months EURIBOR rate goes up by 200 bps. That's the first dotted blue line that you see there. And basically, what it tells you is that it would delay our return to targeted leverage of 2.5 by roughly 1 year. The other sensitivity and there we try to keep it really, really simple. In the other sensitivity, we stripped out all the subjective assumptions around organic growth and organic margin expansion.

And we have simply taken the free cash flow on average the last 5 years, excluding acquisitions but including the dip because of COVID. And on that, we've added a Greenfield investment and we have assumed SEK 1 dividend each year going forward.

That results in the top blue line closest to the covenant. But also here, you can see that it's well within the headroom, and it basically would also mean a return to the targeted net debt/EBITDA leverage by 1 year.

So keeping in mind this projection and the same 2 sensitivities; let me show you this from a different angle. So instead of looking at the net debt and the available financing, let's look at the free cash flow, which are the green bars, the SEK 1 dividend in line with the board's now expressed ambition to hold the dividend at the 2021 level of SEK 1. And then the red line shows the cumulative effect of these 2 things. And you can see that it breaches the zero line in 2027, and that means that we are back at the current net debt levels by that year. And you can also see that the sensitivities, the same sensitivities of 200 bps EURIBOR and this sort of non-subjective sensitivity means that we would return roughly 1-year later to current net debt levels.

Then saying a little bit more about this projection. So this projection is not per se what we think will happen, what our forecast is, what our ambition is. It is something that we think is reasonable to assess this investment, and it goes as follows. The same last 5-year average free cash flow, the same Greenfield, the same SEK 1 dividend, but then assuming that the 3 months EURIBOR stays at 1%, where it is roughly today. And then it assumes that our organic growth and organic margin expansion will be similar to what we've seen in the last 5 years and that means 0.7% growth and 0.7% margin expansion, which is what we've done year-over-year if you exclude the COVID dip. Now given that we are in a recovery phase still, I don't think that is overly aggressive, but it is appropriate to assess this investment.

So what does that mean for our road to 14%? Well, obviously, the road took a bit of a bend because of COVID, but I'd like to focus on the fact that we have done what we said we were going to do with respect of the profit for pick & mix in Sweden, delivering 1% EBIT upside on a cost reduction program. And now we're recovering. We'll be recovering volume still, and we're recovering the mix in our branded package portfolio with refreshment. Now we've also added 1 more initiative here, which is net revenue management, where we look at the difference between our gross sales and our net sales and addressing that. And so far, a great response from the organization, lots of insights that will help both us and our customers in the future.

I also want to call out that our current operating profit margin is a little bit artificially suppressed on account of all the pricing that we're taking this year. And I spoke about this in the quarter two earnings release as well. But again, simply put, if you have SEK 50 million in cost and you sell it for SEK 100 million, your profit is SEK 50 million and your margin is 50%.

If cost goes up by 20% and you sell it for another SEK 20 million, your profit is still SEK 50 million but your margin is now only 42%. And that's impacting us this year.

But eventually, the cost will start to come down at least partially, and that will then reverse this and give our bottom line margin a boost from a percentage point of view. When we think about the Greenfield, we're not counting this in because ultimately, we want to deliver absolute EBIT that delivers absolute cash. Now, where the Greenfield fits into this road map is that it will secure and improve on our ability to reach and go above 14%.

Now, bringing that to my last slide, and I started talking about this earlier, that's something about the conservatism that we have in the cost assumption here. So on this slide, you can see SEK 500 million that we're spending on conversion costs on the 3 plants that we will be closing. 57% of that are people costs. Now you could argue that we're closing 3 plants. We're adding 1 new plant so that the new cost should only be one-third of what they are today, but of course, it doesn't quite work that way. This is a larger plant, and we have worked through all the details over the last couple of months. And we're saying that we can save 50% of those costs. That's SEK 140 million per year.

Now every year, employees will get a salary increase. The historical run rate of that is about 2% per year, now that means that the SEK 140 million in savings will be SEK 170 million by 2032, that extra SEK 30 million in savings, we have not built in. But of course, at some point it will become a reality.

Similarly, now some people are talking about a 10% wage increase in 2023. If that would happen, that would add SEK 10 million on the savings from the Greenfield, we are not including that. And similarly, when we look at the increased cost this year, such as on energy, we have based the savings on the cost level in 2021. That's about SEK 10 million. Now if we would apply the cost levels this year, which is roughly twice that level, that would have been a SEK 20 million saving. We're not including that extra SEK 10 million because eventually these costs would reverse. And as they... if they go back to 2021, the SEK 10 million is still true if they stay above 2021 levels, then the savings will be higher. And unfortunately, the outlook for next year, of course, is that they would be significantly higher.

So ultimately, as of now, I think we have quantified some of the things that we spoke of earlier, but I've also shared some of the opportunities to the Greenfield that we have yet not included. But of course, there's also always some uncertainty. But ultimately, hopefully, you will find like we have that this is the right decision for Cloetta despite the current volatile situation.

And with that, I hand over back to Henri.

Henri de Sauvage-Nolting
Good. Thank you, Frans. That was really helpful. I would like to make some conclusions. And of course, given the environment where we are all living in I thought it was good to just do a quick recap on the current short term market view. And we know that the market is instable. We all see the cost inflation.

We see the labor inflation coming. We see interest rates going up. We see issues on energy supply and we see consumers being worried about what is happening to the spendable income. But I would just like to say that we are well positioned to challenge those challenges... to manage those challenges, because we have strong pricing power through our brands and that we have done now in the last couple of months, and I think that is a very strong asset to have. Also, historically, we have shown to have a good cash flow on this business, and that is also combined with access to further financing.

During the COVID pandemic, which was another issue crisis for the whole world, we were quick to adapt our cost structures. And that, I think, is a good ability competence, which this company has. And then I said before, I think we should be very happy to be in categories where consumers keep on consuming. And again, in the recession around 2008, 2009, in 2000, 2001 every time is proven that people keep on eating our products. So we're well placed to manage those short term issues coming towards us.

Then my firm belief is that if you want to be a successful FMCG company with a profit margin above 14% and a good dividend, there are a few key success factors in FMCG. And of course, the first thing is iconic brands, which are well supported with consumers with a high loyalty and giving us the pricing power to mitigate any rise in input cost. And that is a big tick in the box; I'm glad that we have been working in the last couple of years on these brands, supporting them, innovating on them and making them really relevant in their markets.

We also have very strong 1 and 2 market positions that, again gives us scale, efficiencies, pricing power, et cetera. That's also a big tick in the box, but efficient production we don't have everywhere. And this proposal of going from 3 plants into 1 is really building for the future. We would get a big tick in that last box as well. It will be a state-of-the-art platform to produce core Candy.

And it would also in a potential recession or labor cost increases energy cost, it would really help us to mitigate higher labor cost, I mean, 150 people less and a lot more volume into it. Higher energy cost by consuming so much less energy by being very energy efficient.

So I would say this plant is actually helping us also to come out of a potential recession, an inflationary environment in a much better place. Of course, it gives us significant cost savings, it adds production capacity and it helps us on our road map towards the science-based targets. So a really good long term investment, but it is a lot of money. And that we fully acknowledge as well, and that is one of the reasons why we help this event here today to present you more of the details and the upsides and now, of course, to open up for questions for you.

So with that said, Nathalie back to you for the Q&A.

Nathalie Redmo
Now we are ready to take your questions. And as already stated you have 2 different options here, you can either submit them in writing or you can give them a call... give us a call. And you find the details that you need in the browser just below me. But I think we will start by opening up the telephone Conference. So I will ask the operator to please go ahead.

QUESTION & ANSWER

Operator
We will now begin the question and answer session, anyone who has a question may press * and 1 at this time. There are no questions from the phone at the moment.

Nathalie Redmo
Okay. Then we continue to take a question that we have received from the web instead. So one of the questions that I have received here concerns the current macroeconomic environment, and the question is, why are you taking this decision right now given the very current unstable situation?

Henri de Sauvage-Nolting
Yes, I think we've shown that in the presentation that the current economic environment means also a lot of extra cost coming in labor and energy and material and this new Greenfield site enables us to bring those costs down. So I would say it's not only for the long term capacity and savings, but also for the medium term to tackle these kind of issues.

Nathalie Redmo
Thank you very much for that. And then we have another question coming from Stefan Stjernholm from Nordea. So he says fine with large energy savings in new plants. But can you please update us on the expected impact from higher energy prices in H2 and 2023 if current rates stay. Do you have long contracts? If so, when are they terminating, your prices versus cost inflation? And do you expect to be able to fully compensate or will there be a time lag? Would you like to take this one, Frans?

Frans Rydén
So what we've said previously this year was that we are taking all the pricing necessary to offset the cost increases. And as late as in Quarter 2 this year, we said that we expect to be able to offset all the cost within the year. That's not only our tactic, but that's our strategy. So we will continue to price fairly for all the cost increases that are coming.

Nathalie Redmo
Okay. Thank you. We then also have received a question about the inflation effects that I believe you, Henri mentioned at the outset of the presentation, and I believe that you, Frans elaborated a bit on during your presentation as well. But maybe, Frans, you can just clarify a bit the effects from inflation that it will have on savings, as well as, elaborate a bit on the headroom taken for expected cost increases in the CAPEX amount?

Frans Rydén
Okay. Let me start with the CAPEX. So when we announced this back in May, we said that we had taken headroom for uncertainties that existed at that time, that included you know, for costs that would go up of producing... building the site that could include cost for the machinery that included interest rates that we would capitalize as part of the CAPEX. And as of today, we are not revising that amount. What I've said is that once we're closing the negotiation early next year, we will be able to assess if there's headroom that we can release in there, but we're not changing that amount as of now.

With respect to the other inflation here when we're talking about on the savings. So again, it's based on the 2021 level of cost. So when we're reducing that by percentage, going forward, if the cost base is even higher that percentage reduction... the same percentage reduction would give even more savings. Those extra savings are not included in the savings that we're sharing now. So that will be an upside actually to this business case.

Nathalie Redmo

Okay. Thank you very much. Then we'll take another question from the web that relates to the risk. So how do you mitigate risks related to the project, I understand the financing cost, construction cost, et cetera?

Frans Rydén

Well, so there's different types of risk there, of course. But one of the things that we're doing is obviously that we're planning the result very carefully, not only internally but also with the banks to make sure that we have sufficient financing to work our way through this. Of course, we have a finance policy by which we also, you know, we hedge or with swaps on the currencies. So we will continue to work also on that side. But as we presented the numbers here, I believe it's clear that also with those sensitivities of the 200 bps extra EURIBOR rate or without any other growth or margin enhancement we're able to manage this project within the headroom that we have.

Henri de Sauvage-Nolting

And maybe to add to that, of course, there's also a competence we are securing from the outside to help us in particular with the whole purchasing of the land, the permits and the whole building phase of the building because that's not something we do every day, whereas the installation of equipment, production equipment is something where we have a lot of experience. So we also try to minimize risk by getting external competence in to manage that big chunk of money.

Nathalie Redmo

Good. Thank you. So then another question here from the web that concerns the estimated increase in capital employed? And then also a separate question here, whether the board and management will co-invest, i.e., increase the holdings of share in Cloetta same rate as the increase in capital employed. Of course, we cannot comment on the board, but I don't know if maybe you would like to say something on this Henri?

Henri de Sauvage-Nolting

I must say that we do this, because I firmly believe that this is long term the right decision for this company. And that's what triggers me to work my point, point off to make this company a really successful business like we've demonstrated, I think in the growth over the last couple of years. So that's really important, it's a question which we'll have to think about. I cannot give you an answer right now. I think we've all shown that we are investing in this company year-after-year and increasing our share, but it is not the main thing to get me going day-in, day-out to have shares in the company, I have a lot already and we will, for sure, do more.

Nathalie Redmo

Okay. Thank you very much for that. So now we have some more questions here. The payoff time is approximately 10 years, which indicates the technological shift is small, but in excess of 75 kilotons. What about marginal investments then? Would you like to take that one, Frans?

Frans Rydén

Sort of the marginal investments, I'm not sure exactly what is being referred to here.

Nathalie Redmo

That is (unintelligible) you see the question here. We can move on to the second question here in the meantime. So does this reduce possible investments in the chocolate business?

Frans Rydén

No, that's a very different business model, of course, that's the Ljungsbro factory. So it's only for the Ljungsbro factory, where we will have to invest less in capacity, because we produce a lot of foam over there, but that foam can also be produced now in the future in the new plant. So that is certainly something we've looked at, but there's nothing to do with chocolate.

Henri de Sauvage-Nolting

Okay, maybe adding one point more on this. And I'm not sure if I understood the question correctly, but when we're talking about how much CAPEX we will avoid as a result of this investment. You have to remember that over the last 5 years, we have already stepped up our investments. Looking at the spend over those 5 years we can see that 30% of that has been going to these plants that we're closing. That we will, of course, avoid going forward. So it's a factual, but it leaves enough investment for everything else at the same level that we have done it so far. So if that's... if there is room for marginal investments, I would say, yes, within that CAPEX amount.

Nathalie Redmo

Okay. Perfect. Thank you for that. So I believe that we now have a question from the telephone Conference. So operator, can you please go ahead and open up again.

Operator

The first question from the telephone is from Nicklas Skogman from Handelsbanken. Please go ahead.

Nicklas Skogman

Good afternoon. Thank you, and thank you for a very good presentation. I have 2 questions for now to start with at least. So first of all, you have a business today that is currently very low margin, 2% on a rolling 12 month basis. I'm talking about the pick & mix business, it's probably around 30% of your volume today. And you talk a lot about this need or the investment you're doing is a major reason is to expand your volume production capacity. So how are you sort of reconciling spending this amount of money on a business or to help expand the business that's such low margin. That's a question I'm getting a lot from investors.

Nathalie Redmo

Yes. Thank you very much for that question Nicklas. Will you take it Henri?

Henri de Sauvage-Nolting

Yes, I'll start. I mean, there are 2 very important things over here. When we do the segment reporting, we report the EBIT on pick & mix, which indeed at the moment is 2%. I totally agree with you that, that is too low, but as we communicated earlier, our ambition and plans are to bring that up still to single-digit, but a lot higher than where it is now. But this includes all the cost allocations... overhead allocation from both factories and the local markets where we have pick & mix operating. So pick & mix absorbs quite a lot of cost. And so just looking at the 2% and not at the cost it carries is also an important factor to take into account for pick & mix.

The second thing, yes, it is a lot of volume, but a lot of that volume is not coming from Core Candy, there is a lot of other brands we sell, there is a lot of other suppliers, which are delivering products to us, which we cannot produce. And so on average, I would guesstimate now very quickly. We talk about 6’000 tonnes or so. Of course, 6’000 tonnes, 7’000 tonnes of Core Candy, which we have over there. It's difficult... so that would answer the question, getting rid of all pick & mix would only deliver us 6’000 tonnes of Core Candy production, but you would lose all the rest as well. So... it is not a wise decision to take, because we would lose a lot more than just the 2% EBIT.

Nathalie Redmo

Good, any further questions from you, Nicklas?

Nicklas Skogman

Yes. The second question was on the prices that you have in your calculations in regards for the plot of land that you're buying and also the properties that you're divesting where you have your current factories, have those prices been locked in?

Henri de Sauvage-Nolting

Marcel?

Marcel Mensink

Yes, I can answer that. So yes, we have a agreement with the council in Roosendaal with regards to the buying of the plot of land. So that is included in the business case, explained by Frans earlier on, as well as, the selling of the premises in turnout and Roosendaal or the Roosendaal, but only one of those sites is our own. And we're in talks with the council to move there, the current permits that lie on that piece of land being industrial to residential.

Henri de Sauvage-Nolting

Which would increase the value of that.

Marcel Mensink

Which would increase the value, obviously, of that plot of land. Yes.

Nathalie Redmo

Thank you very much, Nicklas. Do you have any further questions?

Nicklas Skogman

No. Thank you.

Nathalie Redmo

Okay. Thank you very much. Operator, do we have any other ones in line calling in?

Operator

There are no more questions from the phone.

Nathalie Redmo

Okay. We have one more on the web here. What are your thoughts on the idea of synergy between brands under the Cloetta umbrella, the brand Jelly Bean Factory, Candy King is quite in the shadow. Is there any plan on investing more on this particular brand in other countries? Is that a question for you, maybe, Henri?

Henri de Sauvage-Nolting

Yes, that's fine, I mean, in the end, the consumer decides. Yes, so the consumer decides which brand and how we support it. And of course, all these brands are part of a manufacturer, you could say, which is Cloetta... but put in Cloetta on all our brands is not always the wisest thing to do, because it is not a brand which is everywhere that well known. So if we look at the Jelly Bean Factory as an example, we sell a lot of that in the UK and international market nobody knows what Cloetta is over there. And it will be expensive to have both Cloetta and Jelly Bean Factory as a brand. So we focus on the consumer, and we communicate the brand which they like, and in the example of Jelly Bean Factory, it's a very premium brand, and we need to build that even further and we do not do that under the Cloetta brand umbrella.

Nathalie Redmo

Thank you very much, Henri. So back to you, operator. Are there any further questions on the Conference call?

Operator

There are no questions from phone.

Nathalie Redmo

Okay. So thank you for confirming. So that was then the final question, and that concludes today's session. Thank you very much for listening in. The presentation, as well as, the recording of this webcast will soon be available on cloetta.com. And of course, if you have any further questions, you are always welcome to reach out to us. Thank you very much for being with us today. Good afternoon and goodbye.

Henri de Sauvage-Nolting

Thank you.

Operator

Ladies and Gentlemen, the Conference is now over. Thank you for choosing Chorus Call and thank you for participating in the Conference.

- END -