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Cloetta
Q4 Interim Report Presentation

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COMPANY REPRESENTATIVES

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PRESENTATION

Lindholm, Laura

A very warm welcome, and thank you for joining Cloetta's Q4 Interim Report Presentation. I'm Laura Lindholm, the Director of Communications & Investor Relations. Our CEO, Katarina, and CFO, Frans, will, first, go through our results, after which, we will move to the Q&A, where you, as per usual, either have the possibility to dial in and ask questions live, or alternatively, post your questions to the chat. The chat is already open, so you are already free to post your questions. Over to you, Katarina.

Tell, Katarina

Thank you, Laura. So, I'm super-proud to present an exceptionally strong quarter, which ended a very strong year with continued profitable growth. But before we dive into the details, first, over to the agenda. Today, it looks as following. I will start with an updated company overview, reflecting the results from 2024, and then I'll move over to our Q4 highlights. Our CFO, Frans, will walk you through both our Q4 and year-to-date financials. And after that, I will shortly highlight a few things related to our strategic priorities, and then, as always, we wrap up with a Q&A.

So, I would like to start by sharing a brief description of Cloetta that also has been updated to reflect the result of 2024. We are a leading confectionery company in Northern Europe. We are proud how our loved brands and products bring joy to memorable occasions. Our primary goal is to always be consumer-centric, as we are convinced that this is the basis for us to grow and our leading brands to flourish. I have more than 2,600 colleagues at Cloetta, and we have sales in more than 60 countries.

Sweden continues to be our largest geographical market, followed by Finland and then the Netherlands. But I'm also pleased that, during 2024, Denmark and Germany have increased their share of our total sales, compared to last year. In terms of product categories, candy is our most significant one, followed by chocolate. Pastilles and chewing gum stand for a bit less, 14% of the portfolio, but they are an important category, as they contribute to a profitable mix.

We focus on developing leading brands. Ten of our brands account for 50% or more of our net sales, and we have two reporting segments. Branded Packaged Products is what the name implies, all our packaged branded products. Pick & Mix is candy and natural snacks that are picked by the consumers and are primarily sold to our CandyKing brand. In 2024, Pick & Mix grew by two percentage points and now accounts for 28% of our total sales.

As previously mentioned, we had a very strong quarter with continued organic growth, and we are further strengthening the profit, and I'd like to highlight some key takeaways. So, we continue our strong growth, both annually and quarterly. In Q4, we delivered SEK 2.3 billion in net sales, which is equal to 5.7% organic growth. And during the year, we reach an SEK 8.6 billion, which equals to 4.7% organic growth, while we also continue to strengthen our profit. The total volumes were stable, whereas Pick & Mix grew faster than the Branded Products.

As mentioned, in both Q2 and Q3, Pick & Mix, as category, is the fastest-growing confectionery segment in the Nordics. In our last report, we flagged for the high cocoa prices, and at the same time, we took on the challenge to continue to deliver double-digit adjusted profit. And I'm very pleased to say, we more than met this challenge and reached an adjusted profitability of 11.3% in the quarter. The positive profitability was impacted by higher gross profit, even if it was partly offset by increased marketing investment in our core brands.

And I'm also happy to, once again, share that the net debt/EBITDA is, again, well below our long-term target and landed at 1.3. And the dividend proposal is SEK 1.10, and it's in line with our policy and target. So, now it's already time for the financials, and I hand over to Frans, who will walk you through both our Q4 and full-year financials.

Rydén, Frans

Thank you, Katarina. So, if any of you looked at our organic growth, and then you wondered if you accidentally picked one of our old reports, then I can understand why. So, in quarter one 2024, we grew, organically, 5.7%. In quarter three 2024, we also grew, organically, 5.7%. And now, for Q4 2024, we are, for the third time in one year, reporting an organic topline growth of 5.7%. So, this is really a coincidence that the growth is exactly the same. What is not a coincidence is that this is our work reflected from investing and building our core brands and in-store execution muscle, and that is continuing to pay off.

Now, the 5.7% organic net sales growth in the quarter is driven by an improved and respectable 1.6% Branded Package growth and an outstanding Pick & Mix growth of 17.3%, then partially offset by the fact of the sale of the Nutisal brand. Let me comment on that, as I also did in prior quarter, to understand how our continued business is doing. By organic growth, I mean our ongoing business, excluding Nutisal. In accordance with the relevant accounting standards, comparable numbers have not been restated for the sale of the brand. And going forward, you will also continue to see that we report sales on the nuts category, even that we will continue to sell nuts as part of our Pick & Mix segment.

Now, total sales of 2 billion, 285 million make this quarter our sixth consecutive with sales above 2 billion. And it brings, as Katarina mentioned, our full-year net sales to 8.6 billion. And that makes 2024 our first full year of sales where we are closer to 9 billion than what we are to 8 billion. And that is on a reported full-year 3.8% growth, given an organic 4.7, less the 0.9 due to Nutisal, while, on the full-year basis, the currency effect was zero.

Let's look at the organic sales over time by segment. So, starting with the Branded Package sales on the top, 1.6% up. And you can see that we have been edging that gradually upwards the last few quarters, from 1.2% to 1.4% and now to 1.6%. Now, in that growth, there are some important dynamics, which really become visible in the profitability. And I would just summarise that in one word, and that is mix. We flagged, earlier this year, on the rise in cocoa prices and how we were going to do everything we could to manage through the hit of that. And, as Katerina said, we did.

Firstly, we de-emphasised sale of chocolate in quarter four, choosing to put our focus and trade activities instead on our other categories. And that is something that is probably unique to Cloetta. We are the only major player with a diverse confectionery portfolio, where we have leading or strong positions in packaged candy, in chocolate, in pastilles and gum and in pick & mix, and certainly, we’re the only listed company with such a stable and diverse portfolio.

Now, we're not giving up on chocolate, not at all. But those cocoa costs will be a better match to our revenue as our new pricing fully kicks in. Secondly, and on the note of strong sales, in quarter four, we continued to invest strongly in the long-term health of our brands, moving at similar levels, as we've said before. That's something I also flagged back in Q3. Now, we did scale back, selectively, some of the more tactical promotions to strengthen the bottom line. In total, actively managing our trade spend in the quarter, given the cost pressure, gave us what I would call a little bit of a one-time extra help.

Now, finally, on the mix, I'm also pleased to say that, while our pastilles volumes were slightly down versus last year, our efforts here around Läkerol and Mynthon and other brands and helping our customers build better sales in their stores, moved in the right direction. And Q4 sales development was better than year to date, and a decline, year to date, turned into a growth in our biggest markets. And looking at it from a volume perspective, I've commented on this in the past as well, our Branded Package volumes were down about 700 tonnes, but the majority of that was in chocolate.

At the same time, our Pick & Mix were up almost as much as the Package were down.

So, again, we're pleased to report stable volumes, and again, a result of continued investment in the brands, our fair pricing approach that allows our customers to continue to really attract shoppers. With respect to the Pick & Mix segment on the bottom, the lower half of the slide, up 17.3% on those volumes, recording another quarter of highest-ever net sales. Still, for Pick & Mix, of course, the concern has long been the profitability, so let's look at that instead.

Firstly, profit versus last year, total company. Note here that the first column there shows the much stronger volume mix in the quarter, up 15 million, where year-to-date Q3 had a decline. So, this has been turned into positive territory. And obviously, we’ve spoken about the mix. So, despite Q4 volumes actually being softer, it is favourable. Now, that extra 50 million brought EBIT margin, probably from mid 10% to over 11%, and we are incredibly pleased with 11.3%. The performance brings our full-year margin to 10.6%, up about 100 bips versus 2023.

And with extra help from the net revenue management, you could assume that maybe some of that 11.3 will shave off when we start 2025. Still, there are some points to make here. Firstly, we’ve said we’d do everything we could to offset a higher cocoa cost, and that sustaining year-to-date, double-digit margin was a good challenge that we were embracing, and I'm happy to say that. And we did that also, if not factoring in anything extra from managing around the trade spend. So, it's promises made and promises kept.

Secondly, we have improved our margin 300 bips the last few years, of which, about half in the last year alone. So, despite the negative effects of compression, what we are doing is working. And importantly, in absolute terms, 258 million in the quarter is our highest quarterly profit ever. And the rolling 12 months, so last full-year profit, is also the highest ever. That brings us to 910 million on the full year, and as you can see, without any aid of currency translation. So, if I'm looking for another good challenge with Katarina, I suppose, the next milestone would be to get to 1 billion in annual operating profit.

Now, you also see that the price versus cost is saveable here. And speaking of fair pricing, let's understand this by looking at the segments, one over the other. So, considering, then, price versus cost and looking at the Branded Package profit, it is very clear that the total company step-up is not driven by gains in pricing at the expense of our consumers or customers. That said, we are pleased to have, let’s call it, bucked the trend, and show a quarter with profit up on the branded side, and that the margin is above 13%.

We will continue to focus on margin-recovering initiatives here, be they in pricing, promotional efficiency, accretive innovation in supply chain, while continuing to invest in the long-term health of our brands, given that we are still a bit behind where we used to be. Now, instead, the Cloetta step-up is again coming from Pick & Mix, where we delivered yet another quarter in line with our margin target of 5 to 7%. As mentioned before, we worked for a long time to correct this profitability in Pick & Mix, and for a long time, a lot of that was not visible externally, due to increasing input costs.

But now we have four consecutive quarters with profits inside that range, even efficient merchandising, improved product assortment, improvement around fixtures, and also pricing having caught up, on top of healthy volume growth. Now, moving to the net side of SG&A. So, that is, again, driven by salary inflation for our employees, both in services, while marketing spend, we have continued to drive. The country and regional mix of Pick & Mix sales also led to an increase in merchandising cost above that of the volume increase.

Although, clearly, as you noted, it has been managed within the overall P&L for the Pick & Mix segment. Also, in total, we are managing to offset the higher costs in the rest of the P&L, although the spend of NSD is higher than where we want it to be. And as mentioned also earlier, this is an area where we are now further increasing our focus. I could also mention here that Easter in Sweden is a lot about candy and pick & mix, and there now, in 2025, that holiday is almost three weeks later into quarter two than it was in 2024.

And that will affect the timing of the selling for Easter, of course, in line with our normal seasonal pattern. It could also affect, a little bit, on how we spend on the A&P. That said, though, I can flag here that we will step up spend on our core brands also in Q1 2025, to ensure to support the long-term continued volume growth.

Then on the waterfall here of 14%, so while our profit is up and our margin is up, including the 300 bips since the pandemic, there is some way to go before our target of 14%. It is partly due to the compression effect of the fair pricing, and partly with the need to strengthen the mix in the Branded Package segment. Still, given the decision to put the greenfield on hold and reassess the project and alternative options, and as we flagged, for an Investor Day, I think I will come back to this bridge a little bit later in the quarter.

Coming then, instead, to our cash flow, we are, again, reporting a very strong quarter. We're delivering SEK 264 million of free cash flow on a profit after tax of 158 million. So, that's a pretty strong 167%. Now, you can see that Q4 last year was an even stronger quarter.

So, let me break this down. Firstly, as you know, there is seasonality in our cash flow, where we tend to generate most of it in the back half of the year. And in 2023, about 80% of the free cash flow was delivered in Q4 alone, whereas this year, less than half of the full-year free cash flow is delivered in Q4.

So, it's more, you get a truer picture when looking at the full year, and there it is clear that our cash flow is stronger this year, SEK 602 million, up 106 million versus what we did in 2023. Now, the free cash flow, of course, and this does not include any of the proceeds from the divestment of the Nutisal brand, that comes on top, part of the improvement is due to the efforts to increase the focus on cash generation. And part is due to the inflation having slowed down somewhat and working capital not increasing, despite the increased sales.

And despite that, inventories were not materially down during the quarter. On the capex, 44 million is on the lower side of our historic spend, due to several contributing factors. It's partly phasing of spend, and to some extent, as plans affected by the preparation for the greenfield, and that the project is under review. Regardless of the outcome of the reassessment, we will revert, in the Investor Day, with new input around our long-term capex expectations.

So, for my final slide, and I really like ending with this slide, not only does it make sense being, in a way, the outcome of the sales and the profits and the cash, but it also tends to allow me to always end on a high note. So, again, we closed the quarter with a net debt/EBITDA well below our target of 2.5, at a lowest-ever level of 1.3. And you can see this in the graph to the left, the red line, our leverage consistently trending downwards with a few bumps only for the dividend payment in Q2 each year.

Now, new for this quarter is that the absolute net debt, so not only in relation to the EBITDA, but in absolute terms, is also at an all-time low of SEK 1.6 billion. Thirdly, we continue to have access to a significant amount of additional unused credit facilities, commercial papers, and we have cash on hand totalling 4.3 billion, of which less than half, €160 million, are facilities made available for the greenfield now on hold.

So, if we had one more quarter, I would conclude that our financial position continues to be very strong. And I believe that the Board's proposal for an increased dividend to SEK 1.10 is well founded. And with that, back to you, Katarina.

Tell, Katarina

Thank you, Frans, and then I would like to give a few highlights related to our current strategic priorities. So, as mentioned also by Frans, I would like to start with an update on the greenfield plant project. So, in Q3 this year, we announced that we are putting the greenfield plant project on hold, and this to reassess the plant and other options. This we did, due to the increased risk related to the energy supply, which also impacted on the timing of the plant start-up. The project is still in an early phase, and the investments are, so far, relatively limited.

So, also, what is important to understand is that the reassessment is done in the light of everything that has changed since 2022. Our ambition is, of course, to accelerate the profitable growth, and there are opportunities in our network to compensate for the volumes that, in the mid-term, were planned to be produced by the greenfield. We will come back to the result of the reassessment, at the latest, by the end of this quarter.

So, and as maybe one can expect, when a new CEO takes over, we have, of course, during the past month, in the Group Management team, been working on what the long-term way forward for us at Cloetta should be. So, I really look forward to diving into this topic in our upcoming Investor Day, held in Stockholm on 27th March. You have all the info you need, related to the event, on the website, and I really look forward to seeing you there. And this concludes this update, and we now move over to the Q&A.

Lindholm, Laura

Thank you very much, Katarina, and thank you, Frans. It's now possible to either dial in and ask questions live, or, alternatively, post your questions through the chat. So, let's, first, check if we have any questions on the telephone lines. Operator, over to you.

QUESTION & ANSWER

Operator

Ladies and Gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may press star, followed by one on their telephone. You'll hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue, press star, followed by two. Questioners on the phone are requested to disable the loudspeaker mode while asking a question. Anyone who has a question may press star and one at this time. At this time, we do not have any questions. Back over to you.

Lindholm, Laura

Thank you very much, Operator. So, we have quite many questions, either sent in the chat, or then actually, a few also sent in before we even started. So, let's start with the first one, comes from Stefan at Nordea. What amount of sales in the US in 2024? Do we have to wait until the CMD for a capex forecast for 2025? If not, what do you expect? And then a second question, High input prices you compensated in Q4. Can we expect the same in the coming quarters, or is there a potential to delay the impact?

Rydén, Frans

So, I can take that. First of all, I'd love to share our US numbers, but so far, what we're saying, it's not a big part of our business, but it's certainly an opportunity, and it's a huge market. And where we do have the business there, we are up about 30% in the year of 2024. And with respect to the capex forecast, yes, I think this question was probably before I went through the cash flow. And yes, on the Investor Day, we will provide an updated view on capex going forward, which will then, of course, also follow with the decision around the outcome from the reassessment relating to the greenfield. So, they, sort of, go together, obviously.

On the high input prices, can we expect the same in the coming quarters, or is there potential of delay in the impacts? So, I think, if you ask me on what will happen on the cost side, I would say that, of course, no one exactly knows what happens on the cost. I think that a fair answer is to say, I expect that we will be able to continue to manage this in the same way as we have done previously, which is that we are continuing to strengthen our profit in the company. And now, there is often a bit of a delay between when costs move up and when the pricing is implemented, but we also have other tools to help manage that gap.

Lindholm, Laura

Excellent. Thank you, Frans. And we continue with Nordea. Do you expect marketing investments to be up, year on year, also in 2025?

Rydén, Frans

So, for quarter one, yes, we will continue to do that. But also, as we've done in prior years, we are quite light on the finger, and we're seeing what happens with the volumes, what our competitors are doing. And when we need to push a little bit harder, we do that, and when we're holding back, we can do that. But year over year, we have been increasing the marketing spend. So, if past is prologue, then we will continue also throughout 2025 on a total basis.

Lindholm, Laura

Thank you. I have, then, a question from one of our shareholders. How should we think about high cocoa price going forward? When should it affect your margins negatively?

Rydén, Frans

Yes, so, obviously, we managed this in the quarter, in quarter four, and we managed this also for the full year. Now, cocoa costs have been continuing to go up, but I think, again, the short answer is, you should expect that we are able to manage this.

Lindholm, Laura

Excellent. And then we have some questions from Danske Bank. Yes, how do you expect cocoa prices to affect Cloetta in 2025? And I think we answered that. Yes, nothing to add on that one. We take the next one. What can be done to further strengthen the margin? Is there room for higher prices? And this is referring to the Pick & Mix segment.

Tell, Katarina

We continue to work with Pick & Mix and always try to strive to do it better and improve the margin. But I believe the greatest opportunity we have now with Pick & Mix is, we have created a repeatable model, and the possibility for us to enter into new markets and the customers with this concept.

Lindholm, Laura

Very good, thank you. We continue with Pick & Mix. In which region is Pick & Mix growing the most for you?

Rydén, Frans

So, the wonderful thing is, actually, every country in the Nordic market is growing, double digits. So, it is really a bit of a trend. And in some ways, as you might have heard Katarina say in an interview, that even in the US, you see this. So, it is an interesting trend, and it's interesting that we now have a repeatable model where we can make a decent profit on this that we can then expand with.

Lindholm, Laura

Thank you. And then the final question from Danske Bank also related, a little bit, to the previous one. You were talking about the USA. If you were to choose to invest more in this region, what would that require, in terms of investments?

Tell, Katarina

Well, we are in a very early stage in the US, and so, we are still in an investigation phase. So, when we know that, we will come back, but currently, we are investigating how it looks.

Lindholm, Laura

Excellent. Thank you very much. And, Operator, just to check, do we have any questions on the telephone line?

Operator

No, we do not have any questions from the telephone line.

Lindholm, Laura

Very good. I think that concludes our Q&A. We take the opportunity to remind everyone of our upcoming IR events. Our next report, Q1, is published on 7th May, but before that, quite a lot is happening. So, the Annual Sustainability Report is published on 11th March, followed by the AGM on 10th April. Katarina, of course, already mentioned the Investor Day, and I really share her excitement for this event. And we really hope that many of you have the possibility to join us, either physically or digitally.

And then our first seminar, following the Investor Day, will be the Handelsbanken Nordic Small & Mid Cap Seminar, which will be held in Stockholm in June. Before we meet again, we, of course, hope that you get the chance to enjoy our products during many, many, many joyful and memorable occasions. Thank you very much.

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