2019 Interim Results Presentation

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Overview

Simon Litherland

Chief Executive Officer, Britvic

Good morning, everybody, and welcome to our interim results. Before we kick in to the presentation, if I can just introduce you to Chris Hancock, who is our Strategy Director for those of you who do not know him. And Chris will be leading the financial side of the presentation today.

Strong Performance and Progress against Strategy

So as you will have seen in our results release this morning, I am really pleased to say that we have delivered another strong performance and we continue to make progress in delivering our long-term strategy.

We posted organic revenue margin and earnings growth, as well as brand contribution growth in each of our markets. In GB, we have delivered revenue growth in both carbonates and stills and all three of our major stills brands are in revenue growth at the half year.

Our Business Capability Programme is on track to complete at the end of the year. And this transformational programme is already delivering both cost and commercial benefits and provides us with a modern supply chain for the longer term.

ESG and our non-financial performance has always been core to our strategy. And this year, we have continued to make progress against the three pillars of Healthier Everyday Programme. We also continued to invest in our brands through marketing campaigns and brand development and we are successfully building our categories through innovation.

I am really proud of the Britvic team and how we continue to grow our business in the right way, both in the short term and for the long term.

GB Carbs Successfully Navigated the SDIL

GB soft drinks, and in particular, the carbs category has proved to be extremely resilient in the face of the introduction of the UK soft drinks levy in April last year. The levy has accelerated the existing consumer trend towards low and no-sugar variants, resulting in double-digit volume declines in full sugar and strong growth in low or no-sugar products. And we expect this trend to moderate as we lap the introduction of the levy.

Britvic was leading growth in low and no sugar brands well before the levy, with ten years of growth to build on and this year is no exception, with every one of our core low and no sugar variants in double-digit revenue growth. Pepsi MAX has added more incremental value than any other cola variant and gained value share, while 7UP FREE has done the same in the lemon and lime category.

R Whites growth is led by the on-trade and Tango also performed well, even ahead of our planned relaunch.

GB Stills Revenue in Strong Growth Driven by Robinsons

Tuning to our GB stills' performance, Robinsons continued to drive strong revenue growth through premiumisation. This strategy is working. We are growing market share and growing the category, and both Creations and Cordials are driving positive price mix.

We have also capitalised on our improved brand strength to take price across the core range for the first time in several years. Encouragingly, brand penetration is 600 basis points higher than this time last year, as we attract new consumers into the Robinsons franchise.

Furthermore, existing consumers are buying more and trading up into Creations and Cordials. In the dilutes category, Robinsons squash revenue has increased by 9% this half and we have now delivered four consecutive quarters of growth. In addition, we continue to broaden the shoulders of the Robinsons brand through new formats with the ready-to-drink refreshed growing revenue 37% in this half.

Brand Contribution in All Geographies

I am pleased to report that we are seeing brand contribution growth in all our other geographies.

Brazil

In Brazil, we have delivered a particularly strong performance in a still volatile market. We are seeing signs of market conditions improving and we are cautiously optimistic on that score. As I think you know, the Bela Ischia acquisition has been fully integrated and has delivered synergies ahead of guidance and has enabled us to expand our market coverage.

Across the portfolio, we are being highly proactive on price and mix management and we are seeing growth in both core and new brands as we execute strongly in the store.

Ireland

In Ireland, we have been highly disciplined in our revenue management over several years and have continued in 2019 to move our promotional pricing forward. The introduction of the sugar tax initially resulted in strong growth in low and no-sugar brands and declines in regular variants. This has now begun to stabilise.

Revenue from our soft drinks portfolio has increased with strong growth in Pepsi MAX, MiWadi and 7UP FREE. We have, however, faced challenges in our Counterpoint wholesale business, where we have seen a softening in alcohol sales for the on-trade.

France

In France, we are proactively managing mix, price and cost of goods, which is having a positive effect on brand contribution. Teisseire syrups are back in revenue growth, and at the same time, we are taking steps to protect profitability and margin across our French business overall. The French retail climate has remained challenging, however we have successfully navigated the latest round of customer negotiations and look forward to an exciting programme of marketing activity this summer. We continue to manage the decline in private-label sales as we focus on our higher margin brand portfolio.

International

And finally, our international business is performing well. We have seen a very strong performance from Teisseire Zero, taking 140 basis points of value share in the Netherlands as we grew our retail value by over 60%. Our travel and export business grew, as we secured new listings and increased export sales. And in the USA, Fruit Shoot revenue increased, benefiting from the extended presence in Walmart that was secured this time last year.

Business Capability Programme will complete by End 2019

As you know, we have been working hard to transform our supply chain throughout Business Capability Programme. And I am delighted to report that we will complete the project on time at the end of the year.

Since starting this journey in 2016, we have installed six new PET lines, three new can lines, one new fully aseptic line and we have also built new onsite warehousing in Leeds and London. In Rugby, we have completed the fully automated warehouse and commissioned our new combined heat and power plant.

By the end of 2019, we will have completed the commissioning of the last three lines there and closed the Norwich site. We are on track to deliver the planned cost benefits and we are also benefiting commercially from the pack-and-price flexibility these new lines offer by unlocking opportunities across the portfolio for different channels and customers.

In addition, our BCP programme is delivering significant environmental benefits. We have reduced our manufacturing carbon emissions by 14% this year from our more efficient lines and we will reduce road miles by producing closer to the point of demand and making use of our new onsite warehousing.

A Healthier Everyday – Championing Sustainability

Staying with sustainability, we are prioritising the importance of building credibility and trust with all our key stakeholders. In 2017, we launched our Healthier Everyday Sustainable Business Programme, which is based upon three pillars: healthier people, communities and planet.

Healthier People

We want to make it easier for consumers to make healthier choices. In GB, we have reduced the average calories per serve by 17% so far this year, with absolutely no compromise on taste. This is a fantastic achievement, meaning that today around 90% of our total GB portfolio is now exempt from the soft drinks levy.

Healthier Communities

We continue to develop our employee experience with renewed focus on diversity, inclusion health and well-being. We are now on the top 20 of the Great Places to Work league tables in both GB and Ireland, and we are doing well elsewhere. We are also making great strides in our new partnership with Diabetes UK, supporting programmes to help children with Type 1 diabetes and their families. In the first half, Britvic employees have raised over £100,000 for Diabetes UK.

Healthier Planet

In terms of our healthier planet, in addition to our BCP programme, we continue to take steps to reduce the environmental impact of our packaging. We were one of the first signatories to the UK Plastics Pact this time last year. And since then, we have removed more than 600 tons of plastic packaging through light-weighting both bottles and labels.

All our plastic bottles are recyclable and we are encouraging consumers to recycle through on-pack messaging and TV ad taglines. Going forward, we are looking to significantly increase the use of our recycled PET across our portfolio.

And finally, we continue to work in partnership with government and industry on the various public consultations that are in-train[?]. We welcome the opportunity to shape the future approach to producer responsibility that will further reduce plastic pollution in the right way.

New Innovation and Brand Development to Drive Growth

We are maintaining our focus on innovation, one of our core revenue growth drivers. We are constantly innovating across multi categories and the images on this slide illustrates just some of the innovation and brand development work that is new to market.

In terms of extending our core brands, building on the success of Pepsi MAX Cherry and Ginger, we recently launched a raspberry variant and the initial response has been very positive.

We are launching limited-edition flavours of Creations and Cordials for the summer, including the Wimbledon-inspired strawberry, cucumber and mint. We are expanding the Teisseire Fruit Shoot brand into flavoured water with the launch of Hydro in France.

Tango, our iconic fruit carbonates brand is also about to be re-launched in GB. And elsewhere, in France, we are adopting the 'good, better, best' strategic principles of premiumisation to Teisseire with a healthier Fraicheur de Fruits 85% juice and bio ranges.

And finally, we continue to nurture the emerging brands of Purdey’s Aqua Libra and London Essence with new flavours and pack formats. It is still early days for these amazing brands and they are small in the context of the Group, but we are encouraged by the progress that they continue to make.

Summer 2019 Marketing Campaigns Review

As we head into the key summer trading period, we have a strong programme of marketing campaigns ready to engage and excite consumers. We are repeating the Pepsi MAX Taste Challenge that was so successful last summer. We consistently outscore the competition because we know consumers prefer the taste of MAX to any other cola.

Fruit Shoot has a brand new campaign, Fruit Shoot for the Moon, enabling kids to win their dream thing. And Purdey’s will hit the screens with a brand-new campaign, Energy As Nature Intended, capitalising on the brands all natural credentials. And meanwhile, our cheeky alpaca, Mojo, will reappear to support J2O’s summer activity.

Of course, summer is not summer without Wimbledon. And this year we are activating a broad campaign highlighted here by Robinsons Refresh’d. In France, we have signed a new partnership with the National Forestry Office that will be activated by Teisseire syrups. While in Ireland, we have a range of marketing campaigns with the MiWadi zero-sugar activity highlighted here.

Time to Tango

And finally, I am sure you will be familiar with Tango and how it has quite a history of disruptive marketing. The fruit carbs category has clearly been benefiting from the industry levy. And at the brand level, Tango is already posting double-digit growth, as you saw earlier. We have recently launched the new pack design and range of sugar-free flavours and we have a multi-channel advertising campaign ready to roll. Let us take a look at one of the TV spots.

[VIDEO]

Britvic: A Flexible, Cash Generative Business Confident of Future Growth

Okay. So I am really pleased with the first half performance and excited about what we are going to bring to the market this summer.

But taking a step back, you have heard me say many times of the years that soft drinks is a highly robust and resilient category. It continues to grow both in value and volume, even in our mature markets. Consumer trends continue to change and this creates opportunity for growth.

Britvic is well-placed to capitalise on these opportunities through our portfolio brands and our strength in bringing them to market.

So let me now hand over to Chris to take us through the financial side of the presentation.

Financial Review

Chris Hancock

Strategy Director, Britvic

A Strong Financial Performance

Thank you, Simon. Good morning, everyone. As you will have seen from the RNS this morning, we have delivered a strong first half with organic revenue, margin and earnings growth, underpinned by disciplined approach to revenue management.

Organic Group revenue increased 1.9%, organic EBIT margin expended by 30 basis points and adjusted EPS increased by 5.2%. With our improving free cash flow and confidence in the full year, we have declared an interim dividend of ₤0.083, which is an increase of 5.1%. In previous years, the interim dividend has typically represented around 30% of the full year payout.

As you will be aware, interims are a working capital high for us ahead of the key summer trading period. We have reported adjusted net debt to EBITDA of 2.4 times, an improvement on this time last year.

Business Unit Highlights

So for the business unit, let me call out some of the highlights from the first half.

GB Stills

GB stills revenue increased 4.9% with Robinsons Fruit Shoot and J2O all in growth. The ARP increase reflects the price movement on the core Robinsons range, as well as the success of Robinsons' premiumisation and J2O growth.

Brand contribution increased 5.7% as a result of the favourable brand mix and strong price realisation, while also absorbing an increase in A&P spend.

In the second half of the year, we will lap the introduction of the new Robinsons ranges and the impacts of the carbon dioxide shortage when we switched activity from carbonates to stills last summer.

GB Carbs

GB carbonates revenue grew 2.2% due to revenue management of promotional mechanics and favourable pack channel mix, with ARP increasing 7.2%. Volume declined 4.5% against a strong comparative last year, which included trade stock loading ahead of the introduction of the levy.

Brand contribution and margin declined due to a combination of cost of goods inflation and a significant increase in A&P spend, as we reversed the delay in spend due to the levy introduction last year.

Ireland

In Ireland, both brand contribution and margin increased, while ARP grew by 4.1%. Volume declined as we focused on value over volume. For example, for Ballygowan, we increased promotional price points for large packs. Ireland also introduced the sugar-sweetened drinks tax last year with trade buying ahead of the original implementation date of April 2018. The main driver of the revenue decline was a fall in alcohol sales through the Counterpoint wholesale division.

France

In France, we delivered an ARP improvement as well as brand contribution and margin growth through proactive management of price and cost of goods. The positive mix was due to growth in higher-margin syrups versus a managed decline in private label. Fruit Shoot declined as intense competition in the grocery channel continued.

Brazil

Performance in Brazil was strong as we lapped a weak comparative last year. Volume increased 1.5%, led by growth in the ready-to-drink portfolio. ARP increased 6.6%, resulting in revenue growth of 8%. Brand contribution grew while margin declined, reflecting both increased cost of goods inflation and increased A&P spend in areas such as on-pack promotions and in-store sampling.

International

And finally, international. Pleasingly, each of the sub-channels generated revenue growth. The travel and export channel benefited from new account wins and increased sales to overseas markets. In Benelux, growth was led by Teisseire, particularly the no-sugar, zero range in Holland. And in the USA, Fruit Shoot revenue increased due to the expansion in Walmart last year, which we will now lap in the second half. With A&P spend in line with last year, both brand contribution and margin increased.

Modest Increase in Overheads Due To Investment in A&P and Selling Costs

Overheads are modestly ahead of last year. We have, however, continued to focus on driving cost efficiency to enable us to support reinvestment behind our growth drivers. This half we have invested more spend in A&P, which is largely phasing, while selling costs increased 4.6%, reflecting increased investment in field sales resource to support growth[?] in outlet execution.

Confident of Continued Improvement in FCF

Half year is always a cash outflow for us as we build stock for the summer. This year, working capital has been impacted by our Brexit contingency and the unwind of actions in response to last year's carbon dioxide shortage. As you can see from the slide, however, we have still reduced the half one outflow and we anticipate further improvement in free cash flow generation at the end of this year and into the future.

We are confident in our future cash flow growth for the following reasons. First, continued organic profit growth. Second, we have the balance of the BCP cost-benefits guidance come through next year. Third, lower ongoing capital investment requirements and reduction in adjusting items as the Business Capability Programme completes. And fourth, we expect lower ongoing inventory levels in GB from optimising the BCP and eliminating the Brexit contingency.

The exact completion dates of the Business Capability Programme may affect the year-end position as we transition production from the Norwich site and the level of associated contingency stocks run down.

Full Year Guidance

Turning now to our full-year guidance. The guidance remains the same for input cost inflation, capital spend, pension contributions, the effective tax rate and interest. We have upped the guidance for adjusting items to reflect the inclusion of the GMP pension equalisation judgment. We did highlight this at prelims as a potential future item when there was a wide range of potential impact.

We are now in a position to confirm the impact in the order of £6 million. And as the BCP nears completion, we can confirm that debt leverage will fall to between 2 and 2.2 times at the year-end.

Summary

So before we open up for Q&A, let me summarise our strong first half performance. We have delivered growth in revenue, margin and earnings, as well as in brand contribution in all geographies. We have successfully delivered strong price growth through disciplined revenue management. Across the Group, we are raising our game in the sustainability space and we are confident of delivering against full-year expectations and into the future.

Many thanks for listening. Simon and I will now be happy to take questions from the floor. Thank you.

Q&A

Richard Felton (Morgan Stanley): Two questions for me, please. Firstly on capital allocation. As we get towards the end of the Business Capability Programme, clearly we are going to see significant improvement in free cash generation. I appreciate that net debt to EBITDA is perhaps a little bit on the high side. We are talking about returning cash to shareholders at this stage. But could you please remind us of your capital allocation priorities? And at what level of net debt to EBITDA you begin to see your balance sheet as inefficient?

Secondly on Robinsons. It seems like the brand is in a much better place today compared to a few years ago. Can you comment on the sustainability of that improvement? And are you confident that the brand can continue to grow even as you start to lap the introduction of the various innovations, such as Creations?

Simon Litherland: Our capital allocation policies, as previously stated, is focused around the progressive dividend payment with 50% payout. We have said CAPEX will obviously dropped down into the range of 3.5% to 4.5% of revenue going forward. And then cash will be used to pay down debt into the range 1.5 to 2.5 times. We will look continually for add-on acquisitions, either into new geographies – France and Brazil are good examples of that – or add-on acquisitions into existing marketplaces.

But if we get towards the lower end of that range and we cannot find good uses of cash, of course, we will look at a way that we might return it to shareholders. But that is a little way away yet.

And then on Robinsons, we are really pleased with the performance. As we said in the presentation, we have four quarters of consecutive growth. I think, importantly, we are gaining penetration, so attracting new consumers into the brand, attracting consumers from other brands. And just as importantly, for customers, we are growing the category overall. So I am really excited about what we are doing with the brand. We have got further innovations in the pipeline. We have got a strong marketing campaign with a big idea at its core. So I do not see any reason why the improved performance of the brand is not sustainable.

Having said that, quarter three and four will be slightly less strong in terms of growth, given the CO2 shortage last year. You will remember we transferred some of our feature and display from carbs to stills and you will see us lapping some of that this quarter. But I am pretty comfortable it will grow in the second half as well.

Ewan Mitchell (Barclays): First question on Purdey's energy. Your competitors have both launched a couple of new variants into the market. Purdey's, certainly from the scanned data, appears to be doing very well. How do you see the new launches helping or hindering the category? And how do you see Purdey's within that and going forward?

And secondly, going back to Robinsons. How much of the price growth was trading up through mix and the benefits you have seen there? I know you said that the Robinsons core brands took price. But how much of the Creations is in there?

Simon Litherland: So I will take the first and you can talk about the price mix. So we have decided not, at this point, to compete in what we referred to as hard energy; come up against some very big brands and very strong number one and number two brands in that category. But we do see the consumer trend towards more natural and healthier offerings, creating a space for more natural energy, which is where Purdey's plays.

It is still relatively small, but taking some share and has grown in a high double digits in the first half. So we are very pleased with the performance and we think it has lots of potential. We have got a new marketing campaign coming through in the summer. We have gained some great distribution points across both the retail and convenience channels and we will continue to invest on the brand going forward.

Chris Hancock: So to pick up your questions on Robinsons, Ewan, I think, as Simon referenced and you referenced in your question, we have done on a couple of things. So the Creations and Cordials ranges have been very successful in trading consumers up. So both of those are ahead of the expectations that we had for them, which is fantastic, and that has had a positive effect on margin as well as the overall squash category.

And that enhanced brand strength that we have had across Robinsons means that price taking that you are referring to is the first time we have been able to do that really for about four or five years. So that is quite a significant step for us to be able to move it forward and that drives quite a significant mix benefit within the Robinsons brand.

Now, inevitably core is much bigger than the Creations and Cordials range. In terms of you are asking of how much is in each, you get a more significant move just because of the sheer size of core. But Creations and Cordials are becoming increasingly important in the overall mix as we move forward.

Damian McNeela (Numis): First question is on France. And clearly the margin is benefiting from lower private label sales. Can you give us an update on what proportion of the portfolio is now private label? And to what extent the contribution margin is sustainable in the low 30s number, please?

And then the second one is around the depreciation charge. It is obviously a lot higher than it was in the first half of last year. Can you just confirm that we are looking for depreciation charge of double what we saw in the first half, please?

Simon Litherland: Okay. Yes, I will do France and Chris, you can pick up the second. Yeah, Damian, we are actually quite pleased with the French performance, 9% contribution growth. As you say, the margin improvement is driven partly by the decline in lower margin private label sales, but also by favourable raw material costs.

As a proportion of the total business, private label is now more like 40%, so 60/40, and that includes both syrups private label and juice private label. But we would see ourselves continuing to focus on the branded side of the business going forward, which is obviously at much higher margin.

Great to see Teisseire returning to growth in the first half and that is obviously the core brand in the French portfolio. And Fruit Shoot, which is a better margin, obviously, than our own label business as well. And so it has come under some pressure this half but we have got a strong summer programme for that brand as well.

Chris Hancock: On your depreciation question, Damian, so you are quite right. So you can see depreciation is starting to move forward, which is something that we flagged as part of an inevitable consequence of the Business Capability Programme. You are seeing some of that flowing through at half year now, you will see that continue to flow through as we go through to the balance of the year.

Patrick Higgins (Goodbody): Just two questions for me, please. Firstly on A&P spend. Obviously, a bit of a pickup in that in H1. How should we anticipate that trend for the full year, bearing in mind, obviously, you have a number of marketing campaigns laid out?

And then secondly, just on the international business and specifically Fruit Shoot US. Obviously, you have seen the benefit of the Walmart expansion there. Is there any new business wins or negotiations currently ongoing that is worth disclosing?

Simon Litherland: Okay. Thanks Patrick. Do you want to do A&P, Chris?

Chris Hancock: Yeah. Patrick, the A&P spend, if you cast your mind back a year, you might remember with the introduction of the soft drinks levy, we delayed some spend from half one to half two, only by a few weeks as it happened. But it meant it fell over the half year, which was such that we could go on to TV and the like and advertise quite hard after the introduction of the levy.

So what you are seeing in the A&P at the half year is effectively a reversal of that. So we have brought that spend back to its natural home, which means it comes back into the first half and that particularly affects GB carbonates.

As you move forward, that is what we expect to be the more normal pattern, if you like, in a typical year. As we go through the back end of the year, we expect A&P spend to tick up a little bit but effectively what you are seeing at the moment is more of a phasing effect than an overall trajectory, if you like.

Simon Litherland: And on the international business and Fruit Shoot, there is not a great deal of new news in terms of distribution gains at this stage of the year. What we have been focused on is improving our in-store presence where we are distributed, from a multi-pack perspective, and improving rate of sale. And within the outlets and customers that we are distributed, our core focus has been in Walmart where we have seen a satisfactory performance, I would say.

And from a single-serve perspective, we continue to grow that business and that is, as we have said it before, the profitable half of the Fruit Shoot portfolio. But the strong performance in international, I think, is much wider than Fruit Shoot USA, which is a small piece of it, and is very much driven through the travel and export business, as well as a strong performance in Benelux, which we are pleased to see, particularly from the Teisseire brand.

Nicola Mallard (Investec): You mentioned COGS were declining in France but they were rising in the UK in carbs. Can you explain what the difference in those COGS were? Because presumably some of them are similar, like packaging,

Chris Hancock: So COGS, taking the UK first of all, Nicola, just in terms of what is happening within there, most of the increases that we are seeing are packaging related, so PET, bit on cans, bit on glass, plus we also see COGS increases. Utilities is a big area and fuel and the like that goes through that. Some of them are common with France, some of them are not. So if you look at something like the Teisseire product in France, that is made in cans, for instance. It is not made in PET. So you get some of the differences that is happening within there.

And some of the offsets and things are going the other way are things which are big raw materials for us in France, such as juices and sugar, which have gone in the other direction. So you have got quite a different COGS mix between the two geographies that drives a different shape of the performance.

Ned Hammond (Berenberg): Just one for me. On the commercial benefits that you have been thinking about getting from the BCP programme, is there anything specific that you would point to that you have gained so far, and what are you seeing as the main opportunities over the next 12 to 18 months?

Simon Litherland: Yeah, they are quite wide-ranging, actually. I think our ability to compete with large multi-pack cans is something that we could not do before. We could not meet the cost point to meet the price point at which we can compete. That is one example. 250 ml cans, slim line cans, we were unable to produce in-house. Large PET, three-litre PET is another example which was proving a good growth driver, both for our Robinsons stills brand as well as within carbonates. So it really is quite wide-ranging, and I think it is really what broadened our ability to offer different price points across different brands in the portfolio and across different channels. So it is something that the commercial team are very much enjoying.

Okay, I think that is about it. So thanks very much for coming and thanks for your support. Have a good day.

[END OF TRANSCRIPT]