Interim Results Presentation 2014

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Welcome and Introduction

Gerald Corbett

Chairman, Britvic

My name's Gerald Corbett, I am Chairman of Britvic, this is our interim results presentation, usual form about mobile phones going onto silent please, I think you all know where the exits are, and after John Gibney, our Finance Director, and Simon have given their presentations, there'll be a Q&A, and you have to be able to operate the[?] technology and someone will come round and it is your name and number and so on. So, without any further ado John, onwards and upwards.

Financial Results

John Gibney

Chief Financial Officer, Britvic

Group performance highlights

Thank you very much Gerald, good morning everybody. Let me start first of all with our performance highlights. Can I remind you also that these results are for the 28 weeks to the 13th April and all numbers are pre-exceptional, I will cover those off later, and comparisons are on a constant currency basis unless stated otherwise. Our revenue growth 4.7% was achieved through growth in both ARP and volume. Quarter two was particularly strong with revenue up by 7.7%. EBITA of £60.5 million is up 12.9% on last year. As you will be aware last year's numbers also reflected approximately £8 million of one-off costs associated with the 2012 Fruit Shoot recall. Whilst we have not included that cost this year, our advertiser and promotional spend is up by a similar amount in H1 versus last year. This therefore means that the 13% headline growth in EBITA is also a good indication of the underlying performance. The top line growth combined with our tight management of cost has led to EBITA margining expansion of 60 basis points in the first half of the year, and that is up now by 250 basis points since H1 2012.

Working capital high

As a reminder, H1 is a working capital high for the group as we build stock towards the summer, however we have seen net debt to EBITDA leverage continue to fall down to 2.6 times EBITDA versus 2.9 times at the half year point last year. It should be noted that free cash flow is adverse to last year by £6 million as a result of an increase in capital spend and also higher pension contributions. These additional spends were anticipated and this does not impact our expectations for free cash flow generation in the full year, which again, I will cover that on the guidance slide shortly. As a result of the strong profit growth and the Board's confidence in the future growth prospects of the business, we have declared an increase in our interim dividend of 13% to 6.1p per share. We expect to return our dividend cover to our stated aim of two times this year, and we anticipate that the interim dividend will represent in the order of 30% of the expected full year dividend.

First half performance

Before I take you through the usual segmental analysis, let me put our first half performance in context for you; the strong H1 numbers have been delivered against a backdrop of a challenging trading environment. Firstly, the consumer environment for soft drinks in each of our markets continues to be challenging.

GB

In GB the consumer has remained focused on managing grocery spend and seeking out value. This is evidenced by the dynamics of the take home channel where we have seen the discounters take share on the back of their strong growth this year. As a result, major grocers continued to re-evaluate their own propositions as they respond to the challenges of the fast changing market.

Ireland

In Ireland, the discounters have continued to grow their share in this market, which disappointingly has again returned to deflationary pricing. This reflects a high level of promotional offers in the major grocers as they fight for share with discounters, compounded by aggressive competitor activity, especially in the carbonates sector.

France

In France, the macroeconomic conditions have remained difficult and we anticipate this continuing through 2014. Kantar forecasts that FMCG businesses face a year of limited growth in France. Within soft drinks we have seen price deflation, which is being partially offset by pack mix.

Soft drinks market performance in H1

Turning now to the performance of the take-home soft drinks markets in each of our markets, which has been subdued.

GB

In GB this year, we have seen volume growth limited to only 0.5% whilst value grew by 2.7%. Volume growth has been particularly strong in the still segment but the major driver of this is plain water, where volume was up by nearly 12%. This means that volume in all other stills categories was down by 2.6% and value was only up by 0.8%. Categories such as squash and pure juice saw both volume and value decline, whilst juice drinks and cold hot drinks saw growth in both volume and in value. GB carbonates volume declined 1%, but value was up by 3%. Major categories such as cola and fruit carbonates experienced value growth on volume declines, with only the energy sector experienced both volume and value growth.

Ireland

In Ireland, despite market volume growth 1.7% value was down by 0.6%. Similar to GB, whilst the stills category was in growth, this was led by plain water volumes which were up nearly 11%. The carbonates category was particularly difficult with value declined and flat volumes especially in the lemon and lime and cola categories.

France

In France, the most recent data shows that the market is still in volume and value growth, however as this chart demonstrates, the categories driving the most material growth are within kids and syrups, kids growing at nearly 17% and syrups seen value growth 6%. With our portfolio of the leading syrups and kids brands, Britvic France is well positioned to capitalise and continue to drive the growth in these segments.

GB Stills

We now turn to the segmental analysis starting with GB stills. As I mentioned, the stills segment has seen low digit volume and value market growth with plain water in double digit growth, which is not a key category for Britvic. As part of our commercial change programme, we have continued to benefit from stronger revenue management disciplines this year. H1 revenue was up by 2.3% thanks to a stronger growth in Q2 of 4.4% which reflected an improving average realised price and only a marginal decline of 0.3% in volume. Our focus continues to be one of driving sustainable value in our portfolio which resulted in market value share being up by 20bps.

Brand contribution

Fruit Shoot has continued to see volume and value growth this year, with some volume decline within Robinsons and J2O. It is worth noting that we launched Robinsons Squash'd in Q2, this will have a positive impact on ARP and a more limited one on volume, as a result of it being highly concentrated. As a reminder, a 66ml bottle of Squash'd makes the same ready to drink volume of drink as 1L of standard Robinsons. So, whilst half year revenue was up, GB stills brand contribution margin was down, but this was more than explained by the impact of increased I&P spend, with the underlying margin percentage showing a slight increase.

GB Carbonates

Turning now to GB carbonates, despite the carbonates market seeing a 1% volume decline, the first half of the year has been particularly strong for Britvic, with our volume up over 6% and revenue up nearly 7%. In Q2 we saw volumes up over 13% and revenue up nearly 11%. The slight decline in ARP in Q2 was a result of growth in large pack, primarily 2 litre as well as growth in dispensed volumes which was generated by new business within the leisure retail market. The ARP on large pack and dispense is lower than on single sales such as 600ml or 330ml cans. It is also worth noting of course that we were lapping a particularly strong Q2 ARP performance last year on carbonates where we generated ARP growth 4.7% as we focus on protecting value and margin.

Brand contribution

Brand contribution was up by 4.6% but again our margin was slightly down, however as with GB stills this is more than explained by the increase in A&P spend in H1. Across the portfolio, each of our major carbonate brands has enjoyed revenue growth this year, and the strength this performance is reflected in our market share with strong gains in both volume and value share.

France

We now turn to France where the first half of the year reflects continuing momentum with another excellent performance. Our volumes are up by 5.4% with ARP up by 1.5% resulting in revenue growth 7% on last year, despite the difficult macro conditions in this market, as I mentioned, the key categories of syrups and kids drinks are in growth, with our brands both driving this growth and taking share. Brand contribution was up 12.2% and we have generated 110 basis points expansion in margin, even after a significant increase in A&P spend. Fruit Shoot continues to go from strength to strength, and I am delighted to report that the most recent market data shows that it has now established itself as number one brand by value in the French kids juice drinks category.

Ireland

In Ireland, market conditions have remained difficult with the consumer continuing to seek value, alongside a very competitive soft drinks market, particularly in carbonates. A small increase in volume has been offset by a decline in ARP of just over 5%, reflecting the deflationary market environment. The discount retailers are performing strongly whilst the established grocers are responding with increasing promotional activity. As a result revenue is down 5.2% and brand contribution is down 13.9%. In the carbonates category, we have lost some market value share but this is more than offset by value share gains from our owned brands within the stills category. At total market level therefore, we have seen a small net gain in our market value share position.

Licensed wholesale business

The licensed wholesale business was successfully launched as a standalone business under the counterpoint brand in the first half of the year, with its own management team, systems and processes in place; it is well positioned for the future. Throughout this period the Irish business has undergone significant change as we implement our strategic initiatives with the benefit primarily reflected in fixed costs which we report at a group level.

International Business

Turning now to the international business unit. The volume decline this year reflects our focus on value and the pricing action we have taken on lower margin export market volume. As a reminder, as we disclosed at Q1, as part of the establishment of Britvic International as a fully resourced standalone business unit, the French export business is now accounted for here. To ensure like for like comparisons are accurate, we have restated the prior year numbers in both international and the French business units.

In both the Netherlands and Spain, we continue to see Fruit Shoot in strong growth and Simon will touch on this later. The expansion in the USA over the last 12 months has led to a near doubling of concentrate sales this year, despite the material dip during the extreme US weather conditions in the winter. It is worth remembering that we do not account for volume related to concentrate sales, just revenue and therefore this has a positive impact on ARP. Brand contribution is 17.6% ahead of last year, with 110 basis points expansion in margin.

A&P and Fixed Costs

Turning now to advertiser and promotional and fixed costs; A&P as I mentioned is up nearly £9 million compared to the last year, and represents an investment of 4.7% of revenue. Last year, the phasing of A&P was significantly H2 weighted and spend this year is spread more evenly through the year. The fixed cost base is marginally up on last year to just below £191 million. It is worth noting that the benefit from the strategic initiatives will be H2 weighted, reflecting the closure of factories during the latter part of the first half of the year. Since the beginning of the year we have continued to invest in the international business, where we now employ in excess of 100 people, and that investment is reflected here. Likewise, as part of our ambition to increase investment in our brands, we have seen a significant increase in trade spend that is also reflected here. Trade spend captures a number of initiatives, as an example, store feature and display, glassware and point of sale material.

EBIT to Earnings

Let me now take you through the remaining part of the P&L account; EBIT for H1 was 59 million, a headline growth 13.5% on last year, reflecting the strong underlying performance of the business. Interest was down by 0.8 million on last year, whilst the effective tax rate is up 90 basis points. The rise in the effective tax rate reflects a geographic profit profile of the group. As an example, the increase in the French corporation tax rate and also start-up losses in our new international business. We therefore expect the effective tax rate for this year to be slightly higher than previously guided. This has led to a profit after tax of 34 million, up over 19% on last year.

Cash flow

Turning now to cash, underlying free cash flow was an outflow of 30.8 million, up £6 million on last year, whilst net debt reduced by £24 million year on year, taking our overall leverage down by a turn of 0.3x to 2.6x debt to EBITDA. As a reminder, please remember that the first half is a working capital high for the business, and that the net debt to EBITDA ratio falls substantially at the year end. Capital expenditure was up £6 million to £23.4 million and the full year capital spend will now be towards the upper end of our previous guidance. Working capital saw an outflow of £56 million, as we would normally anticipate at the half year. Pension contributions increased by £7 million, in line with the additional contributions plan in GB.

Exceptional and Other Items

Exceptional costs in the first half of the year total £8.2 million. Cash costs of £10.2 million have been incurred in respect of the previously announced strategic initiatives including people leaving the business with our new operating model, and the closure of two factories. We anticipate that the full year exceptional cost related to the new strategy will be in line with our previously stated guidance of £17 million. Offsetting this was a non-cash, fair value gain on financial instruments of £2 million.

2014 Guidance

Turning now to guidance for the full year, in terms of EBIT, our first half performance and outlook for the year means we remain confident of delivering EBIT within our previous guidance range of £148 to £156 million. I can confirm that raw material inflation will be low single digit with a benign commodity environment offset by a negative foreign exchange movement as currency hedges have unwound. Interest remains as previously guided, as does our minimum free cash flow generation and debt target levels. The only changes to note is capital spend which will now be at the upper end of the range towards £65 million this year, with the effective tax rate now expected to be in the range of 24.5% to 25% range, a small increase to previous guidance.

Summary

Overall therefore despite the continuing challenges in our core markets, our results reflect a good balance of volume and ARP growth, at a time of considerable change for the Britvic business. The key elements of this change programme are now complete, and we will start to positively impact our cost base in H2. This underpins our confidence in delivery of EBIT within the range we have guided, and enables the Board to declare an interim dividend with strong growth year on year, whilst also building back cover on our dividend to our stated target of 2 times. Let me now hand over to Simon who will update you on the progress we are making on implementing our strategy, together with our H2 commercial plans.

Business Update

Simon Litherland

Chief Executive Director, Britvic

Introduction and Agenda

Thanks John, and good morning everybody. Over the next 20 minutes I will update you on three key areas, firstly the progress we have made in executing our new strategy, secondly the investment we made, and will continue to make, in our portfolio of leading brands, and finally the progress we have made in realising our international ambitions.

Reputation

As you will recall last May, we communicated our ambition to become one of the worlds most admired soft drinks businesses and we have a clear strategy to deliver this. We will build on our strong market presence in GB and Ireland with both our own and Pepsi's category leading brands. We will grow our kids, family and adult brands in France and exploit the international opportunity these categories provide through an asset-light, low risk, franchise approach. We will be a simpler, more effective and lower cost business, freeing up resource to focus on the growth opportunities, and finally we will build a sustainable business which is trusted and respected in our communities.

Significant Strategic Progress

Over the last year we have made significant progress in executing this strategy, as we near the end of a major change programme, I am hugely proud of the way that everyone in the business has embraced this change. Our strong H1 performance is evidence of that and we are on-track to deliver the £30 million cost savings by 2016. Our individual business units are now operating with full accountability and we have a lighter, more focused PLC structure in place to support them. In January, we completed the recruitment process for my new executive team with the appointment of Matt Barwell as Chief Marketing Officer, Matt joined us from Diageo and has a wealth experience in global marketing. Our international business unit is now fully established and resourced, and we are increasing brand investment in our international expansion markets.

Transformational initiatives

12 months ago I outlined four key transformational initiatives to deliver our cost savings programme, and I am delighted to confirm we have made great progress on all of these.

Operational leverage

To increase our operational leverage, we have now completed the closure of our two GB factories with production redeployed elsewhere in our network including a dedicated Fruit Shoot line in France to support the growth there and in Spain.

Ireland

Ballygowan was launched into the GB market at the end of the January and is now our sole water brand in both GB and Ireland. We have improved the profitability of our Irish business, combining functions such as supply chain, finance and HR across GB and Ireland. We successfully launched the wholesale operation as a standalone business under the Counterpoint brand, and with its improved offering, which includes wine and snacks, the early signs are promising. We have also closed the Belfast depot and a call centre.

Procurement and optimisation

Our procurement team has continued to implement a category led global sourcing strategy, we are building sustainable supplier relationships to ensure better visibility and management of the procurement agenda in the future and one which will deliver tangible cost benefits.

GB

Finally, in GB, we have continued to make great progress on our commercial change programme. Our new sales structure is now operational and the migration of our smaller customers to an indirect supply model is on track. We have built on our position of strength in the leisure retail channel, we have successfully retained key contracts for us such as Mitchell & Butler and JD Wetherspoon and indeed have won new business such as The Restaurant Business whose brands include Frankie & Benny's and Chiquitos. In addition we have invested in our dispense proposition with exciting new equipment offerings, new packs and exciting consumer engagement plans that will reinvigorate this market.

Investing in our portfolio

This year we have continued to invest in our brands with a significant increase in marketing spend. Underpinning our brand investment is a clear understanding of the market and the people who buy our brands, so that we can identify where the future growth opportunities lie. This insight allows us to drive category growth through investing in and executing both relevant marketing campaigns and targeted innovation.

Driving category leadership – kids

In kids, we continue to lead the category in our major geographies.

Fruit Shoot promotion

Earlier this year, we ran our first multi-market campaign for Fruit Shoot; the Angry Birds promotion successful ran across GB, Ireland and the USA, and capitalised on the huge appeal of this game. We have also continued our sponsorship of the 'Get your Skills on' TV show on Nickelodeon which has successfully built brand awareness and encouraged children's personal development and activity levels in a fun and interactive way.

Tour de France

This summer, we will, for the first time, leverage Teisseire's ongoing sponsorship of the Tour de France adding in Fruit Shoot with a major sampling campaign, both in France and in GB. Alongside this there will be branded floats and prominent feature and display at all stages of the race, this gives us a major platform to further build the brand with both children and parents.

New Teisseire pack format

And finally in France, we will be extending the Teisseire brand further into the kids category with a really innovative new pack format, which will make it easier for children to use. This unique packaging solution represents a significant category opportunity to increase both the frequency and penetration of Teisseire and represents our biggest investment in France since the acquisition. We are really excited by this innovation and believe it will drive further category growth; let me show you a short video.

[VIDEO PLAYS]

Driving category leadership – family

Teisseire Zero range

Moving onto family, in France we will be investing behind the Teisseire Zero range with new packaging, more natural formulations and new flavours. The Zero range is, of course, our no sugar syrup and is a good example of how we are playing an active role in addressing the health challenges in our markets.

Tour de France

We will continue our successful sponsorship of the Tour de France which sees the Teisseire brand at the heart of the truly iconic sporting event and we will use this opportunity to drive both the core and the new Zero range of syrups.

Wimbledon

And, in GB our sponsorship of Wimbledon will continue with a high profile campaign which will be seen by over 20 million households and will offer them the chance to win tickets to the world famous tournament.

Back to school

In Ireland we will be running a cross portfolio campaign led by MiWadi, capitalising on the 'back to school' opportunity.

Driving category leadership – adults

Product refreshes

In adults, we have refreshed our Juicy Drench range with an appealing new pack design; Juicy Drench was one of the first soft drinks brands in the GB market to use stevia. It contains no artificial colours or flavours, and is positioned to better meet the needs of 30+ adults. Additionally in time for summer J2O pear gold has returned with only 85 calories per bottle, it offers consumers a great drink on the long hot summer days that we hope are ahead of us.

Squash'd

However, the big news of the year so far has been the launch of Robinsons Squash'd in Q2. As a reminder, Squash'd is a super concentrated squash which allows people to take Robinsons out of the home and enjoy it anywhere. The pack is small enough to put in your pocket or handbag and has a major benefit over similar products in that it uses real juice, has no added sugar, and tastes great. It is early days, but we have seen a strong response from retailers and consumers alike as we set about creating a new water enhancer category in the UK. Here is a short video to show you how much of an impact Squash'd is having.

[VIDEO PLAYS]

Growing the PepsiCo Portfolio

Finally, let's turn to our portfolio of PepsiCo brands in GB and Ireland.

Mountain Dew

Mountain Dew has embarked on a major partnership with the popular X-Men movie franchise. This campaign will continue to raise awareness of the band and build on its entertainment strategy.

Limited edition 7UP in Ireland

The lemon and lime category is very important in Ireland. There we are launching a new flavour of 7UP free, called 'Tropical Splash,' in time for the summer.

Lipton Ice Tea

In Lipton Ice Tea, we have the number one brand in the fastest-growing soft drinks category. The conversion rate of consumers who try ice tea is very strong. This category therefore offers excellent growth prospects for the future. This brand will benefit from a new look and be supported with advertising and sampling for our core target market of 18-24 year olds who are looking for a lighter, more refreshing, drink.

High-profile Pepsi media campaign

As you heard earlier from John, our first-half performance in carbonates was exceptional. We have seen strong volume and revenue growth from the Pepsi brand and gained market share this year. We have run a number of exciting marketing campaigns with Pepsi Max at the centre, to excite and engage consumers.

Let me show you a video clip which captures the essence of the campaign. The campaign led to significant share gains while it was running.

[VIDEO PLAYS]

World Cup opportunity

In just a few weeks, the excitement of the 2014 football World Cup is set to grip the nation. Pepsi will once again capitalise on its football collateral. Some of the world's best footballers, including Messi, Van Persie and Wilshere, are already making an appearance on our limited edition packs. These packs use the latest technology to give consumers access to exclusive Pepsi content. The campaign will feature a fully-integrated and high profile advertising campaign.

As we know, the World Cup is a massive opportunity for soft drinks. This is particularly true of the cola category. Moreover, Pepsi has a strong track record from previous World Cups. Let's move on to International.

Europe

I mentioned that our International business is now fully established. Today we have over 100 people working on realising our international ambitions. In addition to dedicated resource in GB, we now have people in Ireland, the USA, India, Singapore and our European markets to support our local partners.

France

In France, Fruit Shoot continues to be a huge success. The most recent IRI data shows that it is now the number one brand by value. As well as the multivitamin flavour that was initially developed for this market, we are also introducing additional multipack formats into the grocery channel. This will accelerate the growth the brand. Over the last year, the brand has more than doubled its volume and value. What is more, there is still significant headroom.

The Netherlands and Spain

In the Netherlands we have continued to see double-digit value and volume growth, year on year. And while we are still in our first year in Spain, we are really pleased with the progress of Fruit Shoot. We have now confirmed a listing in one of the two remaining major grocery chains. This takes us to five of the top six. We have also secured new listings with various cinema and key child-focused retailers, such as Toys 'R' Us.

India

In India, we have made substantial progress in just 12 months. We have built on the agreement we signed with the Narang Group last year by recruiting an in-market team. This includes supply chain and marketing experts to develop the brand alongside our Narang colleagues.

Our supply chain is now operational, from recipe development through to manufacturing capacity. Manufacturing capacity will be provided by a PepsiCo packer, with a production line dedicated to Fruit Shoot.

I am delighted to confirm that the first bottles ran down the line last. We will shortly be in market with four flavours in a single-serve format specifically developed for the Indian consumer palate. Our focus will now be on building distribution ahead of our first consumer campaign, aligned to Diwali, later in the year.

United States

I am delighted to report we have now achieved nationwide for Fruit Shoot single-serve in the USA. We have extended distribution with PepsiCo America's beverages into their remaining territories. Furthermore, we have signed agreements with a number of other independent bottlers, including leading independent bottler Admiral Beverages Corporation. The second production facility in St Louis, Missouri will commence production on time next month.

As I communicated at our results last November, we are running some trials on multipack configurations in two regions. We are also testing our up-weighted marketing programme to ascertain the right marketing mix, going forward. This programme includes regional TV, on-pack promotions and increased visibility in store.

Year on year, we have seen sales nearly double, despite the awful weather in quarter one. What is more, we have won new listings, such as the 7-ELEVEN chain. The commissioning of the second facility and the nationwide availability of the brand are key milestones in realising our ambition to establish Fruit Shoot in the USA as a major children's brand. With both Pepsi and the key independent bottlers on board, we are well positioned to take the brand to the next level.

Summary

In summary: we have delivered a strong half-one performance, despite the continued challenging consumer and trading environment. We remain on track to deliver EBIT in line with our guidance of £148 million–£156 million. We have successfully transformed our operating model and implemented a major change programme. We will deliver our stated cost savings of £30 million by 2016. We continue to make significant progress with our international expansion, with the nationwide US distribution and the imminent India launch. Our strong half-one performance and our significant progress over the last year demonstrates our ability to execute our strategy and build confidence in our prospects for long-term growth.

That concludes my presentation for this morning. Gerald, John and I will now be happy to answer any questions you may have. Thank you.

Q&A

Ian Checkon[?] (Nomura): Ian Checkon, Nomura. Well done in getting the full national roll out in the US. What other milestones do we need to think about, going forward? Given you have achieved the full roll-out of the single serve, when do you hope to have the multipack available nationally? Also, what is happening about other products? I think there was one bottler trialling Robinson's squash in the US. How is that going?

Simon Litherland: Great. Thank you Ian. First of all, we are delighted with the progress that we have made and the speed with which we have made it. I think the national distribution and the new production site are significant milestones for us. However, with that said, there are still significant distribution potential for single-serve. There is a continued opportunity to build consumer awareness and penetration. That is very much where we are focused in the short term. Having said that, as you have said, we will continue to test multipack and look to roll that out in due course. However, we will remember, of course, that as we do that we will need to expand our supply footprint as well.

As for other products, we do have an ongoing test on a dilute in the marketplace. However, as I have said, the focus is on Fruit Shoot in the States and that is where we will remain focused in the short term.

Chris Wickham (Oriel Securities): Hello, it is Chris Wickham from Oriel Securities. I just want to ask about two things. The first is in relation to the challenging market conditions. Could you perhaps separate those conditions between competitive conditions and what you are seeing out there in terms of the consumer? I would particularly like you to do that for your domestic markets. I think it is fair and reasonable to assume that during the next 12 months every attempt will be made to make that consumer have a much bigger feel-good factor than they have for some time.

Secondly, I was wondering if you could remind us in what direction you are heading with this A&P spend, as a proportion of sales? Where should we thinking, in the back of our minds, you are heading to build these brands?

Simon Litherland: From a consumer perspective, things are clearly getting better in the macro environment. I think people are absolutely feeling better. However, the category we are in has been quite resilient through the recession. I think it is very clear that consumers are continuing to seek out value in their normal weekly shopping. They remain very value-conscious. I think the second thing is that we have seen consumer habits change over the last four or five years, with regard to their weekly or bi-weekly stock-up shop. There is an increasing incidence of topping up, particularly from the convenience and impulse channels. That is in addition to the growth in online.

So, firstly, we are not yet seeing the macro improvement feeding into the consumer. Secondly, we need to tap into the existing growth in the market, which is in slightly different channels than we might have seen pre-recession.

From a competitive perspective, it is a very competitive category. I think it will remain so. However, we have a strong market position. We have a really strong portfolio that I think is well positioned for the movement of the consumer to a consumer need and occasion basis. So we need to be focused on delivering our strategy, leveraging the portfolio and growing our categories, rather than worrying about the competition. However, it is very competitive and will remain so for the foreseeable future.

John Gibney: As we have highlighted, there is a very different profile of the A&P spend this year. The first half has been focused on the areas Simon talked through: for example, the launch of Squash'd, the Pepsi campaign and further investment behind International. I would say you should not take the level of increase in half one as indicative of what there will be in the second half. Although we have not specifically guided around that, we have clearly stated is an intention to continue to invest behind our brands. We therefore expect to see an increase in our investment in this year, versus last year.

I think it is also important to highlight our feeling that the execution and the quality of the A&P we are getting into the marketplace is also improving. We believe the appointment of Matt Barwell is going to be positive for that in the future as well. Therefore, we believe the investment we are putting in there will also be more effective than what you may have seen from us in the past.

Simon Hailes (Barclays): Thanks. It is Simon Hailes from Barclays. I have a couple of questions, please. Simon, to go back to your comments in response to Ian's question on the US, can you put some numbers around that? How many distribution points are there where Fruit Shoot is selling in the US? You have talked about the number of outlets are in. How has that moved over the last six months? How do you expect it to move over the next six months, into the year end, given that national distribution and listing in 7-ELEVEN?

Secondly, you talked about the benefit from the World Cup which we may see for Pepsi and other brands. What have we seen in the past around other football tournaments and things? Can you give us an idea of at least the sort of volume uplift you may, even if it is not particularly good for margin?

Simon Litherland: As we are rolling out we continue to gain distribution points. I would say we are up to about 80,000–84,000 distribution points now. There is clearly still a significant amount of distribution to go for. Indeed, although we have national distribution, there are some small independent bottlers within the national footprint that still do not distribute Fruit Shoot. There is, therefore, further distribution opportunity. Of course, beyond that, the focus is on growing the rate of sale in the outlets that we are distributed in.

I do not have any specifics for the World Cup. I do not know whether John does. As you know, it is sponsored by one of our competitors. However, Pepsi has its own campaigns and strategy. I do know we have fared very well from a share and volume perspective in World Cup years. I do not know if you know any more, John?

John Gibney: I would highlight a couple of things. Inevitably, the timing of games is important for the World Cup. I think England's first game kicks off at 23.00, which is not actually that helpful in terms of people going out to the pub. Inevitably, it also depends on how long England hang around. In recent World Cups that has not been for a particularly long period of time. However, we will see how that goes this time as well and that is an important factor.

I think what we would say generally is that we would not see a material improvement in the market. Yes, we do see some, but a lot of it is around how we actually shape up against the campaign being run by the competition. As Simon has highlighted, I think we have performed pretty strongly around major sporting tournaments over the last few years. That is despite the fact we would not be the headlining sponsor. The recipe, if you like, that Pepsi and ourselves have used very successfully over the last few tournaments has been the Pepsi dream team. As you will see from the advert coming in, that is no different this time around either.

So we think we have a great programme in place. If England hang around a little bit longer, that will be great news. Given our position in the pub market, if the timing of games works for us we would stand to benefit from that as well.

Andrea Piseki[?] (Citibank): Hi, it is Andrea Piseki from Citi. You said that you are very much focusing on improving rates of sales in the US. Is there any data you can share on that? Any data of your rates of sales in existing markets or repeat purchases?

I also have a question on the UK and the macro. You said that so far there is no impact, really, on soft drinks from the improving macro. I was wondering whether you are seeing any pick up in the pubs and convenience channel? Some of the pubs companies are sounding slightly more optimistic.

John Gibney: Some of the rate of sale is seasonally based. However, we are certainly seeing strong improvements in our volume of throughput per outlet, as we would term it. Probably a better indication is that we are quickly moving to somewhere like 15–20% share of single-serve in the kids category. That is important because we are not only gaining that share, but also growing the market for that particular market segment.

That is obviously a real positive as far as the retailers are concerned. I think we have previously highlighted that one of the attractions for us around kids market is that in many instances they have not had a huge amount of innovation or investment. What Fruit Shoot is demonstrating time and time again, and we also see it in France, is that it does not just take shares, but it actually grows the category, and that is a really important feature for the retailers.

Andrea Piseki: Are there any data or do you have data on how the 'kids' juice market is growing in the US, compared to the past?

John Gibney: Yes. We do not have any specifics around the total market. What we do have is specifics around the single-serve and where we are entering that. What that is demonstrating is that the market is growing, whereas previously it would have been a pretty staid category.

Simon Litherland: However, in fact, it is Fruit Shoot that is the brand that is driving the growth and is the only brand in growth within 'kids'. Onto your second question about the leisure channel. I think it is improving, but primarily I would say it is segmenting. I think we are still continuing to see lower sales and number of pubs and [inaudible] pubs. However, casual dining and food-led outlets are indeed back in growth. Clearly we have a high share in that channel and we are very focused on leveraging the portfolio in our share in the marketplace as that trend continues.

Andrew Holland (Societe Generale): Andrew Holland from SocGen. Can I try and understand better what is going on in UK carbs? We know that CCE has cut the size of their 2L to 1.75L without cutting the price. You have obviously benefited from that with your sales of Pepsi, and you have highlighted that it is your 2L pack that is doing particularly well.

Can you run us through the timing of that change by CCE, because obviously that has been helpful to your first half? Is it also going to be helpful to your second half or have we seen all the benefit that you are going to get from that?

Simon Litherland: That sounds more like a question for CCE.

Andrew Holland: You seem to be very well-placed to comment on it.

John Gibney: I think one of the things that I would highlight, Andrew, is they have made that switch from 2L to 1.75L. One thing that we should not lose sight of is the year-on-year comparison. Last year, if you remember, was when the 2L Coke activity was in market: 2L, buy one, get one free. That was a very aggressive piece of promotional activity which we are clearly lapping. They have not been as aggressive as that this year, and you can read what you like into that, but we often commented that we failed to understand how that worked financially.

However, I think what we have also demonstrated is that we have grown through the 2L. To some degree we have also grown through discipline, but it is our pricing discipline that remains strong. Whilst we have seen a modest decline in ARP, it is on the back of a 13% volume growth. I think we would be very happy to take that sort of dynamic, time and time again. However, it is also on the back of an increase in our own ARP last year of 4.7%. We have built on that, driven a 13% volume increase and we have only seen that ARP move back slightly.

Andrew Holland: How much more is there to come in the second half?

Simon Litherland: How much more is there to come; from CCE or from ourselves? I would not expect the same run right into the second half. We need to continue to execute our strategy and see what they do. They are a very strong competitor; they always have been, they always will be.

Henry Davis (Merrill Lynch): Henry Davis from Merrill Lynch. Three questions, please. First on your fixed-cost inflation in the first half, if we back out the eight million one-offs in the comp, the inflation is quite a bit higher than I thought it would be. Can you talk about what is driving that? Is there any phase in between halves?

Second, if you could quantify how much of the £13 million savings you took in the first half, and the level of investment behind the international operations? Linked to that, if you could give some examples of the areas that that international spend is being spent on.

Lastly, input costs: do you have any early read into next year and how much you hedged? It looks like most of your key inputs are trending down double-digit, and you have foreign exchange which will swing to a positive next year. It looks like it could be a significant tailwind. Any comment on that would be great, thanks.

Simon Litherland: That sounds like four good questions for you, John.

John Gibney: I think I have got them all, Henry, but you will have to remind me as I go through if I have not got them all. Starting with the fixed-cost inflation; you have highlighted that the £8 million of Fruit Shoot costs were in there last year as well. What is actually distorting the year-on-year movement as well, I touched on it in my presentation. I think because of the level of activity in the marketplace from a promotional perspective and also from a competitive perspective, what you are seeing is that we are driving quite a lot of activity around trade promotions. That is captured within our overhead costs. That is a bit of a distorting factor. I mentioned areas like feature and display, and also glassware as an example. Opening up a new account, like the restaurant group, will invest quite heavily in the initial stages. Underlying inflation is reasonably modest, the way we would expect it to be. That is one of the big things that is changing that dynamic.

In terms of where the benefits are coming through, we have said that the line share of about £30 million will come through in the second half. Very little of that is actually coming through in the first half. As an example, the two factories closed towards the end of March, so H1 only has a very limited benefit. All of that comes through in H2. The other thing that we will also emphasise is of course, those actions that we have taken not only underpin the delivery of the second half numbers, but they materially underpin the delivery of FY15 cost savings as well.

In terms of the level of investment in BI, that is in line with what we suggested it would be. Out of the £30 million cost savings, we said that we would invest around £5 million behind that. Some of that is in areas like opening up the Indian marketplace. Some of it is around the infrastructure that we have put in place with the international business units. I think we have mentioned, both Simon and I, that over 100 people are now employed in that business unit. Some of those people were around before; a significant number are incremental to the cost base as well. It is fully resourced in the sense that yes, it has all of its HR and its finance people, but it has a well-resourced supply chain infrastructure. In addition, it has people whose responsibility is all about looking at next opportunities in various parts of the world. We are investing there, not just in markets that are opening up, but we have also got the capability to look at other markets where we think there may be an opportunity for our brands.

Input costs: we are locked-down for this year. As you know, we do not guide at this point in time for next year. The one observation which everyone will be aware of is around the deregulation of the EU sugar regime. That, in theory, should drive prices down and that is what we would anticipate. The watch owl is what happens overall to the world price of sugar that can be impacted quite severely by weather events. We are not at that point yet where we can see what the crop policy is to be able to give any firm guidance, which is one of the main reasons why we would not do that. Of course, when we are in shape to do that, we will give you a heads-up as soon as possible.

Did I cover all of your questions?

Henry Davis: You did, thanks; two quick follow-ups. The international spend: does most of the international investment go into the fixed-cost line, or is that also a sum that goes above ground contribution?

John Gibney: Both those go in the fixed-cost line.

Henry Davis: Okay. In input cost, are you at all hedged into FY15 yet?

John Gibney: We do have some hedges going into next year already, not a material amount. As an example, our glass contract is an annual contract, so we would not [inaudible]. Where we see opportunities, which really go to some of the things we have done around procurement and how we are now sourcing product, then we have started to source product into next year.

Tristan van Strien (Deutsche Bank): Good morning. Tristan van Strien, Deutsche Bank. Could you explain a little bit on India, particularly what is the size of the price, how big is the 'kids' category and what states are you focused on? Is your contract with Narang exclusive or can you look at other distributors as well?

Simon Litherland: In India, we are very much focused on the upper end of the marketplace rather than the mass market. We would be targeting distribution in major cities and about 100,000 outlets, not the full Indian market. In the 'kids' category there are brands that exist. Fruit Shoot will definitely be a premium to most of that category at the moment, but we think the price point that we can hit will be interesting. Certainly it is well differentiated within the category in India as well. It is an exclusive agreement for Fruit Shoot with Narang for distribution.

Tristan van Strien: Does that have a time limit on it or is it just 'as is'?

Simon Litherland: It will have a time limit.

John Gibney: Yes. I think it is a ten year initial period. On both sides there are performance agreements, so when you sign for ten years on any brand, you want to make sure that there are performance criteria that both sides have to meet.

Simon Litherland: Let's take one last question, thank you.

Speaker: It is a quick follow-up on France. In Q2 you had particularly strong volume growth, around 10%. ARP was a bit weaker. At the same time, for the full year you seemed to be giving a cautious message on France, given the macro. If you could put the two things together, were there any factors that drove that strong Q2 growth in France?

Simon Litherland: I think it is the branded business. Obviously, we have got a big unlabelled juice business in France that is being driven by a brand, effectively Teisseire, and we had a very good quarter with Fruit Shoot as well. Fruit Shoot as a proportion of our French business is starting to make a difference. Into the balance of the year, I think we are lapping some strong comp from France last year and a big summer across all of our European markets. We look forward positively, and we think that the Teisseire pump will absolutely expand the category, but with some caution, given that the consumer environment will remain challenging throughout that period.

Speaker: When is the roll-out of the Teisseire pump?

Simon Litherland: It is in Carrefour at the moment.

Speaker: Okay; thank you.

Simon Litherland: Thank you everyone for coming and thanks very much for your questions. Have a good day.

[END OF TRANSCRIPT]