Britvic plc Interims Presentation 2015

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Gerald Corbett

Chairman, Britvic

Welcome

Good morning everyone. It is our half-year results; thank you all for coming. John and Simon need no introduction. John is going to start off with the financials, and then Simon will talk about the business and the prospects going forward.

John Gibney

Chief Financial Officer, Britvic

Introduction

Thank you, Gerald, and good morning, everybody. These are our interim results for the 28 weeks to 12th April, with all numbers on a pre-exceptional and constant currency basis unless otherwise stated.

Performance highlights

We have delivered strong earnings growth against a backdrop of challenging trading conditions. Whilst revenue was down 0.7%, we have delivered growth in all other metrics. EBITA increased by 6.2% to £64.7 million, whilst margin expanded by 60 basis points, leading to EPS growth of 11.6%. Foreign exchange movements, particularly the value of the euro, have had a negative impact on revenue. However, this pricing pressure is largely offset for the group by further savings which are being realised in raw material costs. FX movements are mitigated as you move down the P&L account, with the impact on EBIT being fairly minimal.

The delivery of our strategic cost initiatives, along with tight control of our underlying cost base, has underpinned performance in the first half-year. These cost savings have allowed us to continue to invest behind future revenue growth opportunities within international and innovation, in addition to further investment behind our brand marketing and A&P investment, which is up 14.6% or £4.5 million on last year.

Our focus on cash continues, with a further reduction in net debt of nearly £32 million versus last half-year, resulting in a fall of 0.4 times in our debt to EBITDA ratio. As a result of these strong results, the board has declared an interim dividend of 6.7p, which is up 9.8% on last year.

Market conditions

Before I go through the usual segmental performance, let me share with you some insight into the challenging market conditions we are facing. Firstly in GB, the soft drinks market grew in the first half, but was impacted by negative price mix. Whilst volume was up 2.4%, value increased by only 0.5%. This was flattered by the strong growth in plain water, where volume and value were up by over 12%. Excluding this water growth, the total soft drinks market volume was only slightly up at 0.4%, whilst value declined by 0.6%. A common theme in the market was volume performing ahead of value, which is reflected in *The Grocer*

consumer price index fall you can see here. Reassuringly, brands have proven to be the winners this year, as private labels saw the biggest value share loss.

Whilst consumer environment is showing signs of improvement, it appears that there are other sectors that are seeing the benefit ahead of food and beverages. Household goods, recreation and culture, and the hotel, restaurant and bar sectors have been the clear beneficiaries, as can be seen from the Visa analysis of spend year on year in March. These market conditions were exactly what we had anticipated when we made our comments on market conditions and profit guidance at our prelims in November, with consequential downward pressure on pricing into retailers.

In France, the soft drinks market this year saw value growth of 0.6%, with a modest volume decline of 0.2%. The syrups and kids categories, which are of most importance to Britvic, grew at 2.9% value and 7% value respectively, significantly ahead of the rest of the market. More recently, in the second quarter we have seen the market decline, with volume down 2.4% and value down 1.4%.

In Ireland, we saw further growth in the second quarter, building on the improved market we saw in Q1. At the half year, volume increased by 2.9%, whilst value increased by only 1.1%. Although we have seen growth in the market after a number of years of contraction, there is still a deflationary aspect, with volume growing ahead of value. In part, this is due to mix, with again the plain water category the key driver of growth in Ireland, with volume up over 11% and value up 9%.

Reporting by segment

GB stills

Revenue in the first half was down 4.2% as a result of volume decline of 2.7% and an ARP decline of 1.6%. Whilst the take-home stills category volume was up 3.2% in half one, value was in decline at 0.4%, demonstrating a negative price mix variance of 3.6%. Mix was the key driver of this, again with plain water volume growth of 12.2% having a material impact on the overall stills category. Excluding plain water, the stills category volume declined 1.5%, and value declined 2.7%. Our performance very much reflects these category dynamics.

Squash category volume was under pressure, and we have seen a more competitive environment so far this year. During the period, Robinsons did lose share, primarily to cheaper tertiary brands. However, Simon will talk to you later about the exciting developments we have recently brought to market to reinvigorate both the brand and the category. Alongside that, we have also brought to market Teisseire and J2O Spritz, which were launched towards the end of the first half. The benefit of these innovations, of course, will be seen from half two onwards. During half one, J2O, supported by a strong marketing programme, grew its volume strongly, which excellent execution of multipack in the grocery channel.

Brand contribution margin declined by 200 basis points, primarily as a result of pack mix, but also reflected an increasing advertising and promotional investment, which was up nearly 8% on last year.

GB carbonates

Here we are lapping, of course, a very strong performance from last year, when we saw volume and revenue growth of 6.2% and 6.8% respectively. Despite a challenging market, we have delivered a stable volume performance, with all of the metrics materially ahead of last year. The carbonates category has been particularly competitive in the first half-year, and accordingly we view this performance as very credible. For example, in the cola category we have seen volume growth at nearly twice the rate of value growth. Whilst Pepsi lost some volume share, it again grew value share, with our no-sugar Pepsi Max variant benefiting from the successful introduction of Pepsi Max Cherry.

Brand contribution was up nearly 8%, whilst margin increased by 260 basis points, reflecting a more positive pack mix versus last year. If you remember, last year we saw large PET packs grow significantly, due in part to competitive pack changes in the market. We have also seen a significant increase in our dispense business. Both of these packs are lower margin than the overall category average. Our pack mix this year benefits from strong growth in our small PET pack, which generates those higher margins.

France

Against the backdrop of a market where volume declined and value growth was limited to 0.6%, we outperformed the market as the fastest-growing soft drinks business in France. In each of the categories of pure juice, syrup and kids' juice drinks, we increased value share in the first half of the year. The introduction of the Teisseire pump and MIX & GO last year have been very successful in bringing new households into the category.

With volume growth of 0.8% and ARP growth of 0.7%, revenue increase by 1.5%. In turn, brand contribution grew by over 22%, whilst margin improved by an impressive 490 basis points. This was in part due to the growth of our branded portfolio, offset by the decline of private label, as well as the benefits of both raw material deflation and our investment last year in moving Fruit Shoot production into France. That has resulted in the saving of distribution costs from the UK. At the same time, we have continued to invest heavily behind our brands, with A&P spend up significantly on last year.

Ireland

As a reminder, volumes and ARP measures do not include third-party brands distributed through our wholesale business, but these are included in revenue. In Ireland, our soft drinks brands performed strongly in the first half, with good volume, ARP and revenue growth. Reported revenue number disguises the strong performances of the growth of our brands, as this measure includes a slight decrease in third-party brands sold through our licensed wholesale business.

Brand contribution growth was strong, in part as a result of positive contribution from the licensed wholesale business, and also from the benefit of input cost deflation. This is now the second successive quarter of revenue growth in Ireland, and for the first time in a number of years Britvic Ireland has delivered a positive EBIT contribution to the group at the half year. Whilst we remain cautious in saying that the Ireland market has finally turned the corner, these results and the improved market conditions are nevertheless encouraging.

International

Volume was down 13.2%, leading to revenue down 11.9% at the half year. Second-quarter performance was heavily impacted by a one-off adjustment of £3 million as a result of the change of route to market in the Netherlands. Here we have moved from a distributor model to a direct-serve model. This is an important change which we believe will unlock further growth in the Netherlands, with the positive benefits already evident early in our second half. As an example, our new Netherlands-based team have already secured an additional 12,000 points of distribution, including the launch of new products and the listing of Fruit Shoot in Pathé, the leading cinema chain in the Netherlands. Excluding this adjustment, Q2 underlying revenue year on year would have been broadly flat.

Shipments of concentrate to the USA remain volatile. We disclosed in our Q1 RMS the introduction of a new franchise compound manufacturing process, which, whilst generating improved margins and efficiencies for Britvic, has also materially reduced order lead times for our bottlers. The consequence of that is that our bottlers have significantly reduced their stockholding of Fruit Shoot concentrate, which has led to lower concentrate orders in the first half. Sales out of Fruit Shoot product into the market remain very encouraging, and Simon will talk later about the continued development of Fruit Shoot in the USA. Brand contribution, as a consequence, was down 23%, reflecting both the revenue impact and the continued marketing investment to deliver the longer-term growth opportunities.

Profit and loss account

In line with our stated long-term strategy, we have continued to invest in our brands. In the first half, A&P spend increased nearly 15%, whilst our non-brand A&P spend was up nearly 6%. This represents an incremental £4.5 million investment in total A&P in half one, which is actually greater than the entire EBIT growth in the first half.

Outside of A&P, the delivery of the strategic cost initiatives and an increasingly cost-conscious culture within the business have resulted in a total cost base which is marginally down on last year, reflecting the continued delivery of our strategic cost savings, offset by further investment behind international and our marketing and innovation capability. We are reaching the end of the programme we communicated two years ago, and will have delivered the vast majority of these savings in the current year, in line with our guidance. Later on, Simon will share his thoughts with you on our medium-term outlook to further drive margin growth.

Working further down the profit and loss account, we continue to see strong leverage, as a 6.4% increase in EBIT translates to a 13% increase in profit after tax. Interest costs were down, primarily as a result of the successful bank refinancing delivered at the end of 2014. This resulted in a lower cost and more flexible credit facilities. The effective tax rate also declined by 140 basis points, reflecting the changes to UK corporation tax and the blend of profits across the group.

Exceptional costs this year are £1.3 million, reflecting strategic restructuring costs of £3.3 million which have been partly offset by favourable movement on the fair value derivatives, again from the disposal of an impaired asset and again from the sale of property in Ireland.

Underlying free cash flow was an outflow of £31.5 million, an increase of £0.7 million on last year. Net debt reduced by nearly £32 million year on year, taking our overall leverage down by a turn of 0.4 times to 2.2 times debt to EBITDA.

Just as a reminder, please remember that the half year is a working capital high, and the net debt to EBITDA ratio falls substantially at the year-end. Capital spend at the half year is broadly in line with last year, but we will see a step up in half two as the new Leeds PET line investment and additional warehousing project progresses.

Other spend on the cash flow schedule increased by £18 million, primarily for two reasons. Firstly, due to the purchase of shares to satisfy the intent of schemes vesting, and secondly, an increase in cash tax paid, driven primarily by the timing of our payments to HMRC.

2015 guidance

Our 2015 guidance remains unchanged, despite the continued challenging market conditions. Raw material costs have moved favourably this year, although the benefit of this has been partly offset by increased wage and property costs, the impact of FX and deflationary price pressure in the marketplace. This favourable trend also helps to support our continued investment in the long-term growth drivers of top line for the business.

Interest and tax guidance remains unchanged, as does capital spend. EBIT guidance is unchanged, and we remain confident of delivering in the range we communicated at our prelims in November of £164 million to £173 million.

Summary

In an environment where we have seen deflationary price pressure, aggressive competitor promotional activity and increased pressure on available space in the major retailers, we have delivered another strong financial performance, whilst continuing to support our long-term strategic objectives through continued investment in future top line growth drivers. A cost-conscious culture and focus on eliminating unnecessary cost has led to both improved cash generation and further deleverage of the balance sheet. This in turn underpins the delivery of increased shareholder returns, as demonstrated by the 10% growth in interim dividend.

The second half of the year will of course also benefit from the extensive marketing and innovation launches which are just coming to market. Whilst we believe that trading conditions will remain challenging for some time, we are confident of the delivery of our EBIT in the guidance range that we shared at the start of the year.

Simon Litherland

Chief Executive Officer, Britvic

Introduction

Thank you, John, and good morning, everybody. It is two years since we unveiled a new strategy for Britvic, and today I would like to update you on the progress that we have made to date, and share at a high level how we intend to drive continued margin expansion in the medium term. I will also update you on the investment we are making in marketing and innovation to grow our portfolio of brands, and, indeed, in our international business.

Executing our strategy

I am delighted with the progress that we have made over the past two years. Market conditions have become more challenging in that time. However, we have delivered our goals in each of the four priority areas and seen the benefit of this in our financial performance. We have invested in our marketing and innovation capability and, as a result, have improved our commercial delivery and launched some great new products in all markets. Our Irish business is back in growth and has returned to profitability, and we are now firmly focused on the commercial agenda to win in this market.

Whilst it is a small part of Britvic, we have made great progress with our international expansion. As a reminder, in the USA Fruit Shoot has achieved national distribution. We have signed a 15-year agreement with Pepsi, and we have continued to grow single-serve in the convenience and gas channel. We have successfully launched in India and have just established our own team in the Netherlands to accelerate growth in that market.

Our new organisation structure is well embedded, and the bulk of our cost savings programme has been delivered. The cost savings have enabled us to invest in our brands, our people and our infrastructure to ensure that we are able to leverage the growth opportunities we have identified going forward. We continue to build a culture that is both cost-conscious and hungry for success.

I am also pleased with the progress we have made in building trust and respect. Sustainability is now embedded in the business, and we have recently been awarded a two-star rating in the annual Business in the Community CR index. We continue to play an active role in helping people to lead healthier and more active lifestyles. In the past year alone, we have removed some 9 billion calories from the GB market, and we continue to use our brands to encourage people to get active through exciting partnerships like Fruit Shoot Mini Mudder.

Financial performance

All of this has allowed us to deliver strong returns for our shareholders. If you compare this year's first-half results to those in 2013, EBITDA is up 20%, and we have increased margin by 140 basis points. Earnings-per-share has increased 30%, enabling dividend per share to increase by 24%. Our balance sheet is in better health than it was two years ago, with net debt to EBITDA ratio falling by 0.7 times. It is worth noting that if you compare 2013 full-year results with current full-year consensus, our EBITDA margin growth will be in excess of 200 basis points. In line with our international ambitions, the percentage of revenue generated by Fruit Shoot outside of GB has increased by a third.

So we have made strong progress. However, there is more that we can and will do. This chart highlights our 2014 EBIT margin, 12%. As you can see, this benchmarks favourably against private label manufacturers and other bottlers, but compared to brand-dominated businesses there is an opportunity for us to improve our EBIT margin further. We will continue to invest to grow, especially in the kids, family and adult categories, which are core to our strategy. Of course, PepsiCo brands remain very important to us. However, changing the growth trajectory of our own portfolio will have a more significant impact on our shareholder returns.

We will continue to improve efficiency and drive unnecessary cost out of the business. We will invest to drive supply chain efficiency, and a good example of this is the £25 million

investment we are making in our Leeds factory. This investment includes a new PET line, which provides us with greater flexibility of pack sizes and will run at nearly twice the speed of our existing fastest PET line, with reduced downtime.

Finally, our international business is currently operating, as anticipated, at an EBIT loss. We have every confidence that this will start creating value in the medium term and will be a significant contributor to margin expansion.

Growing our brand portfolio

With our stated strategic initiatives now largely delivered, we have the organisational capacity to move on to the next stage of our strategy. Back in November, I shared with you how we intend to win in our core markets of GB, Ireland and France. Key to our success is our portfolio of market-leading brands, our strong route to market and sales capability. As you know, we have also significantly increased our investment behind our brands to create compelling marketing plans and a stronger innovation pipeline. In the past few months, we have launched a number of exciting brand initiatives across each of our markets. Given the timing of these launches, the benefits will be seen mostly in the second half of the year onwards.

Spritz, our new lightly carbonated and low-calorie J2O brand, is now in market, and the limited edition Garden Rose has been launched for the summer months. We have launched Pepsi Max Cherry and Tango Blood Orange, and started to roll out Teisseire in the UK. 7-up has been refreshed, and this summer will see the launch of a limited edition of a collectible series.

In addition, in line with our health strategy, we have also launched MiWadi Zero in Ireland – you saw the advertisement that went with that – and announced a major tie-up with Fruit Shoot and the Tough Mudder organisation to encourage kids to get more active. In Ireland, we will also be launching a Ballygowan juice drink this summer, with a range of great flavours. In France, our Teisseire pump pack continues to go from strength to strength, and has played a significant role in driving our strong market share gains. We have also just launched a Teisseire pack for use with soda machines, allowing customers to create their own sparkling Teisseire.

Finally, with the Wimbledon tennis tournament rapidly approaching, we will be celebrating our eightieth year as a partner of this amazing event.

Dilutes development

In November, I also talked about how we planned to grow the dilutes category. Juice concentration is a core competence for Britvic, and we have market-leading brands with Teisseire in France, Robinsons in the UK and MiWadi in Ireland. We are clear that to grow the category, we need to do four things:

- deliver quality products that are worth paying more for;
- provide relevant offerings for kids and adults, and create category excitement;
- deliver innovations which create new occasions to drink dilutes; and
- better engage shoppers at the point of purchase.

2015 will see us make a step change in each of these areas.

The journey began last year with the launch of super-concentrated Robinsons Squash'd in GB, followed this year by Teisseire MIX & GO in Europe. These handy pocket-sized packs allow dilutes to be drunk out of the home. The water enhancer category, as it is known, has grown rapidly in the USA, and we are confident that we can lead the category development in Europe. The Robinsons Squash'd launch has gone very well, and it has the three best-selling flavours in the GB category and a 70% value share. Squash'd has successfully brought new consumers into the dilutes category, and there is still significant opportunity to grow trial and penetration and to capitalise on the growth of the plain water category.

We have recently launched Teisseire into the GB market. Teisseire is a fantastic brand with an amazing heritage, and we are introducing the brand in a number of formats for different occasions, either with water, with alcohol or with coffee, in or out of home. And as I mentioned earlier, we see an exciting opportunity for French consumers to create their own sparkling Teisseire with soda machines.

A key focus of our dilutes plan is, of course, the turnaround of our core Robinsons brand in GB, which, along with the squash category, has been under pressure for some time. Robinsons has a 40-plus share of the category, and we are investing heavily in the brand to further strengthen its number-one position and stimulate category growth. A major multi-million pound relaunch has seen the introduction of improved liquids that give a significant taste preference over our competitors. We have introduced a contemporary new pack design to ensure stand-out on-shelf, and we have introduce a range of new flavours that tap into changing consumer tastes. In support of our health strategy, we have discontinued the added-sugar range.

Along with this, we are executing a world-class shopper and consumer engagement programme. We have an extensive media campaign ongoing, which includes TV, digital, outdoor and in-store sampling. We are also working closely with retailers to create fantastic feature and display in-store, making the squash aisle easier to shop. Let me take a minute to show you the new ad that has been running on TV since mid-April.

[Recording, 28.55-29.55]

Finally, you will be familiar with the ongoing debate around sugar in soft drinks. You will also be aware of the strong growth in water in GB, up over 12% in volume in the last six months. With on average just five calories per glass, we believe that Robinsons and MiWadi are a great low calorie and great tasting way to encourage families to drink more water. Therefore, we have been running a highly impactful campaign in both GB and Ireland, comprising outdoor press and some fantastic in store execution to bring our brands front of mind to consumers.

International ambitions

Turning now to our international ambitions where we continue to make good progress. As I mentioned earlier, we have recently established an office in the Netherlands as we take control of retailer relationships. We see this as a key step to accelerate the growth of Fruit Shoot and other brands in this market.

In India we are coming up to the first anniversary of the launch of Fruit Shoot, and have made good initial progress. We see India as a longer-term opportunity and are building the brand's awareness with parents and children.

In the US we continue to build momentum with our single-serve proposition. Fruit Shoot is now number two in the single-serve category, with in-market sales value up nearly a third on last year and increasing consumer awareness. In all regions we have increased share, up 240 basis points this year. It should be remembered that we only moved to national distribution 12 months ago and there is still huge potential to grow single-serve. This will continue to be the focus for us and our partners.

Our independent bottling partner, Buffalo Rock, is commissioning a new line to produce multi-pack and to complement the two existing lines with PepsiCo and PBV. We continue to evaluate the optimum route to market to access the grocery channel, to ensure we have the right plan for building the long-term scale opportunity for our brand. Whilst there may be opportunity to list the new multi-pack format and a small number of retailers this year, we anticipate a broader rollout in 2016 in line with customer range reviews.

We are still in the early days of building the brand in the US and its progress to date gives us every confidence in its long term success.

Summary

In summary, I am proud of the progress we have made, executing our strategy over the last two years. We have delivered the strategic cost programme that has in turn enabled us to invest in drivers of future revenue growth. We now have a fully-resourced international business unit to grow our brands internationally. Our marketing and innovation capability has been significantly enhanced and we are investing more behind our brands than ever before. All of this and our continued focus on eliminating unnecessary costs gives me confidence in our ability to grow revenue, improve margin and further increase profitability in the future.

Thank you. That concludes the formal presentation and we would now be happy to take any questions that you have.

Q&A

Ed Mundy (Nomura): Morning, Ed Mundy from Nomura*.* Three questions if I may. First of all, are you able to run through some of the route to market considerations for the Fruit Shoot national rollout into multi-pack in the US, and how confident are you? Are they a broad national rollout into multi-pack next calendar year?

Secondly on costs, John: We finished the £30 million cost savings story. There is a new culture of cost consciousness being embedded in the business. There are a number of new initiatives, manufacturing facilities for instance. How should we think about margin progression in 2016 and beyond?

Finally, you are throwing a lot of money at innovation and marketing as we go into the peak summer selling season, which you funded through cost savings. Which ones are you most excited about?

Simon Litherland: Great. I will take the first. I guess the first thing is where we are with the single-serve. I think we continue to make great progress but we also need to recognise there is a lot more to do on single-serve. We still have more distribution opportunities to go after in accounts[?] where we have permission to put Fruit Shoot, we have still got room to

place it there and get visibility in store. We have still got a great deal of work to do to build awareness of the brand, trial and penetration. That is where our core focus remains.

Of course, the multi-pack and the scale of volume opportunity is out there for us and we had articulated that we would have a light rollout of that towards the end of this calendar year. As we have been in the marketplace, we continue to learn, understand the brand, the competition and the alternative routes to market, and what we are really focussed on is building the brand for the long term rather than rushing at it for the short term.

We do have a number of different considerations. As you know, we have a direct service model through Pepsi, which is fantastic for the single-serve pack. It may not be the most appropriate model for the multi-pack. PepsiCo also have a wholesale division and a wholesale model, and indeed many of the competitive set and other FMCG brands go through a broker system. We need to continue to work out which is most appropriate for Fruit Shoot. We are putting the supply capability in place. We continue to work through the financial metrics of our different options; clearly, a much greater volume opportunity for the brand but thinner margins.

That is where we are. As we have articulated, we will have the pack produced so we may take some listings in 2015, but we recognise that big retailers tend to reset in the first half of the calendar year, so that is more likely when we will start to move on a broader scale.

John Gibney: Shall I take the cost one? In terms of margin progression, I think a couple of things to highlight there, Ed. First off, we have touched on a couple of time the investment we are making behind international and innovation in the business. In international, we have said we were going to invest £10 million of our cost saving initiatives back into international. We are now reaching that level on a business which, when we started that journey, was already making a loss and we are doing that for the reasons, primarily, that Simon has just described.

Secondly, as you know, we have invested very heavily behind our marketing and innovation capability within the business. We are bringing in a number of new innovations to market this year, which of course in the first year are all going to be broadly loss-making. In some cases, they will be neutral, but the growth will come in future years. The impact of those items alone is suppressing our current margin by in excess of 100 basis points, so we see just by turning that back to break even, there is over 100 basis points for us to go for there.

In terms of other areas, we continue to identify cost efficiencies, to some degree taking out costs but to another degree, making sure that our investments are working harder for us. One example is where we are actually making sure that more of our A&P spend actually gets in front of consumers on air, etc.

Secondly, there are further opportunities, we believe, in supply chain. We have talked previously about the new PET line in Leeds, which is by some way the fastest, the most efficient and, importantly, the most flexible line that we will have in the company. That can create greater cost efficiencies for us and we are going to look hard at whether or not there are other opportunities elsewhere that we can take advantage of with that.

Importantly though, the flexibility means our ability to bring new packs, different packs to marketplace where we probably recognise we are not as good as we want to be yet,

significantly improves. That gives us a greater chance to firstly, drive top line, but secondly, improve our margin as well.

Therefore, whilst we have not officially guided to margin, we can already see where there are significant opportunities for us. I think the chart that Simon has used supports that, where we believe we can further enhance the even margin and get to a level which we would see is much more representative of a brand-only company, who also bottles for Pepsi, as opposed to being closer to the bottling model at the moment.

Simon Litherland: I will just pick up the innovation. I am excited about all of them. I am particularly excited that we are starting to create a lot more, in this sort of environment where our customers are looking for growth opportunities, being able to come along with category stories and innovations targeted at specific consumer needs and insights and create growth opportunities for them, is exactly what they are wanting and is really helping our relationships and building our credentials as category leaders with our customer base.

Holistically, we have made some great progress in building our innovation capability and pipeline. The Robinsons re-launch is really important for us obviously, but I am really excited about that. The liquids have all been refreshed and upgraded, if you like, and the taste preference over the competition is significant, so we are really excited by that. For some time we have been following a value over volume strategy, as you well know, but to be fair, we needed to rejuvenate Robinsons to justify the 'worth paying more for.' I think in this refresh the liquids are better, the pack is fantastic and placed a real truth of 'fruit in every drop,' which consumers love. I think our marketing behind the brand, both above the line through digital and in store is going to be fantastic, so that is a really important one.

J2O Spritz, I do not know if you have tasted it, but it absolutely tastes great. It is designed for an adult palette, it is designed to be drunk with food and it really is relevant to today's consumer tastes. It is low calories, just 55 calories, so we are really excited about moving the J2O brand on, and keeping that brand relevant. Ballygowan Sparklingly Fruity, which is yet to be launched, but will be later in the year, tastes fantastic and really is a fantastic-tasting drink and three or four calories, or of that order, so we are excited about that.

Personally, I am still extremely excited about Robinsons Squash'd, Teisseire MIX & GO. This category took some time and certainly some investment to build in the USA, but as you know, it is in our big category there. Early signs are very positive, but we have still got very low penetration and trial. We are ahead of where we expected to be and the brand has been received well, but we have still got a long way to go. That is one that we will need to keep building and investing behind and I believe we will see the returns over time, because it is about changing consumer behaviour and getting people to drink out of the home as well.

There is lots on offer and lots to come.

Ed Mundy: Yes, thank you. Just two quick things following on from that: in terms of the A&P spend, I was wondering where you are relative to benchmark? You clearly had a lot of innovations and launches, just what the actual organic trend is in that A&P spend?

Then the second thing is: You gave us an early doors run rate on Fruit Shoot. What is the early doors run rate on the concentrate category, or is it meaningless because you have not been in there long enough?

Simon Litherland: On A&P, I guess the first thing to say is, if you look at our A&P spend as a percentage of our revenue, remember that it is under called because it is only our portion of the A&P and obviously on the PepsiCo brands in the UK and Ireland we share that with PepsiCo, so the ratio would actually be higher. I think it probably benchmarks pretty favourably against our competitive set. Of course, as you drive more innovation, it does require investment, which we are putting behind the brands.

However, it is not always new money. For example, the impact of launching Robinsons Squash'd was positive on the mother brand as well. Some of the spend that had previously been directly at the core brand was diverted to Squash'd at that launch. Squash'd has brought new consumers into the dilutes category on a whole, which benefits the mother brand as well. Therefore, it is not all new money. Some of it is just moving it around and using the money in a different way.

On concentrates, it is actually really too early to give you an indication. We are in some of the big retailers. You will see the new pack out there. We have been on air for about four weeks. Tesco has reset from the beginning of June so it is too early, but we will clearly be able to update you next time round.

Andrew Holland (Societe Generale): Andrew Holland from Societe Generale. Can you just remind me on where you are in the US? I think you have said in the past that you are currently losing about £10 million at EBIT. Is that right?

John Gibney: For the international business, you mean? We said we would invest another £10 million on top of we were already losing at the EBIT level before we started that.

Andrew Holland: Right. You expect to get break even in the US, I think, within two years, which would be to September 2017. Is that right?

John Gibney: We have always qualified any break even, I think, by saying it all depends on how multi-pack launch goes.

Andrew Holland: That was what I was going to ask. If the multi-pack is taking a bit longer, does that have implications for when you are going to break even in the US?

John Gibney: I think the thing that has more relevance to when we will break even will be the progress that we make, so we are about to enter with multi-pack a £2 billion retail sales value market. If we see the opportunity to continue to invest hard and get the returns for that for longer term, then we will absolutely do that because the real prize for Fruit Shoot in the US is to establish it as a strong, sustainable brand, and therefore we would be very cautious about when we take our foot off the gas. That is one of the reasons why we are not giving you absolute clarity about when we think we will get to break even.

Simon Litherland: To build on that, investment levels are as big a factor as when we launch multi-pack.

Andrew Holland: Just for clarity, on the Dutch adjustment there, you lost £3 million of sales. What was your profit loss on that £3 million of sales?

John Gibney: If you wanted to use some sort of proxy, I would use quite a low proxy because obviously we are sharing that with the distributors, so that the margin on that would

not be as high, for example, as you would see within the GB marketplace. It is not hugely material in profit terms; it is much more relevant at the revenue level.

Andrew Holland: Thank you.

Charles Pick (Numis): Thanks. Three questions please. On Robinsons, is it possible to quantify the sort of share loss you have seen over the last couple of years?

As regards the A&P, I was not quite clear from the previous answers whether that +40.6% continues for the entire year?

Finally, on the GB carbs, your volume was slightly up in the second quarter, despite that terrific second quarter last year. We have the CCE Q1 results for calendar 2015 in which the volume was up 8.5%, so seemingly, despite them regaining some market share, you have held onto your market share, if not probably slightly increased it. Can you expand on how you are doing quite so well on the GB carbs?

Simon Litherland: On Robinsons first, the share loss has actually been minimal. Over the years, we have ranged between 39%-42% share of the category and we are currently at around 40%. We have been watching that, we are pretty comfortable with it. Occasionally we dial up the intensity of activity behind the brand, but that has not been material.

In terms of the A&P spend, I would not necessarily take the 14.6% right through to the full year, but as we have articulated before, our intent is to continue to up weight our investment behind our brands and the growth opportunities that we see.

Finally on carbs, we are very pleased with our performance on carbs. Slightly different this year than last year: if you remember last year in this half one of our competitors launched a 1.75l multipack and therefore a lot of the growth that we had last year was actually in the 2l pack. This year has been much more focussed on multi-pack cans and cans and single-serve cans and 600ml, and you will see that in the positive mix. The other thing that I would say is that Pepsi Max continues to do incredibly well, both from a consumer metrics perspective and from a growth perspective, and that has certainly been augmented by Pepsi Max Cherry, which we launched a couple of months ago, and that is going down very well in the marketplace too.

Andrea Pistacchi (Citi Group): Hi, it is Andrea from Citi. Could you talk a bit about the pricing environment in the UK? Not so much the relationship with CCE but mainly the relationship with the supermarkets, therefore focussing on stills. Is the issue mainly about private label price points having come down and that putting pressure on the pricing architecture or is it more about supermarkets pushing for deeper promotions or a combination of the two? I do not believe there is no sign of improvement yet, but what is on the horizon, do you think, on a 12-month view here?

Secondly, a bit more technical, on your international sales which were impacted by the two technicals: In your view, have the inventory adjustments in the US by the bottle been completed, and will the disruptions from the transition to direct distribution in Holland, is that behind us now? Therefore, in [inaudible] should we get sales more aligned with underlying trends?

John Gibney: I think in terms of the adjustments that we made in the first half, the transition to the direct sales model in the Netherlands is pretty much now complete, so that

has worked its way out. In terms of stock levels in the US, we would think that is almost done. There might still be a little bit of an overhang going into the second half, but we would expect to start to see much more alignment as we go into the second half behind concentrate sales and the relationship between sales out[?].

Simon Litherland: On pricing, Andrea you know as well as I do that the intensely competitive environment amongst the retailers is incredibly evident and absolutely having an impact on food prices, FMCG pricing and John showed a chart which reflected the deflation environment in our category. Of course, that gets pushed and makes it harder for suppliers. On the other side of the coin, we have had tailwinds from input costs, so it is balancing out.

In stills specifically, it is the sum on the sum on the sum, so yes there is more intensity behind the promotions and the level of those. However, the challenges really are on private label pricing, so we did move our average retail price. Obviously, we do not control pricing, but the average retail pricing moved between Robinsons and [inaudible] moved up over time. That for sure has had an impact. However, as I said earlier, making the brand worth paying more for because it tastes better and looks better and is presented better is what the game is about.

What does it look like going forward? You probably have as good a view as I have. Some of the signs in what I have read would say it is easing a little, but we are not anticipating the massive opportunity to take price in the short term. I think what is important is our innovation agenda, the investment behind our brands to make them worth paying more for and to bring innovations to market that can bring growth and bring margin enhancing opportunities for both our customers and ourselves.

Simon Hales (Barclays): Thanks. It is Simon Hales from Barclays. Just a couple of quick questions, just going back to the COGS point you mentioned then, Simon. Can you talk a little bit about the trends you have seen in COGS? What was better in the first half compared to the guidance you gave John back at the full-year stage? How should we think about the outlook for COGS over the next six to 12 months?

Secondly around India, you mentioned it in passing. Can you flesh out a little bit what has been going on in that market over the last six months and are there any other international markets where you have been trialling Fruit Shoot and other brands that are perhaps very small, but we should increasingly start to be aware of in the background?

John Gibney: Just quickly on carbs: I guess the position on COGS has been a bit better than we anticipated it would be, but clearly the pricing pressure has come through from the retailer so the best way to think about it is one mitigating the other. Where we have seen improvements will broadly be around PT, which I guess is no surprise with where oil prices are, though as you will recall, PT does not always follow oil prices down very quickly. Not as quickly as them going up anyway, in my experience. However, we have seen some benefit coming through there, so that has been the major change.

Simon Litherland: On India, I guess we are making solid progress, is the way that I would describe it. We are working well with our partner in Narang. The initial focus was to gain distribution in the more premium outlets in ten major cities, so we have about 40,000-50,000 distribution points and we have got some interesting on-trend listings as well, with a couple of cinema chains. It is very early stage, we know that the brand is at a significant premium

price point in that marketplace, but consumer offtake and acceptance is good. As I say, it is a slow burn, but we feel like it is an attractive marketplace and we will continue to progress. If you remember, we articulated when we launched there that our target would be around 100,000-120,000 outlets, which we will make progress towards over the coming couple of years.

Other international markets: our focus really is on the ones that we have already mentioned. Obviously we are particularly pleased with Fruit Shoot's performance in France, which continues to grow. As John articulated with one of his slides, it has clearly benefitted from having the local supply in France now, which is fantastic. We are in Spain, if you remember, in a relatively small way. I think making great progress, particularly in the on-trade, which is a good place to start with water parks, movies and theme parks and things like that. Again, just starting to build brand awareness and starting to grow penetration in that marketplace. The breakthrough will come once we have built the brand to a certain level and start to gain traction with some of the bigger retailers in Spain. We are in, I think, four out of the big six, but missing the biggest. Of course, Spain is quite a fragmented market, so it will take some time.

At this point in time, that is pretty much where our focus is. However, as I shared, we have done a lot in the last couple of years and as we start to close things off and draw a line under them, that creates the capacity for us to drive things forward and then continue to build in other areas against a strategy that we have articulated

Andrea Pistacchi: Thanks. It is quite a specific one on the US. You have said that you are still making an underlying progress in the convenience channel. You tell us where you are in terms of points of sale and ideally the total universe of points of sale where you could be in?

Simon Litherland: Just broadly speaking, Pepsi's direct service model probably covers around 350,000 outlets. We are in probably just under a third of those or less than a third of those. That would be across all channels, so including the on-trade if you like. It is the significant space to go, and that is where we need to build the brand and as we have articulated, building the brand for the long term in the right way is our focus, rather than rushing into multipack at any time. Therefore, we will continue to focus on that and we are building the capability and learning as we go to get into multi-pack in due course. That is about the range.

From an awareness and penetration perspective, we are not moving the dial yet. It is still very low. Again, lots of work to do and lots of opportunity, but we know that the brand is liked, consumers are responding well to the brand and as we say, we are now number two in the single-serve kids category in a relatively short space of time, which we are really pleased with.

John Gibney: I think that is probably all we have time for. Thank you very much to everyone for attending, and no doubt we will be speaking to many of you over the coming couple of weeks or so. Thank you.

[END OF TRANSCRIPT]