Britvic 2016 Interim Results Presentation

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Market overview

Financial highlights

Morning everyone. I will now take you through our interim results for the 28 weeks to the 10th April. All numbers on this slide are shown on a pre-exceptional basis at actual exchange rates, not constant currency, and include the consolidation of our Brazilian business for the first time.

Group revenue was £678 million, an increase of 4.3% compared to last year, and on an organic constant currency basis, revenue declined by 1.8%. Group EBITA has grown by 6.6% to £69 million, with EBITA margin increasing by 30 basis points to 10.2%. Our profit growth was underpinned by a strong focus on cost control, and benefited from the inclusion of Brazil for the first time. On an organic constant currency basis, EBITA growth was 3.1%, and I will go into further detail on our organic performance in a few moments.

EPS has grown by 5.5% to 17.3p, while our adjusted new debt/EBITDA ratio has improved by 0.2 times. As a result, the Board has declared an interim dividend of 7p, an increase of 4.5%.

Overall, these results reflect our ability to continue to grow returns for shareholders in difficult market conditions.

Soft drinks market H1

Turning now to the markets we operate in. This slide illustrates the value growth of the total soft drinks markets in GB, Ireland and France. As anticipated at the start of the year, the soft drinks category in each of our main markets has remained challenging. In both GB and France, the category has continued to reflect a reduction in the value of the soft drinks market, and this has somewhat worsened in the second quarter of the year. Performance in Ireland has been more resilient, reflecting the more buoyant economic conditions in that market.

Turning now to the drivers of that market performance, you can see from this slide that in GB, there has been some modest volume growth, but this has been more than outweighed by adverse price mix, resulting in a value decline of 0.4% in the first half of the year.

In the last 12 months, the soft drinks category value has declined by around 1%, similar to broader grocery deflation which is tracking at around 1.5%. This has been partially offset by strong growth in convenience formats and growth in other channels, such as the leisure market.

In France, both volume and value are down, but mix has been slightly positive, as consumers have traded into higher value brands and sub categories.

In Ireland, we have seen both volume and value in good growth, driven by stills, with value increased by 5.6% due to water growing 14.5%. Carbonates was more subdued, with value growth of around 1%.

This chart breaks down the GB take-home soft drinks market into its sub categories, with the arrows at the top of the chart illustrating Britvic's share performance. As you can see, there has been divergent performance across the soft drinks market. Notable is the continued strong growth in water, in which we have a small but growing share, and continued strong growth in Adult offerings and cold/hot beverages.

However, as the chart illustrates, a number of our core categories have been under pressure, with cola continuing to decline and dilutes also continuing to reduce, in part reflecting our decision as the category leader to remove our full sugar offerings. The Kids category is also in decline, reflecting parents' concerns on sugar consumption and increasing awareness of hydration, with water consumption increasing.

Continuing to outperform

Whilst the market in GB has been challenging, particularly in a number of our core categories, we have continued to outperform and gain share. As you can see, we have taken share in nearly all of the key categories that we operate in; the disappointments being in squash, where we have lost share in a declining category, and in Adult, where we have not been able to capture our fair share of the growth, despite innovating in J2O.

Most of our key brands, including Pepsi, Fruit Shoot, Lipton and Ballygowan, have all taken share, and we continue to believe our portfolio is well positioned for the future evolution of the soft drinks market in the UK. In Ireland it is a similar situation, with good share growth, led by our brands such as MiWadi and Ballygowan.

In France, both syrups and juice categories have declined, reflecting the broader consumer environment. The Kids category has continued to grow, with Fruit Shoot leading the category growth. We have taken share across the board with Teisseire, Pressade and Fruit Shoot all increasing their share of the market. The market is increasingly difficult, but we are growing our branded business in this environment.

Financial review

Turning now to our financial performance, you can see on this slide the components of our reported revenue and EBITA growth.

Currency impacted our results, with a weaker euro in the first half of the year reducing our reported revenues in EBITA. Organic revenue on a constant currency basis decline 1.8%, with negative FX resulting in a 2.5% reported decline.

Organic constant currency EBITA increased 3.1%, with FX movements reducing this to 2.6% growth. The impact of Brazil contributed positively to our reported revenue in EBITA, leading to Group reported revenue up 4.3% and EBITA up 6.6%. This performance reflects our continued focus on cost management across our markets, as well as a benign commodities environment which has limited the impact of price deflation, particularly in the GB market.

In terms of our revenue performance, the second quarter of the year reflected a better performance than the first, with comparable revenue declining 0.8% on a like-for-like basis, compared to a 2.1% decline in Q1. This reflected stronger performances in GB Carbonates, Ireland and our International division in the second quarter of the year.

Business unit highlights

Turning now to business unit highlights. All of the numbers here are on a pre-exceptional and constant currency basis to enable better understanding of our underlying performance.

A strong second quarter performance saw GB carbonates revenue up over 5%, leading to a half-year revenue growth of 2.4%. The focus on the no-sugar Pepsi Max variant continued to be very successful, with the new Cherry variant in particular a key factor in the growth. 7Up Free, which has no sugar or caffeine, saw a 5.1% increase in its take-home market value, whilst the Fruits Carbonate category grew 1%.

GB stills performance was disappointing. Volume and ARP declined, resulted in a revenue nearly 8% down on last year. Robinsons underperformed the category, as we removed the added sugar variants last year, and have experienced some volume loss as a result. The category has also continued to be affected by aggressive own-label price competition.

Performance was weaker in the second quarter than we had seen in the first. This reflected a number of one-off impacts, including promotional phasing, annual negotiations with retailers and a strong buy-in over the Christmas period, ahead of our hydration campaign in January.

In the second half of the year, we will start to lap the removal of the added sugar range, and we will be introducing some new pack formats. Whilst Fruit Shoot gained market share, its overall performance declined, reflected the weaker Kids category.

In France, the volume in revenue decline is largely driven by a reduction in private-label sales, which have been adversely affected by broader consumer sentiment, as well as the de-list of some product lines reflecting pressure on raw material availability and price, most notably in pineapple juice.

The ARP decline is partly attributable to the growing strength of the Fruit Shoot brand, which has a lower ARP than the French average, but is accretive to the Group. With this continued growth, Fruit Shoot is now firmly established as the leading brand in the category, although we have seen a number of private-label entrants more recently.

Ireland has now seen revenue growth in four of the last five quarters. Revenue was up 4.1%, with a second quarter growth of 7.3%. Our own brand portfolio grew its value share, led by the Stills brands Ballygowan and MiWadi. We also saw a strong performance by the Counterpoint business in the licensed wholesale channel. The success of Counterpoint and Ballygowan Water, which are at structurally lower margins, are the drivers of the decline in the brand contribution margin.

Turning now to International. The numbers shown here are on a comparable basis. The change to a direct route to market in the Netherlands last year has resulted in a change of accounting policy for investments that were previously reported in overheads and are now reported in revenue and marginal costs, totalling £3.4 million. The reported performance is detailed in the Appendix as well as in the R&S for clarity. In the Netherlands, whilst we gain market share, the trading environment was increasingly challenging.

In the USA, our concentrate revenue for single-serve grew year on year, and we saw the inclusion of a small amount of volume in revenue for multipack sales later in the half, as we launched into the grocery channel.

Our first-half performance in Brazil has been encouraging, with our brands increasing market share in a very difficult market environment. Whilst we did not own the business last year, comparable volume and revenue grew by 3.8% and 8.6% respectively. We have increased prices in response to high levels of input cost inflation, which has resulted in ARP growth of 4.6%. The lag effect of increased costs and subsequent price increases has resulted in a 117-basis-point contraction to brand contribution margin. We have also invested in the business as we look to deliver on our acquisition commitment of at least doubling its EBITDA by 2020.

A&P investment and cost base

Turning now to A&P and costs. A&P spend was lower in the first half of the year by £3.8 million, and A&P spend as a percentage of revenue decreased by 80 basis points to 4.7% of revenue. This was in part due to the inclusion of Brazil, which currently spends much lower levels of A&P than the Group average. Organic A&P spend was down, largely as a result of the timing of activity last year, when A&P was up nearly 15% on 2014.

We continue to focus on the efficiency of our marketing spend, and have been actively seeking to reduce our non-working spend in particular. We have seen some benefits of this in the first half, and we would expect to benefit further in the second half of the year.

Fixed costs reduced by 1.2% to £188 million, including Brazil overheads for the first time. Underlying fixed costs were down nearly 3%, and there was also a one-off benefit from the reclassification of the international overheads into revenue, following the route to market change last year.

During half one, the residual benefits of the 2013 strategic cost initiatives were achieved, amounting to approximately £2 million.

Strong earnings growth

Turning now to our earnings. Our amortisation charge of £3.6 million now includes an estimate of the fair value of adjustment for Brazil at the half-year of £2.1 million. The amortisation charge assessment is ongoing, and I will update you at the prelims in November on the final value. I anticipate it is likely to be in the order of £4–5 million as a result of acquisition-related intangibles. This does not impact earnings guidance, which is given at an EBITA level.

Interest costs are £1.3 million lower due to the benefit of the refinancing of the bank facilities and the lower debt profile of the Group. As a result, profit after tax increased by 7.5% to £41.7 million pounds. Full-year guidance on interest and effective tax rate remain unchanged.

Clear capital allocation priorities

Turning now to capital allocation. Our priorities are clear, and we have reflected progress in each of these areas in the first half of the year. We strongly believe these capital allocation priorities will underpin our ability to drive superior shareholder returns over the long term, as we increase our dividend and continue to invest for future growth while maintaining a flexible balance sheet.

Cash flow and CAPEX

Our cash flow reflects these priorities, with our capital expenditure increase £25.3 million in support of our supply chain investment in GB. This has been partially offset by reduction in other cash flows, reflecting lower interest costs and a reduction in the number of shares purchased to satisfy employee incentive schemes. We continue to expect CAPEX to be in the range of £120–130 million for the full year, reflecting an incremental £70–80 million of investment in our ongoing supply chain program.

As you are no doubt aware, 2016 is a 53-week year for us. We anticipate this having a negative impact on our working capital, as we will have an additional payment run falling into the year of around £30–40 million. We would duly expect this to reverse in the 2017 financial year.

As a result of the increased capital expenditure and our predictions for week 53, we anticipate adjusted net debt being in the region of 1.8–2 times EBITDA in the full year.

Robust balance sheet & funding platform

Following the refinancing of our bank facilities and the long-term US private placement debt profile, we have a strong funding platform. The revolving credit facility has a mechanism to increase to £600 million if so required, and we have the option to extend the facility for a further year until 2021.

The US private placement debt market is one that we know well, and forms the majority of our debt financing. In 2017, we have £125 million of debt due to be repaid, and I anticipate that we will go back to the debt markets to refinance this.

Raw materials fixed for 2016, headwinds from currency

Turning now to our raw material and currency exposure. Our raw material requirements for FY16 are now largely hedged. We have seen some inflation in both juices and also in sugar, which has been offset by further falls in the cost of PET resin. Overall, the raw material environment has been benign. Looking ahead to 2017, there are some signs of inflation appearing in key commodities. Assuming these trends continue, that will lead to low-single-digit inflation next year, but we will be able to give you a more detailed view at our prelim results.

In terms of currency, we are transitioning from a 12-month to 18-month hedging policy. We are doing this in light of the increased FX volatility, and reflecting the growing international nature of the business. This year, we have seen currency movements work against us for the procurement of raw materials. As a result of this, we are having to mitigate a £2-3 million to the P&L, primarily in the second half of the year. Finally, we have now fully hedged our Brazilian real requirements for the second equity consideration due on 30th September 2017.

Full-year outlook

So to bring this review of our financial performance to a close, I would like to briefly summarise. Overall, we have continued to outperform in difficult market conditions, and we have taken share in all of our key markets. We have done this while continuing to invest in the future growth drivers of our business. We have generated strong earnings growth, underpinned by disciplined cost management. However, we see no signs of improvement in market conditions in the balance of this year. At this stage, we remain on track to deliver EBITA in our guidance range of £180–190 million.

I will now hand over to Simon, who will update you on the progress we have made in delivering our strategic priorities.

Strategic Priorities

Simon Litherland

Chief Executive Officer, Britvic plc

A clear strategy to create superior returns

Thanks Matt, and good morning everybody. You are all familiar with the strategy we first shared with you in May 2013. Today I will update you on some of the progress we have made in executing the four pillars of this strategy. However, before I go into the specifics, our ability to take share and outperform the market in difficult conditions is testament to our portfolio's strength, the innovation agenda, and the increasing revenue management capability that we have. Whilst we are not where we would like to be in terms of revenue growth today, I believe we are making progress, as I will explain shortly.

We have also taken some important steps in realising our global brand opportunities, with multipack Fruit Shoot coming into the shelves in the US, and our recent acquisition in Brazil is performing well. Lastly, I will talk about how we are playing a leading role in addressing the public health issues.

Generating profitable growth in our core markets

Family category leadership

Turning to the first pillar of the strategy, of generating profitable growth in our core markets, starting with our family brands. Whilst Robinsons' short-term performance has been impacted by the decision to remove the added sugar range, it is the right decision for the long term, particularly for a family brand like Robinsons where consumers are moving towards 'better for you' soft drinks. In addition, when we relaunched the brand we improved the taste, added new flavours to the range and we are adding new pack sizes in the second half of the year to unlock specific channel growth opportunities. The brand's consumer perception metrics continue to improve following the relaunch in May of last year.

In Ireland, MiWadi is the leading squash brand, and last year we launched MiWadi Zero, which has grown the category, taken a 5% share and attracted new consumers. With a formulation based on real juice, sucralose and Stevia, it appeals to consumers looking for a low-calorie way to enjoy squash. We are building on the successful launch by broadening the Zero range of flavours this year.

Leveraging leadership in dilutes

As the number one dilutes player in each of our markets, we continue to innovate with format to provide consumers with more ways to drink dilutes. As you are aware, we launched pocket dilutes a couple of years ago, to enable people to enjoy squash out of home in places such as the office, the gym, or indeed on the go. Whilst this is still a small category in our markets, it is extending dilutes into new occasions, and offers an opportunity to generate incremental category value. MiWadi Mini is shortly launching in Ireland, and will help build the category with Robinsons Squash'd. In GB, Robinsons Squash'd already commands over 60% market share, and our 'enjoy drinking more water' campaign was launched in February and increased sales by 15% year on year.

Establishing new adult category growth opportunities

We are also extending dilutes beyond their traditional family base into more premium adult occasions. Last year we launched Teisseire in GB, which appeals to an older, more affluent consumer than Robinsons. Teisseire has an incredible heritage and brand equity in France that provides a fantastic platform to build on internationally.

In the UK, brand awareness is just starting to build, but it is the fastest growing premium dilutes brand bringing more consumers into the category. It has been particularly successful in Waitrose and has just been listed in Sainsbury's.

We continue to expand our adult soft drinks portfolio through more established brands such as J2O. The recently launched J2O Spritz is the fastest-growing adult juice brand in GB and is attracting new younger adults into the J2O range. Spritz only has 55 calories per serve and sugar levels are below the proposed soft drinks tax.

'Better for You' innovation to meet evolving consumer needs

Other examples of recent innovations include Ballygowan Sparklingly Fruity in Ireland, which leverages Ireland's number one water brand to offer a premium product in the growing water-plus category. Where available, it is already outselling the leading competitor brand and averages only 20 calories per can, with significantly lower sugar than the other brands in the category.

In GB we have relaunched Purdey's and added a new dark berry variant, Purdey's Edge, to fill the demand for a more natural energy drink. It has 40% less sugar and calories than other energy drinks and a formulation based on juice, herbs and botanicals. We are really excited about this relaunch, and have partnered with Idris Elba to be Purdey's brand ambassador. Here is a video from our 'Thrive on' marketing campaign which has already had 22 million views since it was aired online last month.

[VIDEO PLAYING]

Winning the GB Subway business with a compelling portfolio offering

Winning in the food service channel is a key area of growth for us, so I am delighted to share with you that we recently won the Subway business in GB. This seven-year agreement for over 2,000 outlets will mean our brands touch two million consumers a week and provides a strong basis for future growth. This win demonstrates the power of Britvic and Pepsi's portfolio, and the value of our compelling low- and no-sugar brands. We will also be trialling Robinsons on draught for the first time, and offering Teisseire flavour shots to mix with the dispensed carbonates range.

Winning share in a growth channel

Another strategic focus has been growing our share of the impulse channel and our 'On the Go' packs. We have been successful in recent years as we leverage our competitive advantage in low and no sugar, and extend our portfolio and increase investment in the channel. As an example, since 2013 we have seen our share of the impulse channel as measured by Nielsen increase by 19% and we have also driven 40% of 'On the Go' category growth across take-home over the past year. This is an incredible achievement, bearing in mind our overall share position in the take-home market is around 12%.

We have delivered outstanding growth for brand Pepsi in the last two years

Over the last two years Britvic has also delivered outstanding growth for brand Pepsi, generating £57 million of incremental retail sales value in a category that has stayed flat. This has been led by Pepsi Max which offers the full taste of Pepsi with no sugar, and the introduction of Max Cherry has also been a huge success, delivering two thirds of the growth year-to-date and expanding Pepsi's in-store and shelf presence.

Realise global opportunities in Kids, Family and Adult categories

Fruit Shoot multipack now on shelf in US grocery channel

Moving on now to our strategic aim of realising global opportunities in Kids, Family and Adult categories. In the US we are in the progress of launching Fruit Shoot in multipack. The brand will be available in a number of major retailers such as Walmart, H-E-B and Kroger, and we expect an initial national distribution of around 20% as measured by volume. We are pleased with the good progress we have made with Fruit Shoot multipack, but we know it is the start of the journey. This year we will focus on building distribution, consumer awareness and driving trial through extensive digital activity, in-store sampling programmes and we will test TV advertising in three cities. The success we have had in single-serve outlets and the increasing penetration in Pizza Hut gives us confidence that the multipack offering will continue to grow the brand.

Outperforming a tough market in Brazil

In Brazil, despite an incredibly tough macro and trading environment, our Maguary and Dafruta brands gained share in the first half of the year. Volume is up 3.8% and revenue is up 8.6% on last year. This is particularly encouraging given that the total soft drinks category is down 4.5% in value. Having largely completed the integration phase, we are now focused on building our commercial plans and I anticipate being able to share more detail with you at our prelims in November. We have retained a strong and committed local management team who have done a great job. With our global expertise, the brands in our portfolio and the benefits of a well-capitalised local business, I am confident that we will deliver on our acquisition commitment to at least double EBITDA by 2020.

Continue to step-change our business capability

Investing in GB to deliver cost savings and unlock growth opportunities

In November we announced a GB supply chain programme that will deliver significant cost savings through lower production costs and more efficient logistics network, leading to lower energy usage and lower ongoing maintenance and capital spend while also providing the capacity and the pack flexibility to enable us to better access revenue and margin growth opportunities. We have made good progress so far and are on track to invest £70–80 million incremental capital this year. This programme will deliver a minimum cash return of 15% on an ongoing basis. I anticipate being able to share our 2017 investment plans with you in November.

On track with phase one of plan

To call out some of the detail of what has been achieved so far, in Leeds our new PET line is now operational and we saw a video of that as you walked in. This high-speed line will produce pack sizes from 500ml to three litres, enabling us to better access growth channels. We have also built additional on-site warehousing from which we will supply the North and Scotland, thereby reducing mileage, stockholding and emissions.

In Rugby we are investing in three new can lines that will be commissioned next year. We will be able to produce a variety of can sizes rather than just the standard 330ml, and we will no longer need to outsource some of our production.

At our London in Beckton, which today produces carbonates, we are investing in a new PET line which will mean that Robinsons can be produced outside Norwich, reducing the supply risk and giving more flexibility. Warehousing will also be extended, further improving our logistics network and reducing costs.

Finally, in Norwich we have invested in our production flexibility to enable the supply of several new pack sizes for Robinsons that will support growth plans in the balance of the year.

Build trust and respect in our communities

Taking a bold approach leading the industry

We know that consumers are increasingly interested in their health, and we recognise that obesity is a growing societal problem across the world. As a leading soft drinks manufacturer we want to play our part in tackling it, and that is why leadership on health issues has always been part of our fourth strategic pillar of building trust and respect in our communities. We have taken bold steps to help consumers make healthy choices through reformulating our drinks without compromising taste or quality. We were, for example, the first UK soft drinks company to introduce Stevia. We removed the added sugar Fruit Shoot and Robinsons ranges in GB, and we have reformulated other brands such as J2O and Drench to reduce sugar content. We have a responsible marketing code and we do not market under 12s. 75% of our marketing spend is directed into low- or no-sugar products. We continue to encourage kids and families to get active through our marketing programmes such as the Fruit Shoot sponsorship of Mini Mudder for kids in the UK, Ireland and in the USA.

Proposed GB soft drinks tax

In GB, the government has recently announced plans for a tax on soft drinks' manufacturers, and indeed in Ireland there is a cross-party support for some form of sugar tax. Britvic does not support the introduction of a soft drinks tax, as we believe that an integrated holistic approach is the only way to tackle obesity, and for that reason we were surprised and somewhat disappointed at the government's announcement in March. However, the focus that we have given to this and the actions we have taken over the last few years to build a strong portfolio of 'Better for You' brands means we are well-placed to respond.

We have a higher proportion of no added sugar drinks as a proportion of our total portfolio than other key manufacturers in the market. We have just over a 30% market share in no added sugar, while our overall share of the soft drinks market is just under 12%. Currently, 66% of our GB volume is below the proposed tax threshold or exempt from it as currently proposed. Our innovation pipeline is weighted, of course, to lower sugar or nutritionally enhanced brands. It is important to note that the government has yet to consult on the policy, so the proposals are at a very early stage, and we will of course engage constructively on the detail.

Optimistic on the prospects for soft drinks category growth

Before I conclude, I want to spend a few minutes talking about the future and why we are optimistic about the prospects for growth in our core markets. Firstly, we have growing populations in those markets, particularly affluent older consumers seeking premium products who understand, know and like the category. Secondly, there is an increasing awareness of health and hydration, which we are well-placed to continue to lead on, and a trend away from alcohol into other beverages. Thirdly, there is an accelerating demand for premium brands where consumers want to engage with heritage, craft and retro trends and products, and are looking for personalisation, differentiation and authenticity. Finally, there is scope for the category to grow in channels such as impulse, leisure, casual dining and of course within the discounters. These long-term trends underpin value growth in the category and create opportunities that we believe we are well-positioned as a business to capitalise on.

Summary

In summary, despite tough market conditions we have continued to successfully implement our strategy and we have outperformed the soft drinks category, taking share in all of our markets. We continue to invest behind the long-term drivers of growth such as the supply chain efficiency, innovation and our international businesses. At the same time, we are optimistic of the growth opportunities in our core markets. Thank you for listening.

Q&A

Chris Wickham (Whitman Howard): Just two questions. In your assumptions when you are talking about the full-year guidance, I was just wondering what you had included in that for the performance of GB stills and GB carbonates; what the key assumptions behind that would be? In particular, obviously we have got some lapping and some timing issues in stills.

Then the second thing is just on the Squash'd product: clearly you have got a USP in terms of the content and in terms of the pack. I was just wondering whether the brand IP would start to converge across the three territories where you currently have plans to continue to grow?

Mathew Dunn: In terms of guidance, when we gave our guidance we took into account the market conditions we were facing. As I think we said at the time of our prelims, at the bottom end of the range we anticipated no improvement in prevailing market conditions, and at the top end of the range we would have anticipated some improvement. That obviously takes into account the market trends in both stills and carbonated.

Simon Litherland: In terms of Squash'd: Squash'd is doing very well, and 60% share of a growing category. I think it is truly differentiated in terms of the quality of the pack and particularly the taste and flavours that it offers. Why are we launching MiWadi mini in Ireland is effectively to launch the brand leader, because MiWadi is the brand leader in squash in Ireland, and to help build the category. It always helps when there is more than one brand playing in a category if you are building a new category. In France we are also actually just about to relaunch Teisseire Mix & Go, with a get-up that is more closely associated with the mother Teisseire brand and slightly different liquids that are, again, more closely associated with the experience of the core Teisseire brand. So what we find is the halo impact of an innovation like Squash'd on the mother brand is also very positive. The marketing that we put behind Squash'd has a very positive impact on the mother brand as well. It is engaging consumers of core as well as of the innovation.

Simon Hales (Barclays): Matt, you talked about some transactional FX headwinds in the second half, I think £2–3 million. Could you just talk a little bit more about where they are actually coming from, from an input cost standpoint; what is actually driving that?

Also, from an A&P standpoint, obviously some technical effects from Brazil coming in. How should we think about A&P as a percentage of sales for the full-year, and maybe as we get into 2017?

Finally, maybe Simon, just on the US roll-out of Fruit Shoot: could you talk a little bit about the performance of still the single-serve product, and also how the multipack roll-out is going to progress and which three cities you are targeting for the advertising, just to give us a bit more flavour there?

Mathew Dunn: In terms of input costs, Simon, we buy a substantial amount of our UK inputs in euros, both juice and a number of our packaging commodities. Obviously with the weakening of sterling over the last six to eight weeks or so, we are seeing an impact from that flowing through the commodities in the second half of the year.

In terms of your question on A&P, I think it is probably a bit premature for us to be talking about 2017 now. In terms of the balance of 2016 we are anticipating spending broadly in line with last year in the balance of this year. That is probably the best way to think about it.

Simon Litherland: Then on the USA, single-serve continues to grow from a sales-out perspective. We still have a bit of lumpiness from a concentrate sales-in perspective with the management of the Pepsi distribution network, but sales-out continues to grow. We have got about a 17% share of the Kids category, as we have talked about before. I guess the more recent news of the Pizza Hut listing; we are now rolling that out as a franchisee-by-franchisee conversation. We are in about 1,500 Pizza Huts and in those outlets that we are the rate of sale is very encouraging, not only for Fruit Shoot but also for 'On the Go' brands as well. It is incremental to the portfolio, which is important when you look at it with a Pepsi portfolio lens on.

In terms of the multipack, the listings are still coming through, so it is literally very early days. As we said in the presentation, we will have about a 20% national distribution, so we are in about 20% of Walmarts for example; same for Kroger's. Slightly higher percentages in some of the smaller, more regional retailers, so H-E-B for example, a strong player in Texas where we have a stronger distribution. Another key thing for us is obviously to build awareness and drive trial, because it is one thing to get on the shelf; it is another thing to have your brand drunk, and that is what we are clearly focused on.

What we are doing, in three of the cities which are Houston, Charlotte and San Antonio, we are testing the full marketing mix. We bought some regional TV to supplement our trial promotions and programmes as well as our digital, to really see what kind of response and uplift we get in those regions. We chose those regions for two reasons. First of all, the penetration of consumers into the Kids category in those regions is high. Secondly, because of the distribution base and some of the customers like H-E-B- who we have partnered with, we have got a higher distribution than our national average so we have got more likelihood of getting a reasonable read of the impact of our different A&P spends.

Stéphanie D'ath (Bank of America): I have three questions, please. The first one on sugar tax: have you assessed by how much prices would go up? You mentioned 66% of your mix in the UK being non-sugar-added drinks. How quickly can you shift that mix, and where you could be in two years' time, maybe compared to where you were two years ago?

My second question regarding the impact on margin: if you shift from sugar added to non-sugar-added drinks, is there impact at all or is it margin neutral?

My third question is: is there any tailwind from the new contract with Subway, and could you quantify it please in terms of your volumes in the UK?

Simon Litherland: Obviously the tax is at the moment just a proposal. It has not even been through consultation yet, so that is still to come. They are just assumptions, as outlined. The price impact is quite significant, obviously varying depending on the size and quantity of sugar. If you were at the highest level of threshold, for example a two-litre full-sugar carbonate which is probably promoted at around £1 and has been for some years, the tax would add £0.48. It is a significant tax at the highest level, and obviously at the lower level it is slightly lower. Our 66% is significant, a significant share in low and no. Predominantly it is full-sugar carbonates that sit out of that, and the only other brand really in there of scale for us is J2O, which is just above the lower threshold in the mid-range. Those are the three brands or categories that are really impacted.

Our focus is obviously on Pepsi Max, and that is where we are getting huge growth and huge consumer traction, as well as in 7Up we have got 7Up Free. It is obviously a Pepsi call as to whether they want to do anything with the full-sugar variants from a formulation perspective. However, we also very much believe that consumers will still want choice. We will keep a full range of variants in the marketplace.

Having said that, there are further reformulation opportunities for us and we do that continually. Really good examples of that are Purdey's. We have brought the sugar content down. It is only natural juice, so again, depending how things pan out through the consultation phase it may be fully exempt from tax. Juicy Drench is another brand where we have changed the formulation and improved the quality of the taste, as well as brought out new pack formats. It is now below the tax threshold as well. There is still stuff we can do, and our innovation pipeline will be orientated in that direction as well.

Mathew Dunn: I will just pick up the margin point. In terms of the margins, it does depend on the mix of sweeteners you are using as opposed to sugar and the relative costs of those, and that obviously shifts over time. Practically, whilst I think historically typically low- or no-sugar products were margin favourable, I would say that gap is closed somewhat over the recent time, and therefore I would say probably the easiest way to characterise it is that broadly it is margin neutral or slightly beneficial to move from sugar to low or no sugar. It will depend obviously in the case of something like Stevia for example, which is naturally produced sweetener, that would come at a cost. Typically, you will find that those products attract a premium as well. I guess I would not be assuming anything fundamentally different from a margin structure point of view, is probably the simplest way to assume how it works.

Simon Litherland: The Subway contract, obviously we are delighted to win that. The food service sector is a growing sector, and it is a growth opportunity for us. Obviously, very competitive but I think we won it in Ireland just over a year ago and we won it in GB. I really think it demonstrates the breadth and strength of our portfolio and particularly in low and no sugar. Obviously we would not talk specifically in terms of the commercials or scale of that as an individual customer, but it is a fantastic account to earn. It is a fantastic shop window for our existing brands, as well as new brands that we bring to market. We are really excited about it.

Andrew Holland (Société Générale): Just coming back on the sugar tax, if you have had no consultation as yet, presumably you have arrived at that figure of £0.48 on a bottle based on dividing £520 million, which is what the government says they are going to raise, by the sugary drinks in the market. Is that how you have done it? So if that £520 million is actually the wrong figure, and one of your competitors has suggested that there is a certain amount of politicking going on in there and that the actual figure will be a good deal lower than that, then presumably the incidence would be also a good deal lower?

Simon Litherland: Yes, Matt can answer the numbers but the purpose of the tax I do not think is actually to collect tax, despite the fact that the Chancellor stood up there and articulated it rather than it come out as part of the government's obesity strategy. I think the purpose of it is to drive reformulation, and that is two years away that it will be implemented. Exactly what numbers are collected may change significantly, both by whatever manufacturers do as well as through the consultation phase exactly what the tax is based on and how it is levied.

Mathew Dunn: Just on the numbers, as part of the Budget announcement the Chancellor did give rates for five to eight and eight and above, so we have used those rates to calculate the impact. He gave those rates specifically.

Andrew Holland: Could you remind us what those rates are?

Mathew Dunn: Yes. They are £0.12 and £0.24 for the two different bands.

Andrew Holland: Thank you.

Andrea Pistacchi (Citigroup): A couple of questions, please. In the presentation you said that in Q2 GB markets and French market got worse sequentially, I think, over Q2. What has got worse? Is it more the pricing environment as a result of the conversations you have had with retailers? Is that it or is it something else? Based on this, how would you see the next months? Is Q2 then probably the new norm for the next few quarters in terms of market?

Second question is on expanding out of your core categories. You talked about Purdey's, which is energy, which has not been a core category for you up until now. In an environment of lower growth is it more strategic for you now to broaden your portfolio and the categories you play in?

Simon Litherland: Quarter two in some of our markets was worse, driven by a number of things. First of all, if you remember last year, April there was actually some good weather in the UK, which we did not have this year.

Secondly, the deflationary environment that we face into has probably got worse over the last year. If you look at the top four grocer pricing index, this year year-on-year it is minus 3.5 for soft drinks, last year it was minus 1.5, so pricing has been really tough. As we well know, in France some of the big retailers got together in buying groups a year ago. Clearly, they would have had an impact together last year, but they have had a whole twelve months to get their act together, and I think it was a particularly tough negotiation round in France as well this year.

Looking forward, I do not think the deflationary environment is going to go away in the short term. Obviously, it has been helped by having a pretty benign raw material environment. As that starts to change, we will obviously look to pass that on where we can, and that may start to feed back through into general grocery as well. However, I think it will be challenging from a supermarket perspective for some time to come at least.

In terms of expanding out of core, we have always said that expansion of where we participate is a growth opportunity. That is why we have invested behind innovation; we have put more resource behind it over the last number of years. We always said that part of the savings from our strategic cost-saving initiatives would be invested back into rebuilding our innovation capability.

Where we are innovating is hopefully on consumer trend. Energy has been growing for some time. Purdey's is a multi-vitamin drink: it is not stacked full of caffeine and it is 40% lower sugar, so it is better for you, it is better for your energy. It is very much on trend, so we absolutely believe that we can take a pot of that.

However, not only in GB. Some of the innovations we might launch are in the core market, but as we start to expand our footprint internationally the beauty is we can start to leverage our brands in more markets as well. Another example would be Drench; the water–plus category is growing fast. We learned a lot from original Drench, and what we have put out into the market in the last month or so, it really is a fantastic-tasting liquid. It is below the sugar-tax thresholds and it is a fantastic stand-out pack, so we are really excited about what that will do as well. Yet again, that has multi-market potential.

Andrea Pistacchi: If I can just follow up please: on GB, difficult grocery channel but leisure has been growing or you have contracts; the pubs and clubs channel is improving a bit. What portion of your GB sales today is grocery?

Simon Litherland: We do not break it down as far as that. The question actually is not so important about how much is grocery; it is more how much is in big-box supermarkets versus impulse, because impulse is growing and much of our wholesale business is also growing very well. So net-net, we absolutely believe that if you drive the right mix of brands into the right of channels, we can grow our business even in this tough environment, and even with some of the supermarket headwinds that you are highlighting.

Stoyko Moev (JP Morgan): Good morning gentlemen. Three questions from me please. Firstly, can you just touch on the impact from the issues that CC had in their first quarter, and how that benefited Pepsi in the first half?

Secondly, can you share a bit more detail in terms of Robinsons and your plans to take it to new channels, and how should we think in terms of margins going forward for GB stills?

Lastly, can you just share a bit more on your plans for Norwich? I do not think that was mentioned last time when you spoke about the GB supply chain. Thank you.

Mathew Dunn: In terms of the CC supply challenges, our experience is that they have had a relatively minimal impact on their ability to supply, so we will have picked up some ancillary business around the edges but nothing material from our point of view. They have been out of stock on occasional SKUs in occasional places, and so for example we have picked up for a period of time the British Airways business, but they serviced the big customers pretty effectively through the challenges that they had.

Simon Litherland: Robinsons and new channels, we are just testing; we are testing it on draught and in Subway. Again, Robinsons is five calories per serve or lower, depending on the flavours, so it’s a Better for You offering. Many of our customers are asking for Better for You stills brands. It is a trial; we will see how it goes.

Norwich: the core of the investment that we have announced to date has been in our other factories. Norwich is obviously our Robinsons factory as well as our Fruit Shoot factory. What we have been investing in at Norwich is flexibility, so for example we will be able to produce and launch in the second half a 0.9-litre variant for the discount channel, as well as a two-litre variant for some of our grocer customers.

Charles Pick (Numis): Thanks very much. Just two questions please. Can you verify please what the volume decline was for Robinsons in the first half, and whether or not you feel it can stabilise second half on second half?

Second question: I think you hinted last November there might be a step-up in CAPEX over and beyond this financial year. I appreciate you said in the commentary you will come back to that in November, but any early thoughts there? I think you were saying it might continue at high levels for a couple of years after this year.

Simon Litherland: I will just do the second one first. So what we articulated is that it is a multi-year programme, and we would anticipate a step-up for a couple more years. We currently are still working on exactly what configuration our future supply chain needs to have, the costs and benefits of the different choices we have. As I say, we will be in a place where we can update you further in November. For the moment, what we are guiding to is just a couple of years further of stepped-up capital, but we still have work to do before we define that further for you.

Mathew Dunn: So in terms of your other question, we do not split out Robinsons as part of our stills portfolio. Suffice to say, obviously it is a large part of our stills business. In terms of your question about trends in the second half, we are pretty confident about seeing improved performance in the second half in stills. There is a couple of drivers of that. The first is the cycling of the removal of the added sugar variants. We are starting to see the benefits of that now, and that should cycle through to towards the end of July when it will be fully out of the base. As Simon has just mentioned, in the question regarding Norwich, we are also introducing some new packs in the second half of the year, which will allow us to access different channels in a different way.

Lastly, we are anticipating that we also should see some benefits from a more normal summer environment than we had last year in GB and Ireland, although obviously that one is somewhat unpredictable.

Charles Pick: Sorry, just one last quick one. I am just struck by what you said there on the pack size deliberately designed for private label.

Simon Litherland: Not for private label; for discount.

Charles Pick: Yes, sorry. Does that represent a step-change in your supply of discounters?

Simon Litherland: I do not think it necessarily represents a step-change, but it may enable us to get Robinsons back into one of the discounters. We used to be distributed by Lidl; we then were not. It is all about pack price and consumer price points, so using flexibility in pack and price more effectively is absolutely a driver going forward of revenue growth, and is absolutely one of the reasons why we are getting our supply chain sorted out, to give us that flexibility.

Thanks folks, thanks very much for your time. Thanks very much for your questions and thanks for listening.

[END OF TRANSCRIPT]