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Britvic plc Interim Results 2020

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Interim Results 2020

Simon Litherland

Chief Executive Officer, Britvic plc

Recognising people during the humanitarian crisis

Good morning everybody. Thank you for joining us for the webcast of our interim results. Before we get into the detail of the results, I want to recognise the efforts of so many people during this unprecedented time. Firstly, I want to thank the Britvic team for keeping the business running so effectively during all the change and volatility. It really has been a fantastic team effort. Thanks to our customers for working with us to keep the shelves stocked and to our suppliers for playing their part in keeping us open for business. On behalf of Britvic I want to offer my personal thanks to everybody who is working to keep us safe and well. Across each of the markets where we operate we have seen amazing people care for the sick and dying and we have relied on people in transport, manufacturing, the postal service and so many more who work tirelessly to keep communities protected. We all know that we are living through unparalleled times and writing the playbook as we go. Amidst so much fear and uncertainty to know that we have humanity, courage and kindness at the heart of our society is I am sure a great source of comfort to us all.

Agenda

Now, for obvious reasons we will be taking a different approach to our presentation today. First, I will update you on the impact of Covid-19 and why we believe we are well-placed to navigate the challenges it presents. Joanne will then take you through our first half performance which will illustrate our strong momentum before going into Covid-19 and also share more detail on our robust and good liquidity position. Finally, I will update you on our strategic priorities, the progress we have made and the planning we are undertaking for the eventual recovery and emergence of a new kind of normal.

A track record of delivery and strong momentum going into the crisis

Over the last six and a half years we have built a strong track record of performance and a reputation for delivering beyond expectations. On the left-hand side of this slide you can see an impressive financial performance from 2013 to 2019 with a revenue CAGR of 3.9%, margin expansion of 350 basis points, an adjusted EPS CAGR of 9.2% and a dividend per share CAGR of 8.5%. Going into this crisis we had strong momentum and in the first half of 2020 we have continued to deliver growth across our key metrics of revenue, margin, EBIT and earnings per share, despite the impact of lockdown restrictions across our business in March. I am particularly pleased with the continued growth of our core brands such as Robinsons, MiWadi and Pepsi, 7Up, Tango and Maguary. Joanne will expand on our performance later but first I will focus on our response to Covid-19 which I know will be foremost in your minds.

Covid-19 Update

As a business we are well-placed to manage through the pandemic. Britvic is a multi-market, multichannel business operating in a highly resilient category. We have an exceptional portfolio of well-known brands most of which are number one or number two brands in their categories and are trusted family favourites. Our business is well-invested with a multi-site, flexible supply chain. As you all know, we recently invested nearly £0.25 billion in our GB

supply chain and that investment has been a key enabler for us in recent times. We have an amazing team of talented and committed people, one that has built a track record of successfully dealing with change and volatility. We are a highly liquid and cash-generative business.

From the very start we were quick to establish clear priorities for our business. These were to safeguard our people, maintain our operational agility, support our customers, our suppliers and our communities, and to protect our liquidity ensuring we maintain the financial strength required to navigate through this. By staying true to these principles we continue to calmly and consistently manage the business through the external market turmoil.

Safeguarding our people

Our first responsibility is to our own people. Throughout this pandemic we have continued to follow the advice of both the government and public health authorities in every market where we operate. Very early on we identified vulnerable employees across our workforce and put in place additional measures to protect them and procedures to actively support any employees who might have contracted this virus. At each of our supply sites we are ensuring the highest standards of safety and hygiene, including social distancing measures, temperature checking and multiple cleaning regimes. From the outset all those who were able to work from home have done so. We had invested ahead of this outbreak in virtual office technology and have adapted remarkably well to online working. We continue to do everything we can to help our employees thrive. As a result of planned employee communication, engagement and support we in fact feel more connected as a team than ever before. I am really proud of how our teams have responded to these challenges and in particular the dedication of our frontline workers is in equal measure impressive and humbling.

Maintaining operational agility

The supply of food and drink is crucial in times such as these and we have focused on our operational agility to ensure we play our part. Very low levels of absenteeism have meant we have been able to keep our production and logistics site open and running effectively. We have maintained very high service levels in all our markets and only our Teisseire factory in Crolles has struggled to meet increased demand for syrups as we chose for employee safety reasons not to open all lines during the peak of the pandemic in France. As the country comes out of lockdown we are now moving back to full production. We are adapting our commercial plans to reflect the significant shifts in demand between channels. We have focused our production on brands and packs consumed at home with the prioritisation of core SKUs to maximise efficiency and meet demand.

In this regard, the flexibility of our supply chain in GB has been particularly impressive following our recent business capability programme. We have also been working highly collaboratively with both suppliers and customers everywhere to ensure the continuity of supply of raw materials and maintain availability of our products in store. We also continued to review our marketing and promotional spend so that we may optimise the return on a reduced overall spend.

Supporting our customers and communities

Very early on in the Covid-19 pandemic we undertook to play our fullest part in supporting those most in need. We were a very early signatory to Justine Greening's C-19 business pledge in the UK which aims to encourage and recognise those businesses who adopt a multi-stakeholder position in formulating their Covid-19 response. In our case, beyond putting the health, safety and wellbeing of our own people first, we have also supported communities and partnered with customers and suppliers to do our Britvic bit. As you can see from the slide, we have actively supported communities in all our markets, donating drinks, chillers and PPE to hospitals, care homes and hospices, as well as supporting our suppliers and customers in every channel.

Financial strength and disciplined action taken

Our financial resilience stems from a solid funding platform. We have a strong balance sheet and I am grateful to the support of both our banking syndicate and our US private placement debtholders. We are a highly cash-generative business and we retain a disciplined approach to capital allocation. As the extent of Covid-19 became clear we took an early decision to execute a series of disciplined actions to further protect our cash position, including cutting all non-essential, discretionary spend and reviewing marketing and capital spend. Since Britvic floated in 2005 we have consistently returned capital to shareholders through our progressive dividend policy which is a core part of capital allocation. Although we are highly confident of our liquidity position even under our stress test modelling scenario, we have taken the very prudent position to defer the decision on our dividend until later in the financial year when there will be more visibility and clarity of the full impact of Covid-19 on the business. By making these decisions we have ensured the business can withstand both the significantly changed market dynamics and help ensure we emerge from this period strongly.

Well-placed to respond to the impact of Covid-19 on the consumer

Covid-19 has clearly had a significant impact on consumer behaviour and we are well-placed to respond to the trends that we see emerging. For instance, in grocery we have seen the return of the big weekly shop with a bigger basket size and limited top-up shopping. In each of our markets we have a leading position in the At-Home channel so this trend suits us well. I will go on to show you that we are continuing to take share. Next, there has been a significant increase in demand for both online delivery and click-and-collect everywhere, and most of all in GB where we are in the advantaged position of over-indexing on market share in the online grocery market.

Clearly the lockdown restrictions have severely limited out of home socialising. Our range of out of home brands are however also available in a range of pack formats for at-home consumption. In these difficult times consumers are seeking trusted local brands. This plays to our strength with a broad portfolio of family favourites, be that Robinsons and Pepsi in GB and Ireland, Teisseire in France or Maguary in Brazil. Finally, the virus and lockdown have brought health and wellbeing even further to the front of consumers' minds. Over the last six and a half years we have demonstrated leadership in offering great tasting low and no sugar brands. As we highlighted at prelims our average calories per serve is now below 30.

GB & Ireland multichannel presence, Brazil and France predominantly At-Home

Now, this slide is something of a departure from our normal approach in that it focuses in on April trading, one month after the reported period. However, given that only a couple of weeks of the lockdown fell into the reported period in our lead market we thought it would be helpful to illustrate the different dynamics we are experiencing across Britvic in both markets and channel. The left-hand table shows Britvic 2019 volumes split by market between At-Home and Out-of-Home and illustrates that we are represented very differently across our markets. On the right we show the At-Home and Out-of-Home April volume performance across GB & Ireland. Not surprisingly, Out-of-Home has been severely impacted. Our Out-of-Home channel includes on-the-go convenience and wholesaling, as well as pubs and restaurants, food service and leisure. The mix within Out-Of-Home therefore favours GB over Ireland where we are more exposed to wholesale and the licenced on-trade. By fairly stark contrast, At-Home has proved more resilient with changing consumption and buying patterns resulting in increased At-Home volumes.

Elsewhere in France and Brazil our businesses are skewed towards the At-Home channel and we are seeing stronger performances from our flavoured concentrates brands such as Teisseire and a weaker performance from Fruit Shoot which is consumed on-the-go or at more social occasions. Clearly these trends will evolve as we move beyond lockdown but hopefully this helps give an indication of what we have experienced in different markets and why.

Out-performing the At-Home channel in GB

To give a little more detail on the At-Home performance in GB this chart illustrates the Nielsen year-on-year value chain since the start of February. What you can see is that as the crisis unfolded in mid-March volumes initially rose significantly as consumers stocked up. Then there has been somewhat of a normalisation of demand since then, allowing for fluctuations such as the timing of Easter and the warmer weather. The grocery channel and neighbourhood convenience have performed particularly strongly and penetration of online grocery has increased significantly during this time. Encouragingly, throughout this period Britvic has out-performed the market taking share every single week. While this is a trend we have flagged for some time, our share gains have actually accelerated since the start of the pandemic.

Positive At-Home channel volume driven by value pack formats

Within the At-Home market brand performance has predictably followed the consumer trends. Family favourites which are drunk in home such as Robinsons and carbonates have thrived, while pack formats which can typically be consumed out-of-home such as Fruit Shoots and Lipton Iced Tea have suffered, along with brands more associated with socialising such as J2O. This trend is consistent in our other markets, including France where we have seen Teisseire move into positive year-on-year growth. The resulting pack mix has swayed significantly towards the more value-driven, lower-margin offering to multipack cans and large PET and away from dispense and small PET. This mix impact significantly offsets some of the volume benefit.

Now, I hope the last few slides have given you some colour on the market conditions and the strength and breadth of our response. There is clearly a long way to go but we have taken

decisive action and our performance is robust in these very unusual circumstances. I will now hand over to Joanne for the financial performance update.

Financial Performance

Joanne Wilson

Chief Financial Officer, Britvic plc

A strong first half going into Covid-19

Good morning everyone. Before I start, just a reminder that today we are reporting performance for the 26 weeks to 31st March, whereas last year we reported the performance for the 28 weeks to 14th April. To enable like-for-like comparisons our commentary uses 2019 financials restated to 31st March. Both statutory and like-for-like comparisons can be found in the RNS released this morning.

As Simon shared, we entered the period affected by Covid-19 on the back of strong trading momentum with our first quarter revenue increasing 2.6%. For the first half Group revenue grew 1.4% while adjusted EBIT increased 9.4% and adjusted EBIT margin by 80 basis points. Adjusted EPS increased 2.7% year-on-year with growth impacted by a higher effective tax rate of 26.1% at the half-year versus 20.8% last year. This reflects the revaluation of deferred tax in line with the reversal of the previously-enacted 2% reduction in the UK corporation tax rate. Despite confidence in our liquidity position we have taken the present measures to defer the decision on the dividend until later in the year when we will fuller information on the impact of the pandemic this financial year. Adjusted net debt to EBITDA was 2.5x and in line with expectations.

Business unit highlights

GB

Turning now to the business unit highlights, I am pleased to report strong revenue growth of 3.1% in GB with a 6% increase in volume partly offset by a 2.7% decline in the average realised price as a result of pack mix. Total GB brand contribution increased 1.1%. Carbonates revenue increased 4.6% driven by strong volume growth of 7.9% primarily in large at-home pack formats, most notably multipack cans. ARP declined 3% driven by the mix impact from larger packs and to an extent a sharp drop in out-of-home volumes including small PET and dispense following the trading restrictions in March. Revenue growth was led by Pepsi, 7Up and Tango with all three brands growing both value and volume share. Brand contribution declined 3.6% due to the pack mix as well as the higher cost of goods and increased A&P spend.

Stills revenue declined 0.4%. Within this, Robinsons grew year-on-year, benefitting from disciplined revenue management activity in the Everyday range and continued growth in the Creations range. Core Fruit Shoot performed well and grew share while Juiced and Hydro sub-brands were in decline despite maintaining share. On-the-go and socialising brands J2O and Drench, were in decline. Lipton Iced Tea continued to deliver strong growth over the half despite a slowdown in March following government restrictions. Stills brands contribution was significantly ahead of last year due to revenue management actions as well as cost of goods and reduced A&P.

Ireland

In Ireland revenue decreased 1.9% driven by a significant decline in sales through the Counterpoint licensed wholesale business. The branded business in grocery and convenience performed strongly with volume and revenues significantly ahead of last year. Pepsi, Ballygowan and MiWadi were the main drivers of growth, partly offset by Club mixers and Fruit Shoot. Brand contribution declined 1.3% while margin increased 10 basis points reflecting lower A&P spend. Both the licensed wholesale channel and the water cooler business, which supplies Ballygowan to offices, have been significantly impacted since early March by the closure of the licensed trade and the increase in people working from home. An £8.5 million non-cash impairment charge has been recognised to write off goodwill and other assets held within the Counterpoint business.

France

In France revenue decreased 8.9% with both brands and private label in decline. As we anticipated, the EGalim law has continued to adversely impact our pricing and promotional strategy. The recent trend for Teisseire has however been favourable with March volumes increasing year-on-year. The brand contribution decline was limited to 2.6% due to the favourable cost of goods and lower A&P spend. The proposed disposal of assets to Refresco has been delayed as timelines for the clearance from the French competition authorities have been extended due to Covid-19. We do still expect the sale to complete later this year.

Brazil

In Brazil revenue increased 17% with double-digit growth in both quarters contributing to eight consecutive quarters of growth. Revenue benefitted from strong summer trading in ready-to-drink pack formats, Fruit Shoot and new products such as Puro Coco. Although we gained share in concentrates, the category saw weaker performance as we responded to increasing competition from regional brands with an elevated level of promotional activity. The 'Be ingredient' fruit processing business was also in growth. Both revenue and brand contribution in Brazil benefitted from a historic tax rebate during the first half of the year.

International

In International revenue decreased 8.5%. This was primarily due to the exit of Fruit Shoot multipack in the US last September and a decline in our travel and export business as Covid-19 restrictions started to impact early in the second quarter. Brand contribution increased 47.1% and margin increased by 960 basis points with lower A&P spend and tight cost management more than offsetting the impact of the revenue decline.

Underlying fixed costs down despite additional sustainability costs

Turning now to our fixed costs, A&P spend of £23.8 million was £5.8 million less than last year with lower spend in all markets. This was primarily driven by planned activity phasing skewed to the second half of the financial year and reduced spend on Fruit Shoot in the US. We also took measures in March as part of our cost mitigation actions in response to Covid-19. Fixed supply chain costs of £61.1 million was 6.6% higher than last year. This reflects investment in sustainability initiatives including the increases in the cost of producer responsibility notes purchased to meet UK government obligations and higher depreciation costs from our BCP investment. Overheads decreased 5% to £63.3 million due to lower reward assumptions and a reduction in discretionary spend.

Modelling considerations

As Simon highlighted, we have proactively implemented a number of actions to protect the financial strength of the business, both from a profit and cash perspective. We have updated our technical guidance to reflect these and other changes. Firstly, input cost inflation will be lower than originally anticipated at low-single digit levels following hedging activity and other actions. Capex will be approximately £50 million as we refocus the balance of year spend on critical activity. We expect adjusting items of £12-£15 million which now includes a non-cash impairment charge of £8.5 million related to the Ireland wholesale business. The total cash impact of adjusting items is estimated at £7-£10 million. We have reached agreement with the pension trustees to defer £5 million of this year's contribution to FY21, a cash payment of £10 million will be made in June.

On tax we now expect the full-year effective tax rate to be 22.5%-23.5% as we revalue the deferred tax in line with the reversal of the previously-enacted 2% reduction in rate of UK corporation tax. A couple of things to note on tax payments, as previously guided we have two additional scheduled corporation tax payments in FY20. The cash impact of this will be partially offset by utilising historic overpayments on account and we have deferred certain VAT payments to March 2021 following HMRC guidance. On interest, we expect a reduced level of c.£21-£21 million.

At half-year, our working capital was adversely impacted by approximately £12 million reflecting the support provided to certain affected out-of-home customers in GB and Ireland. We expect a continued but lower working capital impact through the second half.

Finally, you will be aware that we issued in March an RNS to help the market evaluate the potential impact on our business of the Covid-19 pandemic and resulting restrictions. There remains a high level of uncertainty on the duration and nature of restrictions and on how consumers will respond. At the time we estimated a profit impact this year of between £12 million and £18 million per calendar month. Based on performance since then and our updated sensitivity analysis, the estimated monthly impact on profit remains unchanged.

Robust balance sheet and liquidity position

My final slide covers our liquidity position. A priority for us has been to ensure we have ample liquidity to support the business despite the uncertain environment. We start from a position of strength. Earlier this year we successfully refinanced our £400 million revolving credit facility to 2025 with an accordion feature for an additional £200 million subject to lender consent. Together with our long-term USPP notes, we have access to over £1 billion worth of facilities of which approximately £300 million is currently undrawn. Our debt facilities carry a net debt to EBITDA covenant of 3.5x. This ratio was 2.5x at the half-year and our forecast and modelling, including the highly-conservative scenario which assumes government restrictions through to our half-year 2021, indicate significant financial headroom at each month-end for the next 12 months and a net debt to EBITDA ratio below covenant levels at both the full-year 2020 and half-year 2021 tests.

As you would expect, we have taken a number of actions to protect cash. These include tight working capital management with a particular focus on credit management, a highly disciplined approach to all cash spend with significant reductions in planned A&P, capex and overhead spend, a reallocation of selected spend and capital across the Group to optimise

returns and the deferral of certain cash payments into FY21. Thank you and I will now hand back to Simon who will share some of our strategic priorities as we navigate the near- and medium-term.

Strategic Priorities

Simon Litherland

Chief Executive Officer, Britvic plc

A clear strategic framework for the future

As we previewed in November, we have evolved our strategy and how we set it out. While we do not have time today to go into much detail, I wanted to stress that even in the midst of Covid-19 we are confident we have the right strategy and we continue to progress it successfully. As a reminder then, we have four strategic priorities as set out on this slide. These are to build local favourites and global premium brands, to continue to work to benefit healthier people and a healthier planet, to capitalise on the significant opportunity to flavour billions of drinking water occasions and to continue to innovate to access new growth spaces.

In terms of our market focus we continue to see GB as a growth market and plan to build our existing momentum to lead market share. Our International agenda continues with a drive to globalise our premium brands and improve margin and profitability in all our other markets across Western Europe. Brazil remains an important growth market for us.

Underpinning this strategy are three critical enablers. We will generate the fuel for our growth through appropriate focus on efficiency gains across our organisation. We will build on our successes and what we have learned, including through Covid-19, to transform our organisation with a capability and culture that we need to succeed. Finally, where it makes sense to do so, we will undergo selective M&A activity to accelerate progress towards our strategic goals.

Focused near-term priorities to successfully navigate the pandemic

Even through the pandemic our strategy is serving us well and we are focusing on our nearest -in priorities to help us navigate it. We continue to build our local family favourite and global premium brands and we are seeing just how much consumers trust and value those brands in the current environment. We are leveraging our recent supply chain investment and pack flexibility in GB to realise the increased at-home opportunity. We are collaborating with our customers on their recovery strategies in the out-of-home channel. The GB business capability programme has enabled us to produce a broader range of pack formats and mitigate risk through manufacturing core brands across all sites. Previously for example, Robinsons was manufactured solely in Norwich.

We are staying true to our ESG responsibilities and prioritising our Healthier People, Healthier Planet sustainable business agenda. We are maintaining our competitive edge from our leadership positions in low and no sugar brands and variants, which has been evidenced in the strong performance of brands such as Pepsi MAX and Tango. We are also continuing to lead the industry delivering against the most stringent of science-based targets and climate action, reducing our carbon footprint to limit global warming to within 1.5 degrees. We are doing everything we can to promote a circular packaging economy, including by minimising any packaging waste.

We are capitalising on the growth in flavour concentrate to sustain long-term commercial opportunities in flavouring billions of water occasions. Our trusted family favourite brands deliver healthy great value hydration and this also supports healthier people. Across our markets our range of flavour concentrate brands are benefitting from consumers seeking healthy hydration at home.

Finally, we are continuing to innovate to access new spaces in both products and channels. For example, by adapting our Sensational Drinks portal which supports the on-trade, to focus on advice to navigate the challenges posed by this pandemic. We have an expansive long-term plan in each of these areas which we will share when we have more time.

Confidence in delivering value for stakeholders

In summary, we have every confidence we will continue to deliver value for our shareholders and for our stakeholders more broadly. As we navigate these difficult times we have a great deal of experience and expertise to lean into. We have an impressive track record of delivery and entered the pandemic with real trading momentum. We have a broad portfolio of enduring, market-leading brands that consumers trust and love, which benefit from category trends around health, family and lifestyle choices. We have upweighted our focus on non-financial performance giving even more emphasis to both people and the planet within our holistic business strategy. We are a financially-strong and operationally-agile business driven by highly-engaged and dedicated employees. Britvic today is a well-managed business operating in a resilient category and we retain every confidence in our long-term growth prospects. Thank you for your time. We will now be happy to answer your questions.

Q&A

Stephen Nightingale (Director of Investor Relations, Britvic plc): Good morning everyone. I notice we have got a number of questions coming through on the phone lines. The first question came through on the chat service from Ed Mundy at Jefferies. It is a three-part question here. The first part, 'Your Covid-19 guidance of £12-£18 million per month assumes no uplift in the At-Home channel whereas off-trade is accelerated, April +12% in GB. Is it fair to assume that the impact will be significantly less than £10 million per month assuming that the off-trade continues at current April levels? Secondly, you have optimised marketing and promo spend. How do you ensure that you are not damaging long-term brand equity? Thirdly, you have deferred the decision on the dividend until you have more visibility and clarity on the full impact of Covid-19. Can you share what the qualitative and quantitative parameters are that will influence the decision to pay a dividend in 2020?'

Simon Litherland: Great, thanks Steve. Joanne, do you want to pick up the first question on our modelling assumptions and then I will do the marketing spend and the dividend question? Thanks for the questions, Ed.

Joanne Wilson: Thanks, Ed. In terms of the guidance of £12-£18 million per month, of course now as you would expect since March we have updated our modelling scenarios to take into account the data that we are seeing both internally and externally. As Simon shared with you, strong volumes performance year-on-year in our At-Home channel and that is stronger than we had anticipated in March. However, as he has also shared, there is an adverse pack mix which is offsetting some of that benefit on trading contribution in At-Home.

Out-of-home is slightly weaker than expected so we have had the full closure of KFCs, McDonalds, etc. and they are now starting to reopen again. We have updated our modelling to reflect that. I think since March as well we are a little bit clearer on the social distancing measures that will be put in place under government guidance for the on-trade and we have modelled what that might mean for the percentage of outlets that will reopen on the on-trade. We expect that to be more gradual than originally anticipated. Also, what is unclear is how consumers will respond to those social distancing measures and the easing of restrictions. However, the range of scenarios at the top end is prudent scenarios, as you would expect, and as we see those restrictions easing and we see consumers recovering their consumption and buying patterns, we would expect that impact each month to reduce. I would also just add that we have delivered all the mitigations that we were expecting to deliver from a profit perspective in March.

Simon Litherland: Very good, Joanne. On our marketing spend [inaudible] brands I think [inaudible] been really, really optimising that spend because events like Wimbledon, football-related events, some of our music events that we sponsor with brands like Pepsi have all been cancelled. That has been the first place of recourse. Secondly, there has clearly been no point in spend in the on-trade during quarter three or indeed in certain channels like out-of-home media or billboards etc. We do continue to advertise some of our at-home brands, so Robinsons for example or Pepsi MAX you might have seen on TV and online. I think overall we are not in danger of damaging our brands at all. We are blessed with a broad portfolio of number one and number two brands in their categories which tend to be trusted family favourites across all of our markets. Those brands in particular are doing really well in the at-home channel, as you have seen in the presentation, with brands like Robinsons up 25% in April and our carbonates brands also up 10%-20%. Really comfortable that we will do the right thing for our brands and as we emerge out of this we are prepared to respond with agility in terms of customers' needs and routes to market as well as our advertising and promotions.

On the third question around the dividend I think basically we took the [inaudible] to be prudent. There is an awful lot out there that we do not know. As Joanne just articulated, we do not know when the out-of-home channel will reopen exactly. We also do not know how our customers will respond, the extent to which they can properly open outlets with social distancing measures and of course we do not know how consumers respond as they start to get back to normal either in on-the-go consumption. How much will be meal deal, at work, lunchtime moving around again or indeed how quickly consumers will go back to the on-trade. There is a lot we do not know and we felt it was the prudent thing to do. We will know a lot more by the year-end and we can make our dividend decision then.

Richard Felton (Goldman Sachs): Good morning Simon, good morning Joanne, two questions from me, please. The first question is on your covenant stress testing. You highlighted in your statement that March 2021 was the most sensitive from a covenant stress testing perspective but nonetheless there is a breach. I would like to dig into your assumptions that you used for that a little bit, please. Specifically, is that based on a £12-£18 million adverse monthly EBIT impact or do you assume a less negative impact as you get to your less busy time of year and lockdown restrictions begin to ease. Secondly, what is the assumption data for your dividend that you used for that scenario modelling? That is my first

question. My second question is on GB carbonates. Overall a very strong performance in H1 but price mix was perhaps a little bit softer than anticipated. How much of the decline in ARP per litre was due to shifting consumer habits and on-trade closures once Covid-19 disruption occurred compared to the underlying trend? Or maybe to ask this question slightly differently, what would the ARP per litre have looked like if results had run to the end of February instead of the end of March? Thank you.

Joanne Wilson: Thank you for your question, Richard. In terms of the [inaudible] million, to be clear that is the estimated monthly impact on the calendar month in FY20. Our modelling scenarios do go out 18 months so they go through to the end of FY21. The £12-£18 million reflects the seasonality in our business as well and the impact on profit. I think that is the first point to make. In terms of the scenarios, we have done a range of scenarios, as you would expect us to. There is a highly conservative scenario in there which assumes restrictions remain in place on the on-trade through to March 2021, which as you rightly point out is a working capital peak and therefore particularly sensitive for the covenant calculation. Now, those restrictions assume that not all outlets will reopen by March but also that consumers will be slow to resume their previous consumption patterns in the on-trade. I think it is, as we described, on highly conservative scenarios and you should view it as a stress test.

In terms of the dividend decision, as we have been making decisions across the business we have taken into account all of the modelling scenarios. As Simon and I have shared, from a liquidity perspective we are very confident in our monthly liquidity and been covenant compliant at each of the stress tests for the full-year and the half-year. The dividend decision was really a prudent decision based on the level of uncertainty that we are still seeing, how governments will ease restrictions, the impact of social distancing measures etc. on the business. Therefore it was prudent to defer that decision on the dividend until later in the year when we have more clarity on the impact on our business.

Simon Litherland: A good question on the carbonates, Richard, thanks. Obviously, what drives our ARP are a number of things, customer mix, brand mix, pack mix and at the end of the March the ARP would have been down 3%. The impact of Covid-19 and closures on that, we have not got the specific number but you can probably assume it was about a third of that. Effectively what is that being driven by? It is being driven by our increased participation and in performance particularly in large multipack cans on our carbonates brands. Obviously, from mid-March onwards in GB we were impacted from an ARP perspective by closure of the out-of-home channel, both from a dispense perspective and from immediate consumption, which is obviously our highest margin, single-serve packs. It would be about of that order, if that helps.

Richard Felton: Great, thank you very much.

Ewan Mitchell (Barclays): Morning Simon, morning Joanne, morning Steve. Three questions or two and a bit from me. Could you give us a little bit more colour on the profitability between your at-home pack and your out-of-home? Are we thinking when it is down to the EBIT line that this is within a couple of percentage points or is it greater than that? Secondly, the share gains that you highlighted since the beginning of the pandemic, would you put those down to your perhaps favourable channel mix versus your competitors? As such, do you expect to hold on to them if and when we return to more normal behaviours?

Finally, on the 7Up could you give a little bit more colour as to the +40 in April? Then thirdly, the over-index to e-commerce, could you give us some numbers in terms of percentage of sales for you and how that varies between carbonates and stills? Then also where that lies in terms of margin and price accretion.

Joanne Wilson: In terms of the profit impact between at-home and out-of-home, we do not share margin analysis at that level but I will give you a little bit more colour. When we talk about out-of-home it is a broad range of channels, everything from bars and restaurants through to wholesalers and indeed some high street operators such as Co-op and Spar. Within those, as you would expect, we have seen very different performance and we operate at very different margin for these. There is not one [inaudible] of margin across the out-of-home. As we shared, out-of-home tends to operate overall at a higher margin to at-home. Certainly at a brand contribution level when you move down the P&L there are other costs such as depreciation relating to commercial assets such as dispense equipment etc. that we have in the business and the incidence of those. However, typically as I say, out-of-home is at a higher margin and, as Simon shared, what we are seeing in at-home is that shift to the larger packs which is diluting margin overall. Hopefully, that helps with that question.

In terms of 7Up, yes, we are really pleased with the strong performance that we have seen in 7Up and a couple of things have driven that. We have driven much better distribution across some of our key at-home customers in the UK which has improved that. We have also had a stronger marketing campaign with the comeback of Fido and that has really driven up 7Up but particularly the 7Up Free. We are seeing very strong volume performance and share gains on that product.

Simon Litherland: On the share gains, I think you are right and that we do [inaudible] over-index in at-home from a share perspective which is positive for us in this environment. However, I think it is also fair to say that the share gains have been consistent through the year and certainly for some of our brands consistent for a number of years. If you look at a 12-week perspective we have taken share on Pepsi, Robinsons, Fruit Shoot, 7Up, Tango and J2O which certainly has accelerated on brands like Robinsons, Pepsi, 7Up and Tango in the last four weeks with stocking up, I think with the at-home family environment that has been created through lockdown. We are pretty confident that what we have in Robinsons and our low and no sugar carbonates brands are very much on-trend from a consumer perspective and we would anticipate holding on to both the share and continue to make good gains going forward as well post the end of this rather volatile period.

Then finally on the e-commerce there is not a whole lot of detail that I can give. I think we have given quite a lot of detail already but we do over-trade in that channel in GB by a couple of percentage points versus our in-store share, if you like. Obviously, over the last couple of years we have been quite focused on building our relationships particularly with the big e-retailers. Obviously, as we come out of this that is a trend that has accelerated massively through this pandemic and one that will be here to stay so will be an increasingly important channel for us going forward. Although we are in not a bad position, there is certainly more work we need to do in building our capability and reach into that channel.

Ewan Mitchell: Thank you very much.

Nico von Stackelberg (Liberum): Hi everyone, good morning, just a quick question on the working capital. There was a cash outflow of roughly £106 million linked to trade and other payables and contract liabilities. Can you walk me through the various moving parts on this line? I think some of it had to do with packs. Secondly, on Brazil could you provide me with the numbers excluding that big tax rebate so I can see the underlying performance? Also, given where the balance sheet is, the decision to defer the dividend and [inaudible] speaking your track record in Brazil, I was surprised that M&A is really on the table right now. Can you explain why that makes sense? Finally, there are a lot of different mitigating items that you can pursue and you are pursuing some of them. For example, VAT you have deferred the March payment following the HMRC directive. I was wondering, can you walk me through all of the different numbers on VAT deferral? For example, will you be deferring two more months of VAT or is that just a one-off, one month payment and you save the other two months for later on in the year if you need it? Thanks.

Joanne Wilson: Hi Nico, thanks for that. Yes, I can get you some more information on the tax as well. If I start with adjusted free cash flow outflow, we had an outflow of £37.3 million in the first half and that was versus a £12.7 million outflow in H1 2019. I think it is important to note that we typically do see a cash outflow in our first half due to the nature and shape of our business a working capital peak. We see the big seasonal sales coming through in the second half. Let me help you understand some of the movements year-on-year. The balance sheet includes the 28 weeks so there is an £11 million drag on EBITDA if you just look at H1 2019 versus H1 2020. As you said, we had a working capital outflow of £30 million and I will come back and share a little more detail on that. Then of course share-based payments and purchase of shares, tax, interest, etc. there was about a £6 million outflow. Offsetting that we had lower capex of £7 million and we had lower cash pension contributions of £16.5 million.

Let me talk you through the working capital and then I will come back and talk about some of the movements we expect to see in the second half because most of that is relevant in H1. On working capital we estimate the Covid-19 impact on receivables of about £12 million at the end of March when particularly our on-trade customers had requested delays in payments. I will come back and talk about what has happened since then. On taxes we guided at prelims, we have additional tax payments this year as a result of HMRC changes to their payment schedules. We saw three tax payments in the first half versus two last year and that drove an £18 million drag on tax payments. Also, our move from period to calendar reporting drove a net working capital outflow of £7 million and that is because we are reporting at the month-end rather than mid-month which has an adverse impact on working capital. There are a lot of other moving parts within it so [inaudible] multipack in the US has resulted in a reduction in payables as well. We had lower reward payable at the half-year than we had last year and also lower capital credits as a result of the conclusion of the DCP[?]. However, Nico, we can take you through some more of the detail on that if it would be helpful.

Nico von Stackelberg: Yes, please.

Joanne Wilson: As we go through the second-half we do expect some of the more significant movements to unwind so obviously the period to calendar impact will not be there at the full-year, as we will be reporting at the month-end so that will unwind. We do expect the tax

impact to partially offset because we have had a historic overpayment on account. That will mitigate a significant amount of that impact from the tax payment schedules. Plus, as you referenced, the VAT deferral in GB and I will come back and share a bit more detail on that, will benefit. We are expecting capex to be lower because at full year most of that saving year-on-year will come through in the second half and we expect pensions to be £5 million favourable from a cash position. A lot of what you are seeing in the first half we expect to unwind. In all of our modelling we are expecting to be cash-generative in the full-year and in a position to reduce our net debt.

If I just come back to two important points within that which I think are important to clarify. The Covid-19 impact of £12 million at the half-year we have since agreed payment plans with the majority of our on-trade customers. We have collected better than forecast cash in April and have seen again better than forecast cash coming in in May. We do expect that that will unwind but in the second half we are expecting a little bit of a drag from working capital in terms of the support we are providing to some of our on-trade customers and to a lesser extent some of our smaller suppliers. In terms of the VAT we are deferring the March, April and May VAT to March 2021 so it will be in the half-year 2021 and we estimate that that deferral will be c.£20 million.

Nico von Stackelberg: Thank you so much, that is really helpful.

Joanne Wilson: Quite a lot of detail but hopefully that helps give a bit more visibility.

Nico von Stackelberg: Yes.

Simon Litherland: Let me just talk to the other ones quickly. Nico, yes, Brazil and the packs. Brazil has had a really strong period. We have got eight consecutive quarters of growth and this half is no different. Without giving specific number you can safely assume that the growth in Brazil would have been double-digit without the tax rebate. Really pleased with the performance of Brazil. We are doing particularly well with our strategy of putting brands into the market which have got great [inaudible], strong brand presence and are priced competitively for the Brazilian consumer. Fruit Shoot has also done really well in the half where we have had our coloured PET bottle in the market for a while but more recently launched a smaller, better-priced 150ml Tetra pack version which has been doing very well. Indeed in the concentrates category we have stabilised that category and are taking share again. We have just recently launched both a pouch format of liquid concentrates which is going up against powder concentrates in that market which is a really big category. We are also trialling a Robinsons-type liquid called La Frutta Tropicale in the market. There are lots of exciting things happening in Brazil and obviously the Covid-19 impact looks like it could be quite significant but as we also know, most of our business is focused into the off-trade in that marketplace.

On M&A more generally, it is part of our long-term growth strategy. We are obviously managing this business for the long-term and the strategy of identifying interesting new markets for us at the right price etc. has very much been part of our journey. Likewise, we always keep our eyes open to see if there is opportunities to fill in category gaps in our portfolios in different marketplaces. However, at the same time, we also look to simplify our business where we can and the French disposal of our own label juice business is a good

example of that which as we shared in the presentation is still on track to be completed later on this year.

Nico von Stackelberg: Okay, thanks very much.

Emma Letheren (RBC): Morning. You have mentioned that you are benefitting from consumers increasingly demanding trusted brands in soft drinks so it is a reversal of what we have perhaps been seeing for the last few years with some of the smaller more start-up brands gaining share. I was wondering how sustainable do you think this trend is and how long do you expect this to last? Then secondly, if you could talk a bit more and maybe give some examples of how the changes you made in your recent supply chain investment in the UK helped you manage this crisis and any of the changes in demand? Also, if the crisis actually highlighted anywhere in the supply chain that is perhaps not as resilient as you thought and may now need additional investment in case something like this happens again? Thanks.

Simon Litherland: Certainly, Emma. On trusted brands I think, yes, it is interesting as we have seen consumers return to pretty much market leaders and brands they know and love well. I think what we do see and have seen over the number of years now is these smaller start-up brands starting to make a presence with access to routes to market and online marketing etc. As people are in the crisis they tend to turn to spend their money on brands they know and love, if you like, rather than try something new. Having said that, will it be sustainable? Let us see how we come out of this crisis and the extent of the recession that we face into but I think that is a trend that will continue.

The second thing I would say is despite the plethora of small brands that you see coming to market, because our category does not have a great deal of barriers to entry, there is not that many that actually get to scale. It is genuinely a combination of great tasting brands, great liquids with a good marketing presence but it is a combination of route-to-market. Obviously, businesses like ours with a broad portfolio of brands, strong customer relationships where we can bring broad offer in a simple way to our bigger customers both in the on- and off-trade, we [inaudible] our advantage. You obviously do see some brands start small and break through and we all can name some examples of those but the proportion of those relative to the scale of the category and the number of brands that are actually launched is quite small.

On the supply chain, I think that investment has really proved itself as we would have hoped. First of all, from a risk perspective we can now produce most of our brands in multiple sites and I think when you face into some sort of crisis like the one we just have it is something that is suddenly very important. The other key thing is that this has really demonstrated our flexibility and our ability to shift between pack sizes in the different sites. Without that investment we never would have been able to meet demand that we have and specifically in terms of our bigger pack sizes, multipack cans and large PET for example. We really have seen the benefit of that investment come through in the last 12-18 months and it has certainly been very beneficial for us in this crisis.

Learnings, the one site where we have more of a challenge has been Crolles where, as you know, we are limited to at the moment one site to produce Teisseire, which is a smaller site. The lines are closer together so as we have shared in the presentation we reduced the

number of lines that we are operating for safety reasons from an employee perspective. However, we are now ramping back up to full production so we would have shorted the market a little bit in March through April but we need to now build stock back up in that category.

Emma Letheren: Thanks very much.

Stephen Nightingale: That is all the telephone questions answered. There are a couple on the web that we will get to. I want to give Joanne the opportunity to come back on one of Nico's questions.

Joanne Wilson: Yes, sorry, Nico, I did not hear the tax question properly. I thought it was related to something else but in terms of the tax rebate in Brazil it relates to [inaudible] which is a bit like a VAT tax. It was c.£3 million in half-year and that is in revenue and contribution. There is a slightly lower impact on profit after tax.

Stephen Nightingale: Before we close off, we have got a couple of webchat questions. The first ones I am going to combine from Ned Hammond and from Nicola Mallard. Ned asked, 'Have you seen any improvement in on-the-go sales since the initial easing of lockdown and relevant share gains?' and Nicola asked, 'Can you give us a guide on April's performance of the Group?'

Simon Litherland: It is really early days but what I can say is that customers like Co-op and Spar are actually starting to order a little bit more. You are starting to see it come back and that obviously has a positive mix impact because IC, immediate consumption in smaller packs through customers like that will start to come back. Whereas in the last six weeks or so they have predominantly been take-home packs. Then on the other side of the coin you are also starting to see some of your fast food restaurants open up and we are starting to support those customers that come back. On the counter side that will have a negative mix on profitability but not much more to say than that. I think the next time we will give you some flavour on that will be at our quarter three results.

Stephen Nightingale: I think the final question is a combine from HC Capital Advisors, 'What will be the likely impact on pension contributions going forward and, Joanne, can you comment on the amount of exceptional charges going forward, adjusting items?'

Joanne Wilson: Starting with pensions, historically we have paid a £20 million contribution a year. This year, as we shared, we have deferred £5 million of that cash payment into Q1 FY21 so there will be a £15 million cash payment this year. As we have shared previously, we are in the process of completing our triennial valuation on our GB defined benefit scheme. We will conclude that and agree a new schedule of contributions by 30th June this year. We will share further detail on that when we have confirmed it with the trustees.

In terms of adjusting items, broadly adjusting items have come down significantly following the completion of the business capability programme. This year we have shared that for the full year we expect adjusting items of about £10-15 million which includes the impairment of Counterpoint charge which is a non-cash charge of £8.5 million. There are some additional charges relating to the Norwich closure and also the sale of our private label business in France. That is driving our guidance for the full-year and the cash impact of adjusting items

is expected to be £7-£10 million which includes some prior year adjusting items within that cash.

Stephen Nightingale: Great stuff. Thanks Joanne, thanks Simon. I think we have reached the end of all of the telephone questions and pretty much all of the webcast questions. There are a couple of residual questions that I do not think we have got time to get to today. I will follow up on those with the individuals concerned.

Simon Litherland: Thanks everybody for joining in and if I could just say thanks very much to our Britvic team who I think are managing the business brilliantly through these troubled times. I am really confident we will come out of this strongly. I am confident about our long-term growth prospects. Thanks everybody for joining the call today. I hope it was useful and look forward to seeing you all soon.

[END OF TRANSCRIPT]