Britvic

Interim Results 2024 – Q&A

15th May 2024

Transcript

Operator: The first question comes from Mandeep Sangha from Barclays. Please go ahead.

Mandeep Sangha: Good morning, Simon, Rebecca, and Steve and thank you very much for taking my questions. My first one is really just looking at Brazil. You've mentioned obviously that the integration is now complete. Could you maybe update us on sort of how the portfolio and geographical expansion has been going? Have you been able to bring Extra Power fully into your existing footprints? And obviously vice versa, are you now able to very much leverage your existing portfolio in the new regions? And if not, maybe how should we think about that sort of geographical expansion going into the future? And then maybe my second question is just on CoGS. You reiterated the guidance of low to mid-single digit for the full year. Could you confirm what the CoGS inflation was in the first half and then also how you'll hedge for the remainder of the year at this stage? Thank you very much.

Simon Litherland: Great. Thanks, Mandeep, and good morning to you. I'll take the first question on Brazil, Rebecca, if you want to pick up the CoGS one. So yeah, look, the Brazil integration's gone very well. Obviously we bought four brands dominated by Extra Power, which is by far the greatest brand. And actually the growth is primarily driven out of growth in Goiás and Brasilia, the regions where the brand has a 40 plus percent share, and we're just starting to take the brands into the regions where we're stronger like Rio de Janeiro and then subsequently we'll go into São Paulo. So it's very early days from a regional expansion perspective, but what we have also started to do, as you rightly point out, is taken some of our existing portfolio into the route to market that we have in the Midwest where we weren't very strong before and that's certainly benefited some of our brands as you've seen our organic growth up 20%.

From a strategy perspective, we've still got loads of headroom in Brazil. We participate in less than 10% of the category. You've seen us successfully innovate our participation into new subcategories like grape, like coconut, like tea or indeed kids with Fruit Shoot and secondly through M&A and then of course regional expansion is something that we can continue to do. So yeah, we are very excited about the performance so far and indeed the longer term potential of Brazil. Rebecca.

Rebecca Napier: Thank you, Simon. In terms of CoGS and how to think about the first half, we saw inflation moderate as we expected, i.e., within the range of the low to mid-single digit guidance we shared with you at prelims. The inflationary pressures in the first half were around business services and people as well as agricultural products and offsetting that, we had tailwinds from certain packaging costs and energy costs. There's no change to our guidance for the full year, so half two, we are thinking the same, low to mid single digit. You asked how hedged we are. As you know, we hedged what we can and we've got cover for the rest of this year and obviously have started taking cover for 2025 as well. If I look at this year, which was your specific question, on all of the commodities that we can hedge, we are 85% or more covered for the remainder of 2024. And just as a little reminder for you, the sorts of things we can hedge are aluminum, sugar, fuel, gas and power, and we do that through a combination of financial hedges and physical contracts.

Just to summarise, no change in what we're seeing, low to mid single digit.

Simon Litherland: Thanks, Rebecca.

Mandeep Sangha: Thank you both.

Simon Litherland: Thanks, Mandeep.

Operator: Our next question comes from Edward Mundy from Jefferies. Please go ahead.

Edward Mundy: Morning, Simon. Morning, Rebecca. A couple for me please. The first is on page seven of your statement today you talk about sustainably outperforming your historical top line growth rate. I just want to double check what is the right reference point there given you've had a couple of tricky years of Covid and a couple of years where growth has probably been inflated with the post-Covid boom and not very high inflation? Is 5.2% CAGR, which is I think the number you gave in your slide deck back in November, is that the right reference point against which you think you can outperform? That's my first question.

Simon Litherland: Great. All right, Ed, thanks very much. Great question. Obviously we don't guide on our top line specifically, but just let me try and help you with your question. So I mean, I guess the first thing to say is that despite the challenges that you've articulated, over the last few years, we've been purposefully building this business over time. And I think it's fair to say that we are in great shape, we're well invested, we're more agile, more focused, and a faster growing business than ever. I think it's important to say that, as articulated in the presentation, we are fortunate to participate in a resilient and growing category, low to mid single digits from a volume and price mix perspective. And then on top of that, with our growth algorithm, we've identified these three areas that will drive additional growth. So we've said that we believe we'll continue to outperform the categories that we compete in with our family favorite brands. Brazil, strong double digits or double digits on an ongoing basis, and then our smaller brands, strong double digits.

So you can effectively do the math yourself to add those up if you like. And then I think I'd give ourselves some range because they're not all going to come in every time all the time, but you're seeing us increase our AMP to support growth. I think we've got some excellent marketing programs, not only in the second half, but some excellent platforms from which we can build and the brand momentum that we have is fantastic. And I think our customer relationships have never been in a better place across the board. And of course, with winning brands that have momentum, the customer conversations tend to be easy. They're also looking for new and exciting both activity from a brand perspective and/or innovation. So our new growth spaces and our new smaller brands are gaining great traction and interest from our big customer base as well. So that's why we say we're confident we'll continue to grow at a faster pace than we have in the past and we believe we'll be top quartile as measured against any consumer goods company. So hopefully that gets you most of the way to your answer, Ed.

Edward Mundy: Really helpful, Simon. I mean I guess I forgot trying to do some of that math. If your family favourites are nearly 90% or 88% of the business and let's say you're growing five in there and then Brazil, which is what 10% of your business and you're growing at least double digits, and then new spaces, what? Two to three, they're growing, I don't know, 25% or so you're getting yourself to sort of a six-ish number, which is ahead of your five-year CAGR of 5.2. I mean is that math... And clearly every year will differ, but is that math sort of the right way of looking at it?

Simon Litherland: Yeah, I mean I guess I've always been a better marketer than mathematician, but I think you're in the right sort of direction, Ed. I think you'd probably think that's somewhere near top quartile from a consumer goods perspective as well.

Edward Mundy: Got it. Very good. Then just my final question. Clearly Brazil's coming pretty good and then some of these new spaces are coming pretty good as well. How does that make you think about M&A? Your balance sheet is quite strong. Are you thinking to add more speedboats to your core businesses or are you looking to expand into more territories or broaden distribution with Brazil? I mean, how are you thinking about some of the non-core parts of the business as you think about the medium-term profile here?

Simon Litherland: Yeah, look, I mean great question. I think, look, we've done share buybacks for the last three years, but that hasn't stopped us doing acquisitions. So I think we've bought four businesses in that period of time. So we definitely don't see it as an either/or. And we've got a very clear capital allocation strategy that you know well. I mean the way we think about M&A, Ed, is look, we don't need it. So we're really confident in our growth profile and accelerating growth profile without any further M&A. In the markets that we participate, there are certainly always opportunities to look to infill our portfolio. In markets like GB, those opportunities are probably less so than there might've been in the past, but the consumer continues to change and so we'll either innovate or possibly look at infills, but it is a little harder than it used to be.

In other geographies where our portfolio is less broad, I think it does create more opportunity for us. And certainly in Brazil, there's also regional expansion given the size of that geography. So yeah, the strategy remains there from an M&A perspective, but as I say, we're in a position where we don't need M&A. So what we want to do is buy the right stuff at the right price. And actually what I'm really excited about is if you look at what we're doing with what we have bought in recent times, it's really starting to show through in creating value for us and our shareholders. So really pleased with our approach and it's a good place to be.

Edward Mundy: Great. Thanks, Simon.

Simon Litherland: Thanks, Ed. Thanks for the questions.

Operator: Charlie Higgs, Redburn Atlantic. Please go ahead.

Charlie Higgs: Yeah, good morning, Simon and Rebecca. Hope you're both well. My first one is just on Rockstar and if you could maybe just comment there on how the turnaround plan is progressing. I think there's a strategy to focus on the top 10 biggest cities. So maybe any colour there please.

Simon Litherland: Yeah, certainly. I mean I think... Look, Rockstar we've always said is very much a long-term game. It's a big category dominated by two players as you well know. Charlie, thank you for the question. And yeah, we are continuing to evolve our strategy. So yes, you're quite right. We have a dedicated team of people, 40 plus people focused on top 10 cities where we have significantly improved our distribution, a share of shelf and importantly share of fridge space with the facings that we've gone after. And indeed where we have been calling, we see a good tick up in our rate of sale. So what we are doing now is we start to expand beyond those 10 cities and also continue our marketing program. So we are kind of confident that our push strategy, if you like, is working for us and what we now need to do is really start to create more of that consumer pull to get that rate of sale going.

So clearly last year there was a big campaign headed by Stormzy. We've learned from that and we've got more marketing campaigns coming through this year. We headline sponsors for Live Nation, music festivals, which is great for our target market. We've got an outdoor campaign. We are leading with flavours. We know that's where a lot of energy consumption takes place and we've got a big tasting program as well. So look, there's more work to do. We've got a strong second half and although we inherited a pretty weak brand, we're in it for the long term and I think we're going to start to see a better second half as well and look forward to talking to you about it at prelims.

Charlie Higgs: Thanks. And my second one is maybe can you just comment on the health of the UK consumer and what you're seeing at the moment as we head into summer? Because I know you kind of called out a softer hospitality sector in H1, but I think we're also suffering some pretty poor weather. So any changes to consumer trends that you're seeing in the UK?

Simon Litherland: Yeah, look, I mean I would actually say that consumer sentiment is improving. So I mean obviously there's some slightly higher unemployment rates come out yesterday, but on the whole I think sentiment's improving, a real wage growth. You've got the prospect of interest rates coming down, you've got energy prices... Have come down. So I'd say sentiment is generally improving. Then not to say that we're over the worst. I think there's still more to go and I think that has shown up in hospitality sector where footfall is still down, volumes are still slightly negative, although you're seeing some revenue growth coming through. And some of the quick serve restaurants I think have shown slightly lower level of performance, which is always a good integrator of general consumer behaviour. So I think not strong yet, but I would say improving, clearly hasn't been helped with the weather.

I think we've had one good weekend that I can remember in the first half, but I always say that it's our job even though we're in soft drinks to deliver a great performance irrespective of the weather. If you look forward to the half, I mean you'll remember that last year, May and June were actually quite good months. I think that we had a 10% positive growth last year in those months year on year, whereas big summer months of July and August were probably minus five or something. So a much weaker lap to follow. So look, we are always hoping for a good summer, but we're not banking on one and yet we're still confident we're going to have a very strong performance this year.

Charlie Higgs: Thanks very much.

Simon Litherland: Thanks, Charlie.

Operator: The next question comes from Richard Withagen from Kepler Cheuvreux. Go ahead.

Richard Withagen: Yeah, good morning, Simon and Rebecca. Two questions from me as well, please. First of all, on GB, I mean the commercial execution I think has accelerated or has improved compared to a couple of years ago. I think you see it in London Essence or the work you've done already on Jimmy's. So what has changed internally in the organisation or internal processes to realise this improvement? And then the second question I have is on Robinsons. Maybe you can talk a bit about how it's doing in terms of market share and concentrates and any strategic initiatives or specific marketing actions you are planning for the brand.

Simon Litherland: Okay, great. Good questions. Thanks, Richard. Yeah, look, I mean we are really proud of the GB execution. I think the business done a fantastic job and I think it's across multiple drivers. First of all, our demand forecasting and planning is much better than it used to be. We worked really hard on that and that makes a real difference when you have capacity constraints in your supply chain. We've also continued to invest in the supply chain. So while we've got a real strong well-invested base following the program of the last number of years, we still need more can capacity in particular. And we put down new PT line as well. So we've got now headroom in our capacity and we'll continue to put down new capacity to meet demand. That's made a big difference.

We've invested in our systems, so whether that be manufacturing systems such as our enterprise-wide stock management system or indeed our commercial systems, which we spoke about at prelims, which gives us the flexibility to manage our promotions and discounts much more effectively and really help us with our revenue growth management and then people. The team's a fantastic team. It's a really well-led team from the top down. We've invested more in our people, in leadership development, in learning and development, and I think the culture and the engagement of the team across the GB business and indeed the whole of Britvic is at an all-time high. It's fantastic. So that has led to great execution and the one that I'd really call out actually is what we refer to as Project Titan, which is the Pepsi brand refresh.

And you couldn't miss that in GB, the team that we had some fantastic collateral from our partners in PepsiCo and the GB team executed it absolutely brilliantly. So it's been a standout delivery and the brand growth has shown through from it. So great performance there and there's some of the reasons for that improved execution. Second question about Robinsons, we didn't call it out in the presentation. Obviously it's one of our key brands and it's actually had a pretty good half. It's not the biggest half for Robinsons. Obviously the summer is that much more important, but it's in slight revenue growth. It's pretty much held share and in fact, there's a slight shift with single concentrate to double concentrate, et cetera.

But if you look at the number of serves, it's actually growing its serves by low to mid single digits. So relatively strong performance. And I think we are starting to benefit from some of the work that we put in place last year in terms of new brand look and feel, in terms of shelf layout, in terms of category growth drivers, working hard with our customers. And that's really starting to come through. Customers are getting behind the category. Customers do see the benefit of the category and the role it plays in families across the geographies that we sell concentrates in. And Robinsons got a big half coming up.

So we've got The Hundred Cricket which will go across Robs' core squash as well as our ITD format, which continues to grow really nicely. We've got a Super Summer Splash done, which is like seven or eight weeks of activity, offering prizes for water parks and things. We've got a media campaign outdoor and through TV and social, so big, big half ahead and we're looking forward to a good summer. One other thing that I would say, which hasn't yet affected Robs but I think is interesting, it's early days yet, but in Ireland where we've seen the DRS come into play, MiWadi had a particularly good half, up 15%. And I think some of that is people are really clocking the sustainability of this category. So it is low calories, so health and wellness is getting ticked, but then also when you're starting to see a deposit, you've only got one deposit on 20 drinks, you're really starting to see the sustainability story come through. So I think there's more that we can do around that as we look forward as well. But so far so good on Robs.

Richard Withagen: Thanks, Simon.

Simon Litherland: Thank you, Richard.

Operator: Thank you. Deirdre Mullaney from Deutsche Bank. Please go ahead.

Deirdre Mullaney: Thanks for taking my questions. My first question is on Jimmy's. I'm just wondering if you can comment on performance since acquisition, what is it that you are most pleased with? I think that you referenced through the statement that you're working to utilise the supply chain and procurement capabilities to realise cost savings. Can you provide just a little bit more detail on what this entails? That's my first question.

Simon Litherland: Okay, great. So yeah, look, we are really pleased with Jimmy's. I think it's a really going to be a really exciting acquisition for us. It's obviously early days. We've owned the brand for six or seven months, but we've got a good team that came with it and we've integrated it really well into our business. The category is big, it's $300 plus million and it's growing, strong double digits or 14, 15%. And I think Jimmy's really stands out. The taste is fantastic, smooth and cream. It's definitely has a reputation as being better for you. It's lower in calories, sugars, and saturated fats than most of the competition. And obviously also, from a sustainability perspective, it wins through because it comes in a bottle can format, which is a real icon pack for us and then in can, so very successful from a sustainability perspective.

So I think the proposition is great. I think the shelf standout is fantastic and the taste delivery is brilliant in a growing category. What we've been focused on is bringing it into the Britvic family, starting to leverage our scale and our customer relationships and some of our supply chain. So we are considerably improving the number of listings and that'll start to shine through the rest of spring and into the summer. So growing our listings, we are also increasing the number of SKUs. So we've got multi-pack in a number of the grocers. We've got a bigger bottle can, a 380 mil bottle can coming through. And we've also done a collaboration with Myprotein actually, which has been very successful. And then we've also launched in the Netherlands with one of the grocers there. So starting to get the brand out there.

And what we find with this brand is we're not spending a huge amount above the line. It tends to be proximity media, lots of tastings, and lots of sampling, but the standout is fantastic. And when we get it on shelf, the rate of sale is actually really good. Lots of potential, early days, and as you say, we are continuing to work on the supply chain, which will take a bit more time, but we understand what we've got and we're starting to build our expertise into the core business, if you like. So yeah, one to watch, but it's of a reasonable size and we really believe that we can scale this brand and it's going to make a real difference to the portfolio.

Deirdre Mullaney: Okay, that's great. And then my second question is just on the 5.8% growth you saw on hospitality and GB. I'm just wondering if you can unpack this performance a little bit. Are there any particular brands driving this performance? Is it more focused on the newer brands or are you seeing good growth from the core Pepsi brands as well?

Simon Litherland: Yeah, look, Pepsi is the big driver in hospitality and it has been, but brands like Tango are doing really well. R. Whites has done really well. We're also starting to see more of Mathieu Teisseire coming through in some of Mitchells & Butlers outlets, for example, with local cocktail serves and non-alcoholic serves. So it tends to be the core brands. But having said that, brands like Aqua Libra, we're starting to make some inroads with our table bottling focus. We have the opportunity now with Plenish now that we've got a Barista range to sell that into the on-trade because the performance of those particular liquids are excellent with coffee in particular. So that's a new expansion for us. And obviously London Essence continues to grow its footprint in hospitality as well. We are still very much focused on the top end, but starting to come down more into a slightly wider distribution point.

So continue to build our number of outlets in the hospitality channel there as well, both with mixers and sodas. So we see "premium adult" and our London Essence sodas playing a strong role there as a good feature opportunity. And finally on London Essence, we've revamped our dispense serve so that it does mixers and sodas now in a slightly new format, which we think is really exciting from a sustainability perspective as well. So it's all around. I mean, across the trade we've probably seen a slightly slower quick service performance in some of our QSR customers, which hopefully will come back as we go into summer. And I think our managed customers, big managed customers are doing better probably than the independents generally, although we continue to take share in independent trade, which is really important to us from a mix and margin perspective as well. So there's a bit of flavour around hospitality. Hopefully that helps, Deidre.

Deirdre Mullaney: Super helpful. Thanks very much.

Operator: As a reminder, to ask a question, please signal by pressing star one. The next question comes from Philip Spain from JP Morgan. Please go ahead.

Philip Spain: Hi, guys. Good morning. Thanks very much for taking my questions. I too please. Firstly, just on the new spaces, growth, and across those brands, is the growth being driven primarily by increased penetration and being present with more retailers and more at the entree, or are you also seeing strong growth in terms of the like-for-like channels year-on-year? Just be interesting to get some colour around how you're performing in the like-for-like channels. And then my other question was on GB. You spoke a bit in the presentation about optimising your promo. I just want to understand what kind of work you're doing that's helping to optimise the promo and where percentage of your overall sales sits now versus where it was historically. Thank you.

Simon Litherland: Okay, sure. Let me take those, Philip. Thanks very much. So yeah, I think the new spaces growth is definitely both. So look, these brands are all still relatively small, but we believe are all scalable and scalable within the next three to five years. And that kind of means $30 to $40 million retail sales value for us in each of the markets that they operate in. And it is distribution as well as rate of sale driving growth. So any one of them, it could be Aqua Libra, water cans, or infused water, there's still massive distribution opportunity. But where it is distributed and we start to activate, we do get improved rate of sales. So it's definitely both. London Essence is the same. I mean we've gained significant distribution in retail, but the rate of sale is also improving and therefore our share and our growth in this half was upwards of 28%, I think, versus a category which is down slightly. So it is both across all of those and we would expect it to be both for some time to come.

And then in terms of optimizing promo, look, I mean it's a very competitive category as you know. And obviously the retailers, very much... It's a big category for the retailers and really important for them. So I think for us, it's all about working really closely with our customers, really understanding our price points and our price elasticity, really understanding the revenue growth drivers that we have at our disposal. I think it's something we've got particularly good at over the years, and particularly in the last two or three years where we've seen this massive inflation period. It's helped by the commercial systems that I talked about earlier. And so I think it's something that we focused on and I think it's something that we've just got very good at and we need to be in this category, which is very much promotionally driven. We know it's an expandable category and if you get the price and the feature display right, you absolutely sell more. And that's why it's such a critical capability that we really intent on being great at if you like.

Philip Spain: Great, thank you very much.

Simon Litherland: Good. All right, thanks for the questions, Philip.

Operator: Thank you. As there aren't enough other questions at this time, I'd like to hand the call back over to Simon.

Simon Litherland: Great. All right, guys. Well, listen, thanks very much for joining the call today. Thanks very much for your time as ever and thanks very much for your questions. Hopefully it was useful for you and look forward to seeing you shortly. Take care.