Britvic

25th November 2009

Duration: 00:49:24

Gerald Corbett:

Good morning everyone, welcome to the Britvic results. You all know John and Paul, and John is now going to take us through the details.

John Gibney:

Thank you Gerald, morning everybody. Before we get into the details of the presentation, if you please note that we will be making available a copy of the transcript and the webcast on the Investor Relations site at Britvic.com. Both of those will be available at some point tomorrow afternoon.

Today we report our results for the 52 weeks ended 27th September 2009. This year has been another excellent year for Britvic, building on our strong financial track record led by revenue growth again. Key headlines are revenue for the Group up nearly 6% with GB and international revenues up by nearly 9% despite the economic headwinds, as Gerald described.

Group EBIT margin is up 80 basis points while the GB and international margin is actually up ahead of this by around 110 basis points.

Earnings are up 21% with free cash flow reaching £70 million, and these results have delivered an increase in our ROIC of 160 basis points to 17.9%.

The repeated strength of our performance gives the Board confidence, as Gerald said, to propose a final dividend increase of 24% to 10.9 pence, bringing the full year dividend to 15 pence, which is an increase of 19% on 2008. This now brings us in line with our stated ambition of 2 times dividend cover – a measure we anticipate maintaining in the future.

The Group revenue growth of 5.6%, which we announced last month, has translated into an EBIT of just over £110 million. This is in line with market forecasts that were significantly upgraded in July and the EBIT growth represents 14% build on last year.

As I mentioned, we have improved Group operating margin by 80 basis points to 11.2%, and GB and International have now totalled margin improvement of 170 basis points over the last three years, and Paul will talk later on what this means for margin guidance in the medium term.

We continue to grow earnings, this time increasing by 21%. Free cash flow has again improved this year, resulting in a cumulative delivery now of £250 million free cash flow over the last four years. We continue to pay down debt, this time by a further 6%.

Moving onto our strong track record, the performance again this year has added to a track record of consistent delivery on all of our key metrics. A 5.6% revenue CAGR in the underlying business since 2006 leverages down at the EBIT level to growth of around 11%. It's also worth noting that the business has now developed revenue growth CAGR of over 4.5 percentage points since the year 2000. We now have a very strong and consistent cash flow record over this period of time, helping to drive Group EPS to a CAGR of over 17%.

I'll now move on to take you through the different reporting segments. Starting with our Carbonates portfolio, we have seen a volume outperformance of the market of 7%. Alongside this we have also achieved ARP growth of 2.7%, which combined with the volume has delivered revenue growth of 11%. Brand contribution is in excess of £150 million, representing growth of over 5% on last year. The brand contribution margin has declined by 190 bps this year, firstly due to an increased A&P spend behind our Carbonates brand, but also as a result of product and channel mix. We have driven significant growth of dispense in licensed trade and also large pack in the off-trade where the margin in these products is inherently lower than the rest of our portfolio. However, we do expect margin improvement from Carbonates in 2010.

Our Stills portfolio has delivered a strong performance with growth on all of our key metrics. The volume of 3.6% increase means an outperformance of the Stills category by over 6%. We've achieved an ARP improvement of 2%, leading to a revenue growth of nearly 6% in the year. This increase in Stills ARP comes as a result of a number of factors including successful price accretive innovation, price management and improving our pack and product mix over time. Brand contribution is up by 7% with a margin improvement here of 40 basis points despite direct costs rising by 6%, although Stills also benefit from a lower proportion of our ARP spend this year.

Turning now to our International division, 2009 has once again been a year of double-digit growth. This increasingly important part of the Group saw a revenue growth of 19%, again driven by both ARP and by volume. You may recall from this time last year International achieved a brand contribution growth of 29%, and this year we have achieved further growth on top of that of 55%.

In addition to the flow-through from the volume and ARP growth, the increase in Brand contribution has benefited from the lower A&P spend in the Nordics due to the brand now establishing itself in that region.

As well as the success of Fruit Shoot in the Netherlands and Robinsons in the Nordics, we've also secured a number of new contracts in the travel sector and are actively exploring franchise and export opportunities across the world. This will principally be with Fruit Shoot and Robinsons propositions, and we'll update you on that activity in due course.

Overall volumes in Ireland are down nearly 11% this year and reflect the continuing difficult trading conditions in that market. ARP is 62 pence per litre, includes the benefit of currency movements, with the underlying Euro ARP down by 3.6%, as consumers continue to focus on value as a priority.

Despite this, some synergies gained in areas such as Procurement meaning continued growth of the Bank contribution margin. Before amortisation, the EBITDA of the business was down by £2.3 million, as trading conditions directly affected the bottom line. This year we've continued to deliver against our stated synergy plan. As we complete the implementation of our business transformation programme in Ireland in 2010, we are confident in our ability to deliver further incremental synergies of €10 million next year. We continue to invest in the Irish business both operationally and in our people, and as a result we are confident we are shaping a business that will be well placed to take advantage of growth when it returns to the market.

Moving onto out fixed costs, we've seen the benefit of Group supply chain restructure and synergies come through this year with fixed supply chain costs down by over 6%. We've also delivered top line growth of nearly 6% whilst controlling our selling costs. The increase in overheads and other costs on the face of the P&L account actually masks an underlying flat performance. The variance of £12 million you can see there is driven by the translation of Irish costs into Sterling of around £2 million. The movement on foreign exchange conversion year-on-year of £3 million and additional bonus provisions covering bother short-term and long-term schemes of £6 million.

A&P spend was down, though this was not due to a lowering of activity. Indeed our very successful brand equity programmes were a real driver of our volume performance this year. We have benefited from media deflation and our increasing focus on digital and viral marketing has led to a lowering of our A&P spend. We have seen TV, print, radio and outdoor media deflation in excess of 10%. Targeted investment behind our brands will remain a priority and we'll continue to exploit the most effective channel going forward.

As we move down the P&L account, a lower interest environment and another reduction in net debt has led to an 11% decrease in our interest charge this year. This is despite a significantly higher margin this year under our bank facility that was renegotiated in March of this year.

The effective tax rate this year is 25.8%, an increase on last year, which is primarily due to the profit mix effect coming from a lower proportion of our profits out of Britvic Ireland. At an earnings level we've delivered a 21% improvement on last year with profit after tax of over £64 million, despite the economic headwinds faced in the year.

Exceptional items are £20.3 million, primarily due to the business restructuring in Ireland. This charge is higher than we guided at the interims; however, the primary driver of this has been a write-down of the value of properties held for sale in Ireland. This is around a charge of €4 million, unsurprising given the current state of the Irish property market. A further 2.4 million charge relates to onerous leases on vacant properties; again, the majority of that coming through Ireland.

The carrying value of our Ireland assets has been reviewed again at the year-end, and with the exception of the property assets I've already mentioned there is no impairment to value. However, we do recognise that should the Irish economy not return to growth in 2011, as widely expected, then we may need to revisit those carrying values again. There remains ample headroom in the values and sensitivities are included in note 15 to the accounts.

Finally, the Group structure that we announced at the March Investor Seminar has now been implemented and the associated costs are reflected here.

Depreciation and amortisation has fallen this year due to the end of the short-term depreciation of Capex related to our business transformation programme in GB. Again, we have seen an improvement in our working capital position, as a result of strong management of our stock, debtor and creditor positions. External benchmarking rates our GB working capital management as world class. The ongoing investment in the Irish business provides us opportunities to improve that position further. Capital spend is marginally below previous guidance, primarily this is due to leasing costs being above the guidance we've normally given of around 5 to 6 million being closer to £10 million. Our strong cash generation and control has seen cash flow improve therefore to nearly £70 million. This again demonstrates our ability to generate cash and pay down debt with the adjusted net debt to EBITDA ratio of 2.4, as I mentioned earlier, compared to 3.2 times only two years ago.

Our balance sheet continues to strengthen, demonstrated by the agreement this month with investors in the US private placement market for the issuance of a further $250 million subject to documentation and due diligence this month, which will further rebalance the Group's debt structure and repayment profile.

Turning now to 2010, with the current consumer uncertainty and lack of visibility then we remain cautious on the outlook for the soft drinks market place. However, the first few weeks of this year have started well for the Group, but the key trading period of Christmas has only just started, so we'll provide more guidance on 2010 with our Q1 trading update at the end of January.

As stated previously, we are confident on innovation adding 1 to 2% to revenue on a full year basis and we're also confident on the cost elements laid out on this slide here. The average interest rate for 2010 is projected to be in the range of 5.5 to 6%. This year has seen the full year effect of the bank facility that was secured in late spring. Whilst 2009 capital spend has been slightly below guidance, we expect 2010 to be in line with previous guidance will also cover the investment in a new PET bottling line at our Rugby plant.

So in summary, Britvic has delivered another strong set of results with earnings up over 20%. The increase in the full year dividend of 19% now brings us in line with our policy of two times cover, which we anticipate continuing in the future. We remain confident that the consistent execution of our strategy will drive further growth in the future. I'll now hand over to Paul, who will take you through the next section of the presentation. Thank you.

Paul Moody:

Thank you John and good morning everybody. My section of the presentation will cover some familiar ground, namely a review of the UK and the Irish soft drinks markets this year, as well as providing more detail on exactly how we've performed so strongly during this last year.

Given the track record and the EBIT margin performance John has just talked about, I'll also give you some additional colour on the drivers of our performance and our ambition for growth over the longer-term.

The GB Soft Drinks market proved resilient in 2009 falling only by 0.9% in volume. Indeed in the most recent twelve weeks of the year, the market grew by nearly 2% despite there being no material benefit from weather conditions this summer. I think you'll agree – a familiar picture over recent years.

Carbonates have performed well this year with overall market volumes up 0.8%. In contrast, Stills has declined by 2.5%, although this decline has itself been much more acute in individual sub-categories. The relative resilience of the market continues to be supported by big brands, with Britvic's market share up by 0.5%. Private Label has seen a further 1% share loss in the year – somewhat at odds with the growth it has enjoyed in other food and beverage categories.

The strong market performance by Brands demonstrates the emotional link that they have to consumers, the continued investment in advertising and promotions and, crucially, the outstanding value that they do offer.

By category you can see that Cola has led the growth in Carbonates along with Glucose and Stimulant. Carbonates with big brands dominating the category, continue to hold up extremely well, as consumers adopted a narrower soft drinks repertoire, focusing on reliable and good value brands in these difficult economic times.

The Stills market has seen a much more variable performance. Pure Juice and Smoothies, categories where we have no material presence in Take Home, have led the 2.5% decline. Plain Water has enjoyed a relative recovery as the year has progressed. The Plain Water decline of just over 1% masks, in fact, the performance of the on-the-go packs where volumes are up on last year. In the larger 2 to 5 litre pack segment, where volumes are down nearly 3%, adversely influencing the overall category.

Within the key categories of Squash, Juice Drinks and Water Plus, our portfolio of brands and products has performed exceptionally well, retaining our number one positions in growing both volume and value share in the year.

For an appreciation of the progress the market is making, the chart shows the most recent twelve weeks to September 26th. The Soft Drinks market returned to growth, up by 1.7% and encouragingly the growth is led by Stills, up 2.5%. Within Stills in the quarter, the Plain Water sub-category overtook Pure Juice by volume; and Water Plus, Juice Drinks and Squash all enjoyed good growth. Although only one quarter, and insufficient to categorically confirm a sustained return to growth for the market, it is nonetheless a positive trend as we move towards the important Christmas period.

Moving to the Irish business now, the severe economic recession has been keenly felt within the Irish Soft Drinks market. Value has been declining at a faster rate than volume and across the island of Ireland all channels, except Northern Ireland Grocery, have declined. Republic of Ireland Grocery market volumes are down over 4% in the year, whilst the Licensed On-Premise market is down 19% in the year to August, illustrating the consumer consequences of the macroeconomic challenges.

Despite the horrible consumer landscape, Britvic has enjoyed share gains in nearly all of the channels this year. In the Licensed Wholesale channel we've achieved a record share of nearly 44%. However, in the Republic of Ireland Grocery channel we have suffered 0.5% share decline, as Private Label continues to attract value-focused shoppers.

The Discounters channel has enjoyed significant growth this year in Ireland and we have grown our share of that market from 10 to over 40% within this sector. Now as a guide, we believe that this would equate to 1.8 points of share gain if added to the available Grocery data. We believe this demonstrates our ability to respond quickly to the changing dynamics of the retail environment in this market and exploit, for us, a new whitespace channel and distribution opportunity.

A category view of the Irish market shows that with the exception of Energy and Dilutes, all categories have declined this year. Ready to Drink Soft Drinks and Pure Juice in particular have experienced double-digit declines whilst fruit flavoured Carbonates have also suffered material market decline. We continue to be cautious about the prospects for a short-term recovery in the market given the lack of visibility of an uncertain macro environment and the consequent consumer behaviour.

The most recent twelve weeks market data has seen an easing in the volume decline, down less than 3% on last year; however, the value performance is markedly different, as consumers seek value and retailers promote aggressively. A combination of the growth in secondary and tertiary brands, the increased prominence of Own Label and aggressive discounting by both retailer and brand owner is, in our view, distorting market performance. By example, both Dilutes and Sports, which are in volume growth, are in value decline in the last twelve weeks.

In GB, our core Carbonates portfolio has enjoyed a hugely successful 2009 with each of our core brands delivering strong year-on-year growth. The Pepsi brand continues to impress with a record share position, up 0.7% by volume. We've seen all three variants of Pepsi growth share with Max now firmly established as the number one in its sub-category. During the year we ran two major campaigns with the 2020 Cricket and a 'Music Time with Nokia' – both of these proving to be massively successful. The consumer interaction with 'Max-It-For-A-Million' and Nokia Music was extraordinary, with nearly 3 million entries into the competitions, setting a new benchmark for such activities. 7Up with its more natural proposition has seen more strong growth this year both through excellent in market execution and a rejuvenated pack and price mix.

Now this time last year we talked about Tango having lost its way and our stated intention to reinvigorate the brand; this started just before Christmas with the 'Save Tango' campaign and was soon followed by a marketing campaign aimed at the core Tango consumer. The introduction of the 440ml can brought both value to consumers and controversy in the media with its 'Tango with added Tango' strap-line. I'll pause for a moment so you can work that through. The turnaround in Tango's performance has been outstanding, it's the key driver of growth in the Fruit Carbonate category and it's added over half a million households to the category for this year alone.

Our three core GB Stills brands have also performed very well this year with shared growth for each. J_2O has seen a number of changes this year with an image refresh and new pack formats. Even with its premium positioning, we've seen a return to growth for J_2O in the second half of the year, and indeed in Grocery it continues to grow share up a further 3.6% in value this year.

Robinsons remains the number one Squash and has achieved further share growth during the year. We're absolutely confident of continuing this year's success into 2010, as we enter our 75th Anniversary of sponsoring Wimbledon.

Fruit Shoot leads the Kids Soft Drinks category. As a £100 million retail brand, we have delivered a pack refresh this year, as well as flavour formulation changes. We've removed artificial ingredients from the product and the full sugar variant is now free from artificial colours, sweeteners and preservatives. Over 85% of all Fruit Shoot sold in GB is no added sugar. In Ireland this number increases to nearly 100%. Fruit Shoot provides mums with reassurance, as tasty hydration is delivered in a fun and active way. We will continue to maintain its position as the category leader, as we bring innovation to the market next year.

Speaking of innovation, it means much more than simply launching new brands. It embraces brand extension, such as Juicy Drench and Pepsi Raw. It also covers getting the most out of our brands through optimising our pack offer. For example Tango's success this year is in part due to the new 440ml can format in Impulse, driven by the target consumers' preference. We also continue to drive great consumer experiences, notably Pepsi Extra Cold for the Licensed On-Premise market.

Reflecting the economic strictures and cautious consumer behaviour, this year we have focused our attention on extending established brands such as Robinsons and Drench. When we believe the time is right and consumer confidence has returned, we will bring to market new brand and production innovation for both of which we have an exciting and extensive pipeline programme.

This year's innovation has indeed again been key to our strong performance. For example, Juicy Drench is on track to be the most successful NPD launch in the soft drinks category in the last three years in Impulse. It's great taste and value for money proposition has struck a chord with consumers, and where stocked its rate of sale outstrips its rivals.

As a further example, our targeted approach to Lipton Ice Tea – a business that we acquired during the year and indeed and since January have been operating with the brand, has led to a rate of sale growth of over 50% in our grocery channel.

The Britvic innovation stream which also utilises the great partnership we have with Pepsi is crucial to our success and we look forward to announcing the 2010 programme to you all in March.

Now fundamental to our strong brand and market performance in recent years, has been the quality and effectiveness of through the line execution. From our great brand equity programmes to the shopper's experience with our point of sale material, to the consumers engagement with the product, all the way through to participation in a promotion or a campaign, our joined up execution has brought strong results for us and our customers and of course, huge enjoyment for our consumers.

Moving to our medium term future, we continue to see four very simple and clear drivers of top line growth that have delivered a four year CAGR of 6%. We continue to expect expansion in the GB market driven by demographics and growing per litre consumption of soft drinks, at the expense of categories such as fresh milk, hot drinks and most alcohol.

We have clear near and medium term plans to close major distribution gaps in key channels, such as Impulse and Food Service, both offering material new revenue opportunities for us. We have demonstrated a proven track record of innovation that's added 3.5% to our top line over the last two years, even when excluding our pack and price architecture.

We continue to plan for pricing growth through enhanced and ever efficient promotions and product mix management. We are confident in the medium term, revenue growth of our underlying business.

Given the confidence we have in the top line as a broad steer for future growth, it's now appropriate to upgrade our EBIT margin guidance for the Group. Our previous guidance was to increase the GB and international margin by up to 15 basis points per year. However, as John has mentioned, we've delivered an improvement of 170 basis points since 2006 in the underlying business.

Because of this, as well as the significant operating leverage opportunities we have left in this business and the eventual market recovery we see ahead in Ireland, we today upgrade our guidance to an average Group margin improvement of 50 basis points per year in the medium term.

So in summary, what we've demonstrated is, an outstanding market performance, where on pretty much every metric we've out-performed the market. There are encouraging early signs of the GB market showing recovery, certainly in the last 12 weeks there's good reason to be confident. We've demonstrated, not a secret, but the key to our continued success, which is outstanding brands delivered in a meaningful and impactful way to our consumers. Our margin ambition now reflects our strong track record and our confidence in our ability to deliver. We are continuing to deliver on a strong growth agenda.

That now concludes the formal part of the presentation. Gerald, John and myself will now be very happy to take any questions you may have.

Gerald Corbett:

If you can say your name and your company before you ask the question.

Ian Shackleton:

Ian Shackleton from Nomura. Two questions. Firstly, do you think Q4 where we've seen Stills going ahead of Carbs, it's marked sort of a sea change. Are we back into seeing Stills growing faster than Carbs going forward? Secondly, when we look at your revenue guidance, you quantified most of the bits in terms of what it might mean. If we look at that distribution opportunity that Paul mentioned in Impulse and Convenience, how big could that be; could you give us some steer on that?

Paul Moody:

I'll take those Ian. Thanks Ian. I think what we've seen in Q4, the recovery in Stills is as much to do with the recovery in the Plain Water market as anything else in fact. Because as we talked, I think over the last 18 months, quite a lot of the declining Stills was led by packaged water. At one point you might remember, it was down, low double-digit. We've now seen that market begin to recover and indeed, we've seen other categories such as Squash and Juice Drinks also beginning to perform. I think what's really important is that although the Stills market is recovering, we're not seeing that at the expense of CSD. So CSD continues to be a strongly performing category. So again, to our confidence about the market recovery; seeing both of those improve in tandem is a good sign.

You're absolutely right, that we've not given any guidance on the distribution and that's quite deliberate Ian. I think at this stage, what we can say is that as you look at the ubiquitous nature of distribution of soft drinks, from our perspective we have by no means perfect distribution. We can look very clearly at a take-home grocery channel and demonstrate almost perfect distribution. But if you take the huge number of Impulse outlets, the huge number of Food Service outlets, we believe there's a massive opportunity for us to drive that distribution. To be frank, it's an area that over the last year or two, we've been building our momentum behind them and we think that will be delivered in 2010. So deliberately not giving guidance but confident that it will drive material top line growth for us.

Ian Shackleton:

Just if we go back to that Water performance in your Q4. Was that primarily driven by small pack or large pack; do you just put that down to the fact that it was a good start to the summer, though it didn't continue; or is that more sustainable?

Paul Moody:

I think what we're seeing in Plain Water is, evidence that there is still consumer resistance to large pack consumption at home, where they believe there's a value play versus tap water potentially. But I think as we've consistently said, if you're on the road and you need a drink and you go into a petrol forecourt, then you are clearly only going to pick up a single unit chilled. That's where we see the market dynamic. On-the-go is still relatively robust, I think at home consumption will continue to be challenged, because of the value equation I think.

Andrew Holland:

Andrew Holland from Evolution Securities. A couple of questions. Paul, you were slightly coy on your market shares. You said your overall market share is up 0.5%, can you say what your share now is and also in Cola, what your share is? Secondly, there seems to be a sort of growing threat of a 'fat' tax in the US on sugary soft drinks; I just wonder whether you are concerned that might make its way over here in the fullness of time; and to that end, can you give us an idea of roughly what proportion of your volume now is in full sugar drinks?

Paul Moody:

We don't and won't start today, give shares by brand. What we've demonstrated, if you take Pepsi for example, we've grown our Pepsi share by 0.7. But overall, we've got a 0.5 growth and that will be fairly reflective across all of our core brands; some performing more strongly than others, so Pepsi and Robinsons performing more strongly than for example Fruit Shoot. But that will be a proxy for the overall growth. In terms of 'fat' tax, I think that the 'fat' tax certainly got a lot of heat and light probably three or four months ago. The sense that we get from the Pepsi guys that we speak to frequently is the momentum behind the 'fat' tax, may now be easing. But nonetheless, from our perspective, probably now if you exclude the volume that we sell through pubs, which in Cola terms is in the majority, regular therefore for sugar; then we'd be running something in excess of 65% of our volume is in no-added sugar formats. Quite a lot of the balance of that you're seeing brands like J2O that have natural fruit sugars and that's one of the paradoxes of this kind of activity, a natural juice product, will by definition have a high sugar content. Therefore, it's very difficult to produce a product without the sugar in.

So we're reasonably, in fact very confident around our portfolio, indeed across every one of our brands, we will offer a no-added sugar variant versus the regular. So if you take brand Pepsi, in a take-home you have Regular but also Diet and Max and the proportion of Pepsi that's sold in no-added sugar is comfortably approaching 60% now. So we're pretty confident that the offer we make is balanced between regular sugar and no-added sugar, if that's what you're looking for.

John Fell:

John Fell from Deutsche Bank. A couple of things. First of all on your A&P spend, A&P sales is down a fair bit this year and you explain that, the sort of shift in the type of marketing spend you have and also media deflation. Just wondering as we move forward is that shift into digital and viral done for you now, or do you think that's going to be a continuing part of your A&P mix? As far as A&P sales is concerned, will that dynamic impact take into account, that presumably media deflation will end and maybe reverse at some point in the future?

Paul Moody:

I think this year we've taken advantage of media deflation; so what we have is the consequence of being able to get more for the same or the same for less. Clearly if the media market changes, then we continue to support our brands and our stated intention I think has always been around 6-7% of net sales revenue, would be supported by A&P. Now clearly, we don't feel an absolute need to spend it just for the sake of spending it, so if we can deliver great results, then that's what we'll do. The share performance that we've demonstrated would support that.

An interesting question around digital and viral, because there are certain of our brands that lend themselves really nicely to digital and viral and Tango would be a great example. But increasingly, what the marketing team is doing is exploring the opportunity to access a whole range of our consumers using digital and viral, so as an example, there are a number of sites that are dedicated to Mums and Mums with young children. We're using that now to develop our connection with our consumers on both Fruit Shoot and Robinsons. So whilst I think the typical view of viral is all about kind of sulky teenagers in their room on the internet, in reality it's a massively effective way of communicating with our consumers and we'll continue to develop that. So by no means have we come to the end. I think we've now demonstrated to ourselves, it's an incredibly effective mechanism and we'll no doubt continue to develop that, whilst still supporting traditional media, which has clearly a role to play in our overall brand programmes.

John Fell:

Thank you. I have another question on pensions. The pension deficit has gone up and I think you're coming towards the end of the agreement you had to pay the £10 million a year to redress that. Any visibility on what's likely to happen in the future; are you just going to continue doing £10 million payments or is it going to be another sort of meeting and negotiation on that?

John Gibney:

Well the process that will go through as a valuation will be struck at March 2010. After that, then we will sit down with the Trustees and look at the funding required to close any valuation gap. Last time we did that in March 2007, then the output of that was, if we continued the £10 million payment, the final one being in December 2010, then we would have actually closed any deficit gap. I think in common with many pension schemes, what we've seen is obviously liabilities increase; assets go down. So you'd have to be pretty optimistic that we're going to be in the position where there isn't a gap to close. To be frank, we don't know what that gap is at the moment, but I think the good news is that the underlying cash flow of the business already supports that £10 million annual payment, so we're in a good shape I think as we go into that negotiation.

Robin Asquith:

Robin Asquith, JP Morgan Asset Management. Just a question on UK trading in the grocery area, heading into Christmas, where I saw one retailer advertising Buy-One-Get-Two-Free for CSDs; just to what extent are you having to fund part of that, just the general trading environment in the UK? Thank you.

Paul Moody:

I think if you take the year as a whole, we would say that the level of promotional activities has been pretty even year-on-year. There's no doubt that value is an important part of the equation, but soft drinks have always been a good value proposition; so two thirds or so of all volume is sold on promotion. So in reality, the consumer rarely has to pay, what would be seen as the shelf price. As we take the quarter and I know exactly the one that you're referring to and that's actually a repeat of something that that retailer did last year. We go to the market with a range of promotional activity; clearly Christmas is an important period for Cola, but also for J2O and also for Robinsons. We offer a promotional investment and then the retailer makes a judgement about how they execute that in store. On that particular instance, you're seeing there a reflection of the retailer's decision to support a more aggressive offer, because it's part of their overall value offer.

From our perspective, we're seeing no material shift in promotional investment or activity; but I think in common with all retailers, indeed over the last full year, we've seen a number of instances where retailers are clearly supporting activity to build a value proposition to their consumer.

Nico Lambrechts:

Nico Lambrechts from Bank of America, Merrill Lynch. In your guidance you neglected to point out what you expect your free cash flow to be over the period. Is it fair to assume that free cash flow over the four years could be well in excess of 300 million? Could you then extend that to say what your ambitions to make acquisitions clearly…you clearly state your ambitions. What is the options of actually spending some capital by going…more aggressive capital by going Greenfields into markets, buying sales teams, marketing brands, instead of in the absence of the acquisitions?

John Gibney:

In terms of free cash flow, we haven't given any specific guidance on that. I think if you take the constituent parts of that, then clearly you can get there. Probably the ones that we would expand on a little bit more, working capital, as I referenced earlier in the presentation Nick, we're already at a world class performance in our GB business. To be frank, it's difficult to see how we'll move that substantially over the coming years. There are opportunities in Ireland and the implementation of SAP will be the catalyst for that. So we see an opportunity, probably somewhere in the region of €10 million in Ireland, which will be a kind of a one-off adjustment there.

Going forward, we don't anticipate the level of capital having to be significantly different to what we've articulated. So if we continue to grow the profits in the way that we have done, then for sure we would expect to see a leverage benefit on that as we look at cash flow. 250 million that we delivered over the last four years, if we continue to grow our profits and contain our working capital and Capex expenditure as well, there isn't any reason to believe why we wouldn't be able to continue to build on that.

In terms of your question around spending capital around acquisitions, I think our view would be Greenfield site is a huge risk, to go into the market place. So if you even take the GB market, somebody coming into our market, building a Greenfield site, with no customer relationships in terms of the sales force, no distribution infrastructure, would be a huge risk for anybody. So I think certainly our preferred way of entry into any market place will be through an acquisition of an existing player.

Nico Lambrechts:

At what point in the absence of acquisitions, let's say over the next two years, do you make a decision regarding the capital allocation; what are the thresholds?

John Gibney:

I think what we've always talked about in terms of our capital structure is that we see ourselves operating no lower than a debt to EBITDA of 1.75 times, so clearly if we were there, and we haven't had an acquisition, we would have some decisions to make. I think what that does do though is if we get there, puts us obviously in a very strong position to move very quickly, should we see the right targets.

It's always difficult to comment on M&A. I think we've said in the past that we've looked at in the last year or so, three or four potential opportunities, we've not progressed those, simply because we didn't think the price expectations were right and therefore the value equation for us wasn't right.

From a…if you like, readiness perspective, then we're in a good position to go. So it was the right target to come up then from a resource perspective internally and we got the resources ready to go, we've obviously got the funding in place, if it was a major acquisition we've also been very clear that we'd probably look to our shareholders to help fund that as well.

Nico Lambrechts:

You obviously have a team actively working on M&A and the prospects. Could you give us an update, are you getting closer is it…it's clearly a lot of senior management energy is spent on it, just a little bit of colour, whatever you care to share with us?

John Gibney:

You already know the answer Nico, don't you, but it's a nice try anyway. Clearly we couldn't comment on any potential deals. As I say, we're ready to go, we know where we would like to go, but obviously it depends on the willingness of the current incumbents to actually engage in the deal.

Charles Pick:

Charles Pick of FinnCap. Two questions please. On the margin guidance, presumably that 50 basis points per annum, out to 2013 could have a front end loading aspect to it, because it is an average figure that you are quoting, given the extra synergies due over the next 18 months or so? Secondly, just to revert to A&P, it was 6.3% in the first half, it looks to have been only 4.9% in the second half. Does it run forward into this year at that lower second half run-rate?

John Gibney:

In terms of the margin guidance, I see where you're coming from, because probably one of the key influences around margin enhancement will be delivery of the synergies; in Ireland we're clearly flagged around the €10 million opportunity this year. That said, if you look at the EBIT margin performance in Ireland in 2009, because of the trading conditions, you'll see that the margin has actually gone backwards in Ireland. So that may well cause some drag on our ability to enhance the margin, as quickly as we would have liked, because we don't see the growth coming back into Ireland until 2011. But obviously it depends on a number of factors. I think taking an average of 50 basis points over four years is probably a reasonable assumption is an opportunity, some of it might come through earlier, than if Ireland actually enhances or the Ireland market improves, then there may be an opportunity for us to deliver it more quickly.

I think in terms of your question around A&P. Then I think that's just a matter of phasing. I would suggest you take the whole year as a much better indicator rather than just the second half.

Jonathan Cooke:

Jonathan Cooke from RBS. Just two questions. One on the distribution gains that you talked about. Obviously you have a 100% distribution in the take home trade around 45% in the on-trade. But could you give us a feel…there's a lot less transparency in the Impulse channel, so could you give us a clue, an indication of the current level of market share that you have in that channel; then, what you would get to when you get to your target in the medium term? Secondly, on the…actually can you just take that question and I'll work on…[Laughing].

Paul Moody:

How long would you like me to talk for? [Laughing] I guess in a way I'm going to be kind of unhelpful because you're right, the transparency or the visibility particularly in Food Service and Vending is quite weak, because it's not a market that is well tracked by any of the regular agencies. So we have a pretty clear view. I guess the way I would describe it is that we have pockets of real strength within that category and we have pockets of weakness, which is often built around the nature of the customers and the channel. So I'm not going to give you a clear steer, but we're not talking around the margin here, we think there is a material shift that we might be able to make. Within C&I, to be slightly more specific, because the data is really slightly more robust; if you look at our relative performance in C&I versus our overall share, we relatively under-perform our overall share. Partly, that's been about the brand portfolio and partly that's been about focus. Indeed, if you go back to Food Service and Vending, one of the reasons that we feel confident about ability to build our presence is that in the last year or so, we have materially changed our portfolio. So with the addition of V-Water, the addition of Gatorade, the addition of Lipton Iced Tea, we now have product and propositions that perfectly lend themselves to that part of the market. This is a fairly well considered and detailed piece of analysis that gives us confidence. We've got both the ammunition to exploit and now the go-to-market capability to get there.

Jonathan Cooke:

Am I right in thinking that there's no new cost saving initiatives announced today and that in the 50 basis points margin expansion to 2013, that will also include no new cost saving initiatives. Does that reflect the fact that you pulled all the levers that you can and that therefore, it would have to come, kind of about space opportunity to reduce costs further or other ones…?

John Gibney:

I think in principle you're right, there's new initiatives. I mean there is certainly continuation of previous initiatives such as a PVO – Product Value Optimisation programme that we have and that's consistently delivered us around £2 million of savings year-on-year. As we look forward we see those sorts of opportunities that we can continue to exploit. Clearly we also have that opportunity potentially in Ireland now, as we implement that same process there. I think in terms of what would drive the margin therefore, it's a continuation of a lot of the things that we've done in the past. The Ireland synergies if you took those in isolation have the potential over a full year period to have something like a 100 basis points alone. So therefore, the rest of the business would need to deliver on average 25 basis points. PVO will play a role in that. Equally though, the thing that we consistently point out is that we believe this business can deliver the revenue growth that we've talked about, without a commensurate increase in our investment in overhead or asset base, so that's where you'll see quite a lot of the EBIT and leverage come through as well.

Gerald Corbett:

Any more questions? Okay, well Paul and John will be around afterwards if you want to ask any more on an individual basis. Thank you very much for coming and see you next year.