Britvic Full-Year Preliminary Results 2015

Wednesday, 25th November 2015

Transcript produced by Global Lingo
London - 020 7870 7100
www.global-lingo.com

New Appointment

Gerald Corbett

Chairman, Britvic

Good morning everybody. Today is John Gibney, our Finance Director's last result presentation. John has been our finance director since the last century, literally. John, you have done – what is it, 17?

John Gibney: 17 years.

Gerald Corbett: I think he is looking remarkable good on it, and you will hear what he has got to say in just a moment. He has done a tremendous job at Britvic over many years and we will miss him. So thank you, John.

It is pretty obvious who the new Finance Director is. He looks like a Finance Director and from his early weeks in the business, I can assure you he really is the genuine article. The operating guys are living in terror already. Mat, would you like to say a few words about yourself? I know you are not taking the floor today, but just so they know who the hell you are.

Mathew Dunn: Yes, Gerald assures me I should stand up so you can all see what I really look like. So as Gerald says, I have been around a couple of months. It has been a busy few months, as you can probably imagine. However, I feel like I am just about up to speed now, and really looking forward to working with Simon and the team to get after the opportunities that we have got in the upcoming year.

I think as you will see in a few minutes, when Simon and John present, there are some really great things going to be happening next year and in the future, and I am really looking forward to working with the team to make those a success. So no doubt I will get to chat to most of you over the coming days and weeks, for those I have not already met. So I am looking forward to meeting you all and chatting in more detail, so nice to meet you all.

Gerald Corbett: Good. So that is the new. We are now going to get back to the old, and John will present the results.

Financial Overview

John Gibney

CFO, Britvic

Thank you, Gerald. I will take the 'old' in the spirit I am sure you intended it, more than a reflection on me as an individual. So morning everybody, these are our preliminary results for the 52 weeks to 27th September. All the numbers I will talk about will be a pre-exceptional and constant currency basis, unless otherwise stated.

Earnings growth

So 2015 was another year of strong earnings growth. Despite the increasingly challenged trading environment, which we anticipated when you spoke to you last November, and the poor summer weather in GB and Ireland, we have delivered within the EBIT range we outlined for this year.

In a largely deflationary environment group revenue was slightly down by 0.6%, but we have delivered strong progress on all our other key metrics. As you can see, group EBITA is up by 7.1% to £171.6 million. EBITA margin has expanded again this year by 100 basis points, and there is strong leverage down the P&L account, which has delivered EPS growth of 12% year-on-year.

Favourable raw material pricing has largely offset the pricing pressure that we have faced this year. Our strategic cost initiative programme is now nearing completion, with a small residual value benefit of circa £1–2 million still to come through in 2016.

Cash management

Our disciplined approach to cash management has resulted in a further deduction in our net leverage ratio to 1.7 times net debt to EBITDA on an underlying basis. This excludes the cash proceeds we received from the July equity placement, with the Ebba acquisition not completing until after the end of the financial year.

Dividends

As a result of this strong performance, the Board has declared a final dividend of 16.3p, bringing the full year dividend to 23p; an increase of 10% on last year. The dividend covered this year is slightly below our stated 2 times cover, at around 1.95. That is a result of our stated intent, at the time of the share placement, to protect the anticipated final dividend level for all shareholders. We anticipate building back to 2 times cover over the next couple of years.

Trading Conditions

As we called out at last year's preliminary results, we anticipated that trading conditions would be increasingly challenged throughout 2015. Whilst consumer spending has increased, we are not seeing the benefit of this in mainstream grocery, food and beverage, with other categories, such as household goods and clothing, gaining most.

There are positive trends in channels such as convenience, leisure and online, but these are currently outweighed by the challenges in large-format grocery stores, which consumers are visiting less often with lower basket spends.

In France, we have also faced the additional challenge of major retailers collaborating through buying groups, resulting in significant pricing pressure for suppliers.

Soft Drinks

The soft drinks category has been subdued in all of our core markets. The market in both GB and Ireland saw price deflation in 2014, with value decline reflecting the additional negative effect of adverse category mix. Once again, we have seen the plain category water grow double digit, with higher value categories, such as squash, in decline. The poor summer weather in GB and Ireland adversely impacted both the soft drinks categories and channels such as pubs and clubs. By contrast, the summer weather in France was particularly warm, with our syrups portfolio especially benefiting as a result.

Despite these challenges, in-market performance has been impressive with the investment behind our brands and our commercial plans delivering both volume and value shares gains in all of our core markets.

GB stills

Let me now take you through the usual segmental reporting, starting with GB stills. Performance this year was disappointing, with both volume and ARP down, leading to revenue declining by 4.1%. This was primarily due to performance of the squash category, where Robinsons was affected. This was impacted by competitive pressures, and also by our own decision to remove added sugar variant from the Robinsons portfolio.

Whilst this has caused some short-term loss of revenue and profit, we believe this is the right decision for the long-term leadership of Robinsons in the squash category. As consumer trends continue to move towards 'better for you' products, this decision, plus the significant improvements we have made to the range, places Robinsons in a strong position to capitalise on future growth opportunities.

Both Fruit Shoot and J2O grew revenue and gained market share across the year. The introduction of Ballygowan into GB resorted in strong growth for Britvic in the plain water category, and whilst our presence in this category is still relatively limited we are very pleased with the progress we have made.

During the year, we also launched a number of new products that offer long-term growth prospects, such Teisseire and J2O Spritz. We have invested a significant amount of A&P behind these launches, the benefit of which will crystallise as these innovations become profitable in the years ahead. Brand contribution declined by 5.2%, and margin fell by 60 basis points.

GB carbonates

Turning now to GB carbonates. Whilst revenue declined marginally by 0.4%, this represents a significant outperformance of the carbonates category as measured by Nielsen. Pepsi continued to grow this year, and gained further volume and value share in the Cola category. Our focus on the no-sugar Max variant continues to be successful, with a new cherry flavour being a key contributor to the growth.

Pack mix was also positive, with single serve in particularly strong growth. In contrast, the fruit carbonates category was weak, and whilst we broadly held share flat with 7-Up and Tango, the decline outweighed the performance of Pepsi.

Overall, ARP declined by 0.4%, reflecting the impact of both the competitive environment and brand mix. Brand contribution increased by 1.2%, with margin expansion of 60 basis points.

France

The warm weather in France this summer was particular beneficial to syrups, driving strong growth. The challenging customer environment, which I have already referenced, led to significant pricing pressure, which was largely offset by favourable product mix. As a result, we saw ARP decline by 1.3%. Our continued focus on the kids and family categories, combined with the significant increase in A&P investment and the benefit of innovation launches, such as the Teissiere pump pack, delivered market share gains.

Brand contribution increased by 24.3%, with margin expanding by 510 basis points. This performance also reflected both the benefit of in-market production of Fruit Shoot this year and lower raw material costs.

Ireland

In Ireland, the top-line performance has been encouraging with revenue growth for three successive quarters; a trend which was interrupted only by the poor weather across the summer. Full-year volume increased by 2.6% whilst ARP declined by 1%, leading to a revenue increase of 1.3%.

The soft drinks market continued to be very competitive, with deflationary pressures. Our business outperformed a challenging market, gaining both volume and value share, with our own-brand portfolio performing particularly well. The counter point business also performed well, returning to growth this year. Overall brand contribution was up 2.8%, with margin increasing by 50 basis points.

International

Turning now to international: during the year you recall that we changed to a direct route to market model in the Netherlands. This resulted in a one-off adjustment due to the repurchase of stock from our previous distributor. In addition, there has also been a reclassification from overheads to revenue with specific customer investment costs in the second half of the year. We will adjust 2015 comparisons to reflect those accounting changes when we report next year.

Also at the start of the year, we changed our USA compound model, which was altered, and one of the impacts was reduced order times which meant that our bottlers went through a period of destocking.

Whilst both of these changes provide a platform for sustainable future growth, they have adversely impacted our performance this year. If we exclude these underlying adjustments, then revenue on an underlying basis was up year on year. In-market performance in the US was encouraging, with Fruit Shoot single serve increasing its retail sales value by over 23%. Increased investment in A&P also contributed to the 16.7% decline in the brand contribution.

A&P and overheads

Total A&P for the year was broadly flat, but with the investment as a percentage of revenue increasing by 20 basis points to 5.6%. Within overheads you can see reductions in fixed supply chain, selling and overhead costs as a result of the continued focus on cost management, and the in-year benefit from the delivery of our strategic cost initiatives. Whilst these are now largely complete, we anticipate a residual £1–2 million will be delivered in the current year.

We continue to invest in areas such an international business unit and our strategic and innovation and marketing capability, creating a strong platform for future growth. Overall, we saw a significant reduction in the cost base of 4.2% in 2015.

Exceptional costs and other items

We have incurred £9.4 million of exceptional costs this year. The acquisition of Ebba incurred deal fees of £6.5 million, covering both corporate advisory fees and the extensive due diligence, which was undertaken prior to the acquisition. In addition, we have incurred a further £3.6 million of costs related to the strategic cost initiatives we announced in 2013, and a further £1.4 million of exceptional costs have been incurred relating to the business capability programme that we are announcing today. The total exceptional costs, on a

cumulative basis relating to the 2013 initiatives, will be in line with the cumulative £29 million that we guided to at the time.

Offsetting these exceptional costs is a gain of nearly £1 million, which was a P&L movement for non-hedged financial instruments. In addition, there was a gain of £1.2 million on the disposal of property of Belfast and assets which were previously impaired.

EBIT to earnings

Moving further down the profit and loss account, the strong leverage continues to flow through, with a 7.2% increase in EBIT translating into a 12.7% increase in profit after tax. Interest fell by over £3 million, primarily as a result of the successful refinancing of our bank facility last year.

The effective tax rate fell by 120 basis points in line without our previous guidance, reflecting the changes to UK corporation tax and also the mix of profit contribution across the business units.

Cash flow and net debt

Underlying free cash flow was an inflow of £89.3 million, marginally ahead of last year. Working capital benefited from some one-off changes in supplier payment terms. Capital spend was just over £60 million; below our previous guidance of £80–90 million. Around £20 million of the capital we anticipated in this guidance was actually incurred later than expected, and will now be spent in the 2016 financial year.

Other spend increased by £17 million, primarily due to the timing of corporation tax payments and the purchase of shares to satisfy requirements for share incentive programmes.

Ebba acquisition

The acquisition of Ebba was successfully completed on 30th September, after the financial year-end. As you will be aware, the real has weakened significantly since July, and this will have an adverse impact on the sterling translation of our profits, if it remains at this sort of level. The first 50% of equities in consideration has been paid, in line with the sale and purchase agreement. The majority of local real debt has been repaid, and hedges are in place for the majority of the second equity payment due in 2017.

Whilst we have only owned the business for less than two months, we are pleased with the pace of integration. Whilst trading in Brazil remains very tough, we anticipate that the performance will be broadly in line with the guidance that we gave you in July.

2016 Guidance

Challenging markets

Turning now to guidance more broadly for 2016, we believe that the challenging market conditions we have seen in 2015 will continue across all of our core markets in the current financial year. Our key guidance areas are outlined on this slide, but let me give you some more colour on a few important areas.

Raw materials

We anticipate that the raw material environment in 2016 will be relatively benign. Whilst we see favourable movements in areas such as PET, these are offset by rising costs, for example, within certain juices.

Capital spend

Capital spend will step up this year to between £120–130 million, as a result of the supply chain investment opportunity we see in GB. This includes the £20 million re-phase from 2015, which I mentioned a moment ago. Simon will share some more insight into our plans in this area in a moment.

Exceptional costs

Exceptional costs next year will total around £40 million. This includes £5 million coming from the Brazil integration costs that we shared back in July, and around £7 million associated to the business capability programme we are announcing this morning.

Adjusted net debt

As a consequence, we anticipate that our net debt to EBITDA ratio will increase by the year-end, and is likely to be in the range of 1.9–2 times; still well within our stated range.

EBITA guidance

Finally, we will now focus on EBITA guidance going forward, to allow for the amortisation that will be generated from the acquisition in Brazil. The required fair value exercise will be completed within 12 months of acquisition. We anticipate the EBITA for 2016 will be in the range of £180–190 million, including Brazil and a 53rd week this year in both GB and Ireland.

Delivering our commitments

2005–2015

So this will be the tenth and final set of preliminary results I will have had the pleasure of presenting, before handing over to Matt as CFO. December will also be the tenth anniversary of our IPO in 2005. So I thought it would therefore be an appropriate moment to reflect on the significant shareholder value that we have created since then, and also over the period of nearly three years now since we launched our new strategy.

Bearing in mind that back in 2005 we were predominantly a GB business with a very small international operation, today we generate around 32% of our group revenue from our international operations. While we would recognise that there have been some bumps along the road, nevertheless the value creation over ten years has been very strong.

Earnings

Our earnings on a compound annual growth rate basis have been almost 11%, with a dividend CAGR of nearly 10%. Over this period, total shareholder return has been impressive, in excess of 320%. In the last three years, this has translated into an earnings CAGR of nearly 20%, a dividend CAGR of 9% and total shareholder return in excess of 100%.

Investments

I should also highlight that the performance in the recent three years, whilst impressive, has also been delivered at the same time as we have made significant investments in our international business, in our strategic marketing and innovation capability. Of course, we have yet to see the potential growth on these investments come through the P&L account.

Balance sheet and funding platform

All of this is further underpinned by our strong balance sheet and the funding platform, combined with good, underlying free cash flow generation. All of this puts the business on a solid platform for the next leg of our growth journey.

Capital allocations priorities

Finally, let me provide some greater clarity on our capital allocation priorities as we move forward. Our focus is on translating profitable growth into strong underlying free cash flow generation. This will allow us to maintain a progressive dividend policy, framed around a 50% distribution of earnings; invest in our business capability, such as our infrastructure, both to maintain the quality of our assets but also to take advantage of margin expansion opportunities. Where appropriate opportunities arise, we will take advantage of selective M&A, in addition to looking at further partnership opportunities.

Finally, we will seek to maintain the strength of the balance sheet with debt leverage in the range of 1.5–2.5 net debt to EBITDA. We believe these priorities will continue to deliver superior returns for our shareholders, and underpin the investments behind the growth drivers that Simon will now come on to talk about. Thank you and I will now hand over to Simon.

Growth of the Global Business

Simon Litherland

CEO, Britvic

2013 strategy

Thank you, John and good morning everybody. Let me start by reiterating that 2015 represents another year of strong earnings growth for us, despite challenging market conditions. This performance reflects our ongoing focus on delivering the strategy we outlined in 2013, and our commitment to invest in the growth drivers of the business.

Next phase

As I look at the business today, I see a strong organisation with market-leading brands and exciting, domestic and international growth prospects, underpinned by a cost-conscious culture. We are well positioned to embark on the next phase of our development and to drive further shareholder value. I will take the opportunity this morning to share with you how we plan to do this.

Generating profitable growth

You will all be familiar with the strategy we first shared in May 2013; a strategy designed not only to drive growth, but also deliver significant cost benefits to the business. We have made great progress executing against this strategy. The competitive retail landscape, deflationary pricing and rapidly evolving consumer trends have made it increasingly difficult to generate profitable growth in the food and beverage sector in our core markets. However, we have successfully demonstrated our ability to do just that.

Core markets

We have seen our Irish business unit return to profit, while profits in France have effectively doubled since the acquisition and GB continues to deliver a significant part of our group profit.

We have taken both volume and value market share in our core markets as we see the benefits of our investment in marketing and innovation capability, the successful execution of new product launches and strong marketing campaigns.

Internationally, we are delighted with the progress we have made. Fruit Shoot single serve is available nationally in the USA and is now the number two single-serve kids' juice drink. In addition, we have launched in India. Today around 40% of Fruit Shoot sales are generated outside of GB compared to 30% two years ago, demonstrating the global potential of this brand. This year we also gained access to the world's sixth largest soft drinks market, Brazil, with the acquisition of Ebba.

Business capability

We have continued to step change the capability of our business. We have a hugely talented and committed workforce and have been building on this, bringing in new talent to support the delivery of our strategy. Around 30% of our senior leadership team has been recruited since 2013, bringing with them the experience and skills to accelerate our performance.

In addition, as we have delivered our strategy cost-saving initiatives, we have embedded a cost-conscious culture which has underpinned our earnings growth, and is reflected in 280 basis points margin expansion since 2013.

Building trust and respect

Finally, we made some real progress against our fourth pillar: being trusted and respected. We are committed to being a valued partner by our customers, sharing our category expertise to grow their business as well as our own. The annual advantage survey of customer opinions rates us as the number one supplier in Ireland, and the number three in GB.

Sustainability is also key to our business success, and we achieved a two-star rating in the annual Business in the Community CR index. Our approach to addressing public health issues is a key part of this programme, and I will return to this later.

Executive team

As I mentioned, we have been bringing new people into the business to support the delivery of our strategy, and this has also been true of the Britvic Executive team.

John Gibney retirement

As mentioned already this morning, John will retire in the spring. John led our IPO in 2005 and leaves the business in a very strong position. I would like to take this opportunity to thank you, John, for the support you have given me since becoming CEO, and for your dedication to Britvic over the last 16 years.

Mathew Dunn

In September we welcomed Mat, who joined us from SAB Miller in South Africa. Mat has significant beverage experience and also extensive international leadership experience across three continents.

Hessel De Jong

Also joining the executive team is Hessel De Jong, our International Managing Director. Hessel has strong commercial beverage and general management experience, having worked

for businesses such as Heineken and Coca Cola in a number of markets. He replaces Simon Stewart, who is returning to Australia with his young family.

João Caetano de Mello Neto

Finally, João Caetano de Mello Neto joined us in September as MD for Brazil. He has led the Ebba business since 2001, overseeing a period of exceptional growth. Prior to Ebba, he had extensive FMCG experience, including seven years as CEO at the Muller drinks company.

Future growth in core markets

Now, looking to the future, we anticipate that our core markets will remain challenging in the short to medium term. However, we see many opportunities to drive profitable growth.

Innovation

Innovation, which meets consumer needs and maximises channel or category opportunities, will continue to be a key part of our plans in these markets. I will share more details of our 2016 plans in a few moments.

International

Internationally, our priority is to deliver on the potential that we see for Fruit Shoot in the US and India, and of course deliver the benefits from the acquisition of Ebba. However, as you would expect, we remain open to selective M&A and partnerships in new markets if we find the appropriate opportunities.

Supply chain

I would also call out the supply chain as a key enabler of our growth plans, and I will share our plans to create a best in class supply chain with a significant programme in GB this year. This is a key part of our broader programme to step change our business capability, enable effective pack and price flexibility to enhance our revenue management capabilities, and maximise our cost base efficiency.

Public health

Finally, as part of our sustainability programme, I want to share with you our approach to public health, given the huge focus on sugar and soft drinks.

Innovation

First, let us turn to generating profitable growth in our core markets, where innovation will be key. We have a strong track record in innovation over many years, and 2016 will be no exception. We will continue to nurture the products we brought to market last year, and introduce new or improved products to meet changing consumer needs.

Our innovations are based on our insight into consumer trends to unlock category growth opportunities, whether this is a fast-growing category, where we may be under-represented and can increase our participation, or a category where we are already well represented but expand it with new concepts.

'Better for you' soft drinks

Finally, given the breadth of our portfolio, we believe that we are the best placed soft drinks company to meet consumer demand for 'better for you' soft drinks, and continue to innovate with low-calorie offerings. To give you a couple of examples, we are currently underrepresented in the large energy category which continues to grow. In 2016, we will be

relaunching the Purdey's brand with a new variant and striking new packaging. Purdey's already has a loyal but relatively small fan base, and is well placed to capitalise on the demand for a more natural energy boost in line with wellbeing trends.

Water

Likewise, we intend to improve our participation in the water and water plus categories, which are both showing strong growth. In Ireland we have just launched Ballygowan's Sparklingly Fruity, which has achieved a 12% market share in the category in its first 12 weeks. We will continue to build on the launch of Ballygowan in GB, where it has more than doubled its share in the last 12 months. This year we will also relaunch Drench with new improved flavours, reduced calories and new packaging with a more adult appeal.

Expanding categories

In the past year, we have successfully expanded a number of our categories with the launch of new packaging formats, such as the Teisseire pump and our super concentrated formats. We will continue to nurture Squashd in GB and Teisseire Mix & Go in Europe, and we will also be launching MiWadi Drops in Ireland this year. Finally, we will continue to build our success with low and no-sugar products. MiWadi Zero, which we launched last year, has already around five percentage points to our market share in dilutes in Ireland.

Innovation: Fruit Shoot

We also have plans to evolve the Fruit Shoot range, which I shall talk about in more detail. Fruit Shoot has been available in GB since 2000 and is the number one kids' drink. However, we believe the brand still has real growth potential in the market, and we are developing the range to meet changing consumer needs.

Reformulation

First, the core range is being reformulated as we focus on a 'better for you' proposition. This will see the addition of multi-vitamins as well as the reduction in sweetness, and flavour improvements. This builds upon the removal of the added sugar variant last year.

Fruit Shoot Hydro

We have also reformulated Fruit Shoot Hydro, our flavoured water variant. This is a fast-growing category where we intend to increase our participation. Our new offering comes in a larger bottle size that is more appealing to older children, with the reduced sweetness levels that appeal to parents.

Subcategories

Finally, we have further exciting developments on the brand as we look to increase consumption occasions and extend into new subcategories, which I will share with you closer to their launch.

International

Turning now to our international expansion, Fruit Shoot in the USA has progressed well over the last year. As you know, we have focused on Fruit Shoot single-serve growth to date, and the brand is now the number two kids' juice brand with the retail sales value up 23% in the last year.

Market share

Our share continues to increase, reaching 17% this year in the convenience and gas channel. The single-serve market still offers significant headroom for growth, and we have a clear plan for the year to drive distribution and convenience in gas, leisure and the food service channels.

Pizza Hut

We now have authorisation from Pizza Hut that will see distribution of three Fruit Shoot flavours potentially in over 6,000 outlets. We are currently implementing our activation plan with the Pizza Hut franchise network to deliver availability in-outlet next year.

New flavours

We will also launch new flavours specific for the US to broaden consumer appeal, and will increase our marketing activity to drive the rate of sale.

Multi-pack route to market

Now as you are aware, the large scale grocery channel has very different dynamics to the convenience channel in the US, and have been carefully considering route to market options to launch the Fruit Shoot multi-pack in this channel. We have concluded that a broker model, which is well established in the US, is the optimum solution for us, and we have appointed Advantage Sales and Marketing as our partner. They are a leading player in this area and will enable us to come to market through a direct warehousing model. They will facilitate relationships with key US retailers, as well as providing category management and insight support. They will also manage our order to cash process in the US.

We are on track to launch in the first half of calendar 2016 and we have already secured initial listings with some major retailers, giving us a national footprint to expand from.

US recruitment and marketing

We have recruited a new senior leadership team in the US, who have the capability to build on this milestone development for Fruit Shoot, and drive future growth.

In 2016, we will also upweight our marketing investment in the US to drive both the single-serve and multi-pack formats. The campaign will comprise sampling, point of sale and digital marketing to support the distribution build, drive trial and awareness.

International: Ebba

Let me briefly remind you of our ambition for Ebba, which we acquired less than two months ago. As we said at the time, we recognise that economic conditions in Brazil remain challenging. However, we are confident the acquisition represents an opportunity for us to create significant value for shareholders and we have an ambition to at least to double its EBITDA by 2020.

Maguary and Dafruta

We now own two leading brands, Maguary and Dafruta, holding over a 50% share of liquid dilutes. Maguary has a brand awareness of 90% and resonates with Brazilian families, in a way much like Robinsons, MiWadi and Teisseire do in Europe.

Plan for Brazilian market

Integration is progressing well, and we will share more details on Brazil in time. However, at a high level we intend to reinvigorate the core dilutes category, accelerate growth in RTD nectars and introduce Britvic brands and innovations to the market.

Management team

We have retained a strong management team who are focused on driving the business forward, while also supporting the integration of our two businesses.

GB Supply Chain

Turning now to step changing our business capability and our plans for the GB supply chain. At the interims in May, we shared that we were assessing further initiatives to deliver significant and sustainable cost savings. Today we are announcing a GB supply chain programme that will do just that: unlock significant cost savings and deliver both revenue and margin opportunities.

As the retail environment continues to evolve, there is an increasing need for greater flexibility, agility and efficiency. Today we have capacity constraints in key growth packs, and limited pack flexibility to maximise channel opportunities. Investing in new equipment and utilising the latest technologies will allow us to overcome these constraints, and enable lower ongoing production and warehousing costs as a result.

We have already shared the details of our investment in our Leeds site, which is nearing completion, and we will now be focusing on our Rugby and Beckton factories with the installation of three state-of-the-art high speed can lines and a further large PET line, as well as additional warehousing. The programme will result in lower maintenance capital requirements going forward, and will enable significant environmental benefits.

Capital Spend

In 2016, we will be investing between £120–130 million of capital. This includes £20 million of spend deferred from this year, as John mentioned, and is £70–80 million above our normal run rate of £50–55 million. Our focus is on delivering strong cash returns, and we anticipate a minimum cash return of 15% from this investment on an ongoing basis. From 2017, this will translate into around £6 million incremental EBITDA, and increase to £12 million from 2020. In addition, we expect there to be further commercial benefits.

During 2016, we will continue to evaluate and review further options. At this stage, we anticipate that this will be a three-year programme requiring elevated levels of capital spend. In line with the 2016 programme, key decisions will be driven by the deliverable returns from cost savings, and we will of course update you as we progress.

This programme represents an exciting milestone in our GB business as we invest a step change performance and further improve our margins.

Building Trust and Respect

Focus on health and wellbeing

So lastly, building trust and respect in our communities. I would like to take a few minutes to talk about our increased focus on health and wellbeing in our category. This was not only an important consumer trend, but you will also be aware that there is mounting pressure for

government intervention in a number of our core markets, particular in GB and Ireland. Let me make our position clear: we are not supportive of further regulation in this space. We remain committed to playing a leading role in the soft drinks industry in helping to address the public health challenge, and we are well placed to do so.

Reducing sugar and calories

We have a broad portfolio of soft drinks, and are particular strong in low and no-sugar. A glass of Robinsons squash has just five calories per glass on average, and is a great way to get people to drink more water. We have made significant progress in delivering our own health strategy, reducing average calories per serve. In the past couple of years, we have removed some 18 billion calories from the market. To achieve this, we have made some bold decisions; delisting added sugar versions of Robinsons as part of the brand relaunch, shortly after having delisted added sugar Fruit Shoot. We have continued to reformulate and innovate to remove both sugar and calories from our range, and we were the first soft drinks company to use stevia in GB, with Drench and SoBe V-water.

Active lifestyles

We have also continued to support active lifestyles through our brand campaigns, such as Fruit Shoot Mini Mudder and our brand associations with key sporting events. In the past year, we have updated our marketing code to ensure that we continue to market our drinks in a responsible way, and consumers can enjoy both our brands and our marketing programmes.

Summary

So in summary, we continue to make good progress in implementing our strategy. Despite the challenging market conditions we faced this year, we delivered another year of double-digit earnings growth. Looking ahead to next year, we expect that conditions will remain tough in our core markets, but we are very clear how we will continue to grow the business over the medium term, whilst at the same time reducing cost and building business efficiency. So thank you and we would now be happy to answer any questions that you have.

Q&A

Chris Wickham (Whitman Howard): Just two things: I was wondering first if you could talk a bit more about multi-pack in the USA? Obviously you have given us some guidance for 2016. I was wondering if there was any sort of material assumption in how successful multi-pack is, and what that category as a whole will be doing – or Fruit Shoot as a whole will be doing in the States? Perhaps also give us an intention – a bit more granularity on that penetration in key accounts.

The second thing, I just want to go back onto another product question to do with Squashd; I mean, that clearly has been an exciting concept and prospect for a couple of years now, very disruptive. However, I was just wondering if perhaps you could tell us a bit more about where you are going with the brand, both say by geography or by channel?

Simon Litherland: Okay. So yes, I think with the USA it is too early to give guidance on the multi-pack, given that it is not yet launched. However, I think we have a very strong partner in ASM. They partner with companies like Johnson & Johnson and Unilever. The route to market model is well trodden, and indeed the key player in the category, Capri Sun, a Kraft

brand, uses the broker model to get to market. Also, of course, we have a stronger team in the US as well to deliver against this potential.

As we have talked about before, we have been playing with single-serve in a $200 million category. The multi-pack is ten times that size, and we will see how the brand performs. We were delighted with the performance in single-serve; the share that we have taken we have shared with you, and will certainly be out to build our share in the multi-pack in the New Year.

In terms of penetration and where the listings are: for commercial reasons we are not stating who we have listings with, but we have gained listings with some of the key national retailers. The brand will be on shelf when they reset in the New Year, which tends to happen between February and April.

Then your second question on Squashd: so yes, Squashd and Teisseire Mix & Go continue to do well. It is doing two things for us: one, it is having a strong halo impact on the Robinsons brand itself, so investment in Squashd has a knock-on impact to the core brand; and secondly, it is creating a new occasion, an opportunity to consume squash on the go. Having said that, it is a new occasion, it is a new consumption occasion, so we need to continue to invest, to nurture the category. We will continue to do that in GB, Ireland and France, and indeed in the Netherlands as well.

Andrew Holland (Société Générale): Can I just come back to the Fruit Shoot in the US and try to put some numbers on it? Because I know you like to do that. My memory is that you reckoned that you were losing about £10 million on Fruit Shoot in the US at the moment, let us say in the year that has just finished, and you expect it to be breakeven in about two years' time, so let us say in financial year 2018. All else being equal, therefore, your international division brand contribution would be £10 million higher. Point number one: is that right? Point number two: does your multi-pack listing change those numbers? If so, how?

John Gibney: Okay. I will take that, Andrew. So just to clear, what we said is that the international business unit was losing in excess of £10 million. We have never said that the USA itself was losing £10 million. So our plan is that we will continue to invest; both more broadly in the international business unit, but specifically now obviously on the back of the launch of multi-pack in the USA. So what you should expect to see us do is to effectively invest the revenues that we are generating to launch the brand through A&P and further distribution opportunities.

So we do not expect to turn profitable in the USA over the next year to 18 months. How quickly we turn it to profit, to be frank, is difficult to guide on. The reason I would say that is we have always been very clear that the big opportunity for Fruit Shoot, in a $2 billion retail sales category, is how big and sustainable we can make that brand, rather than whether we can turn it into breakeven a year or so earlier. So if we see the opportunity and Fruit Shoot continues to perform well and continues to grow, and we see the opportunity to continue to invest to make a bigger brand for a sustainable future, then that is the choice that we would make.

In terms of what has happened with the way that we have gone to market and the listings and distributions that we have got to date, I do not think that changes our view at all in terms

of the potential of Fruit Shoot. I think we have always acknowledged that the brand, whilst it has made really good progress, is not firmly established in the USA at the moment, and the move into multi-pack was always going to be crucial. We are convinced that the route to market we have is the right route to market for the brand in multi-pack, combined with the continued focus that we see with PepsiCo on single-serve.

Just to give you a bit flavour of advantage, they have in excess of 30,000 employees. Retail sales value of the products they manage is in excess of $60 billion. So they are a great partner for us, and I think the progress we continue to make on single-serve with PepsiCo is best demonstrated by the Pizza Hut success that we have seen, which obviously comes not through the DSD route to market, but through PepsiCo's food service division.

Simon Hales (Barclays Capital): Two or three questions, if I can. Just moving away from Fruit Shoot for a second, but back onto last year: can you give us an idea as to what the net impact was of obviously the tough summer weather you had in GB and Ireland, and obviously the positive offset you had in France.

John Gibney: Sorry Simon, could you just repeat that?

Simon Hales: You had the positive offset of summer weather in France, but net, it is still a tough Q4. Can you give us some idea as to what that impact was? Then also in relation to that, what the impact of the move away from Robinsons added sugar variants were, in the year?

Then secondly: can you talk a little bit more about the level of A&P support overall for the group as we look into F2016, Simon? You talked about some of the innovations you have got coming down, you have talked a little bit about more investment obviously, around Fruit Shoot, specifically in the US: should we be expecting a further step-up in spend as a percentage of sales?

Finally, just around CAPEX beyond F2016: clearly going up. How should we think about modelling it? At least for now; I appreciate it is probably work in progress to some degree.

John Gibney: Okay. I think I have got three questions there, maybe four. So if I start with the weather impact, Simon, and you do A&P and I will come back to the CAPEX level. So the impact of the weather: it was pretty dire, as you know, in GB and Ireland, and it was very good in France. We have highlighted probably one of our most – or the most weather-sensitive brand we have is actually Teisseire, so clearly that got a good boost from the weather this year.

However, bear in mind that the geographies where we had poor weather, the revenues we generate there are four times the size of the revenues we generate out of France. So overall it was a very disappointing summer. In that context, I think delivering the numbers that we delivered was a pretty strong performance. Again, worth bearing in mind that we continue to gain value and volume share in all of our markets, despite those challenges. So as a result, you will have seen our revenues were down 2% overall in Q4; certainly in the market, the impact of the poor weather was in excess of that.

In terms of the added sugar, we have not disclosed specifically what the impact of the removal of added sugar was. It was a relatively small element of the brand, kind of in the 15% range, 15–20% of our sales. Clearly, we would not have lost all of that. We think it

was arguably a brave decision, but we think it was absolutely the right decision. What was interesting is, after we took the decision, Tesco actually removed, themselves, all added sugar variants of squash from all of their stores, really driving their reducing sugar agenda as well.

Simon Litherland: Okay, on A&P, I guess core to our strategy is delivering strong end-year returns, but also investing for the future growth of the business, of which A&P is a part. You would have seen A&P as a percentage of sales ticking up over the last three years, and that is a trend that we see continuing. However, a key part of what we do is to make sure our resource allocation is appropriate to the growth opportunities, either by brand, by market or indeed by channel. I think we are getting better at that.

Secondly, it is not just the quantum of A&P, it is also the effectiveness of it. I think the quality of our marketing programmes and the 'joined-upness' of those programmes through to retail has continued to improve. Indeed, we continue to focus on ensuring that a high proportion of our total spend is in working A&P rather than non-working A&P. So netting all of that out is what we need to do, and I think the net impact of that will be a small tick-up as a percentage of revenue on a year-on-year basis, but I would not see a massive jump in A&P.

John Gibney: Okay, and then finally your question around the level of CAPEX spend going forward. So this, again, goes back to the opportunity we highlighted around the potential for us to expand our margin. So last year I think, or certainly at the interims, we showed you the chart where we delivered a 12% margin last year, and comparable companies were 15% beyond that. However, beyond that was much more pure branded companies, rather than fully integrated brand and production companies.

Obviously we have already addressed 100 basis points of that gap in the results that we have delivered this year. However, we highlighted the opportunity to take advantage of new technology, and also looking at how we, for example, distribute our brands geographically in the GB market place, and how we take advantage of better warehousing to go direct to customer and therefore cut out logistics cost. That was a key opportunity for us.

What we have unveiled today is we have been very specific about the first year of what is likely to be a three-year programme. So there will be incremental capital required in the region of £70–80 million, but we have been very clear that we believe we will generate a minimum return of 15% of cash on cash on that. So if you work that through, when this programme becomes mature – bear in mind, there is a quite a timescale involved with actually deploying that capital into the estate – but when it is mature, so we have chosen 2020 to demonstrate the mature annualised effect, then that would generate additional EBITDA of around £12 million, and an additional EBIT of a minimum of £7 million. As we are today, that £7 million EBIT improvement represents about a 50-basis-point margin expansion.

Year two and three, we have not yet finalised. You will appreciate that this is a significant investment, and therefore making sure we do it absolutely in the right way: both from the point of view of making sure we have got the resources that we can deploy to make sure that we execute it in the right way, because it is a major investment programme, but also selecting where and when are the best places to invest.

The best proxy I could offer you is for 2017 and 2018 to use a similar capital and return profile. So therefore, what we are looking at, if you add all that up, is an opportunity to improve the profitability of our business by at least £21 million.

Mathew Dunn: If I can build on John's point: from my perspective John has emphasised the margin expansion opportunity, but if you also think what it could do to our long term free cash flow generation; with our progressive dividend policy, it also underpins a key part of our investment case going forward. So I think there are two benefits from our point of view.

John Gibney: Just to be really clear as well, that return comes from both cost and revenue opportunities. The market, as we see it as the moment, is at the right time to deploy better improved pack flexibility to take advantage of those, but obviously a significant amount of that is underpinned by cost. You know the track record Britvic has: when it says it is going to deliver cost savings, it delivers cost savings. So we are very confident of the sort of return that we are outlining for you.

Andrea Pistacchi (Citi): Now, business capability is focused on GB. Are the opportunities you have identified in GB – in terms of enhancing your pack flexibility, upgrading the whole supply chain – not available potentially in France? Could it be extended to France? What is the state of your supply chain there?

The second question, please, on the pricing situation in Q4. Pricing has been tough all year, but there seems to have been a deterioration in Q4. France, if I calculate properly, was mid-single-digit negative. What has got worse in Q4 essentially, and how you thinking of next year – of this year?

Simon Litherland: So yeah, on other markets: clearly GB has been our focus, and that is where we see the biggest opportunity, but we will continue to look at cost and margin expansion opportunities in France and Ireland as well. However, there is nothing we are ready to talk about or announce today.

John Gibney: In terms of your question on the Q4 pricing: yeah, there was some deterioration, which predominantly came out of GB stills; a lot of that is associated with what is happening in the squash category. So interestingly, within squash private label has not actually taken any share, but you will also be aware that the discounters in particular have used squash as a way to drive footfall into their stores. The reaction, therefore, of what we have seen from the big box retailers has been that they have cut their pricing on own label. To be frank, we have had to ensure that it was not too big a gap between Robinsons and own label, and therefore that has driven the impact that we have seen on pricing in GB as well.

You will also appreciate that we would have been in a trading period where we would have put down promotions, because we would have anticipated the weather would have been somewhat better. Therefore, squash is one of those categories which does benefit from weather, but of course we did not see that at all. In France, it is much more about the mix of product that we have seen in France. So Fruit Shoot, for example, has continued to grow very, very strongly.

Any final questions?

Charles Pick (Numis Securities): Two questions please. Were the cost savings last year a little bit more than you expected originally? I noticed you said only £1–2 million this year. I thought originally in the May 2013 chart, there was about £5 million to come this year.

Also, is it possible to say a little bit more about the GB supply chain move, in terms of how that £70–80 million CAPEX splits between investment in the packaging lines and investment in warehousing, and where the particular constraints are at the moment in terms of the pack sizes or types?

John Gibney: Okay. So the first part of the question, the cost savings: so yes, you are right. We did deliver the cost savings quicker than we expected, and therefore there is a residual about £1–2 million still to come through in the current financial year. So the accumulative £30 million cost saving programme that we talked about, we will absolutely have delivered. Clearly what that says is that had we had anything like a decent summer, then the £169 million number that we delivered would probably have been somewhat higher than that.

In terms of the supply chain, we will not give an awful lot more detail than what Simon has outlined already. We are investing in quite an expansion of our capacity, particularly in cans. So we have grown cans to the extent that actually last year we were having to outsource sourcing of cans, because we were full up from our own capacity. So that is an obvious cost benefit; by bringing that in-house, we will eliminate that. Also, we are investing in warehousing infrastructure in certain of our sites as well, to allow us to go direct to customers in a way that we have not done previously.

Simon Litherland: In examples of pack sizes: so in core PET, we have pretty much been restricted on big packs to two litres. So this gives us the flexibility at 175ml, 150ml, 125ml, so full range of flexibility. Also, we will improve our ability for retail-ready packaging and distribution.

Andrew Holland: More or less with that: do your can plans include being able to produce those little 25cl cans?

Simon Litherland: Yes, so they will small and bigger, and anything in between.

Andrew Holland: Okay, that is good. Thank you.

John Gibney: Thank you very much everybody.

Simon Litherland: Thank you.

[END OF TRANSCRIPT]