Britvic Preliminary Financial Results Announcement

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Strategic Highlights of 2019

Simon Litherland

Chief Executive Officer

Welcome

Good morning everybody and welcome to our 2019 full year results presentation. Before I kick off, I'd just like to especially welcome Joanne, who joins us from a long and successful career at Tesco's and prior to that at KPMG. She joined us in September and settled really quickly into the business and into the team. So welcome, Joanne.

I'm going to start today's presentation by sharing some of the strategic highlights from 2019. Joanne will then cover the financial performance and I'll come back and conclude with some thoughts on how we are evolving our successful strategy to ensure we're well placed for the future.

Four pillars of strategy

Significant returns for shareholders

We launched our strategy in 2013 and I'm sure you'll now all be very familiar with the four pillars on this slide. Through the strategy, we've delivered excellent returns for shareholders. Over the last six years, our revenue CAGR has 3.7%, margin has improved by an impressive 350 basis points. This has translated into an adjusted earnings per share of 9.2% CAGR and a dividend per share CAGR of 8.5%. When you include some of the share price growth, this translates into a total shareholder return of just over 116.8%.

This represents outstanding value, especially given the amount of change we've been through and the turbulence we've faced in the external world over this time. Few consumer goods companies have achieved this kind of consistency in value creation and we're proud of our track record so far.

Sustainability and employee satisfaction

We've also made great progress in sustainability, especially in reducing calories. In 2013, we announced our 2020 target to reduce calories per serve by 20% across our portfolio. I'm proud to say, we've hit this target one year early, reducing our average calories per serve to 27.5. Importantly too, 94% of our GB portfolio is now below the soft drinks levy.

I'm delighted too that our scores in our annual employee satisfaction survey, Great Place to Work, have once again increased this year. Engagement scores are at 84%, putting us firmly in the top quartile of employers. We've also seen a further improvement in the percentage of women in leadership roles, up to 38%.

At Britvic we fully recognise the role we play in contributing to a healthier planet. Single-use plastics continue to attract headlines and later on, I'll set out the breadth of our response, including our increased use of recycled PET as we move forward. And finally, we've joined leading companies from around the world in signing to science-based targets to reduce carbon emissions as well as the Task Force on Climate-related Financial Disclosures.

Strong track record continues in 2019

Now, in 2019 we've delivered another strong financial performance. Despite the backdrop of a challenging and uncertain external environment, we've delivered further growth across revenue, margin and adjusted earnings, increasing earnings by over 6.2% and enabling us to increase our dividend once again by a similar amount. I'd just like to add that I'm really proud of the Britvic team, whose commitment and energy forms the bedrock of our continued success. Joanne will expand on the financial detail behind these results shortly, but first I wanted to call out some of the strategic highlights from the year.

Strong growth in GB

Soft drinks growth continues

Firstly in GB, where the soft drinks category has continued to grow post the introduction of the soft-drinks levy. Britvic has once again outperformed the market thanks to our broad portfolio of brands and our leadership in low and no-sugar variants. You may recall from our interims in May, that we were about to relaunch Tango. I'm delighted to report that stellar performance in the second half has translated into a very successful year. Tango's RSV is the highest for five years, the brand attracted nearly a million new shoppers and grew revenue in double digits and gained 100 basis points of market share.

Pepsi Max has had another great year, taking 260 basis points of value share and in volume terms as measured by Nielsen, Pepsi Max is now the number one cola in GB, which is a fantastic achievement. This year we launched Max raspberry, which was the biggest soft drinks launch in 2019, and once again Max won the taste challenge, with 65% of consumers preferring it to any other cola.

7Up Free is now the number one lemon and lime variant, attracting new shoppers, recording double-digit revenue growth and market share gains. And on Robinson's we made significant progress following the launch of Creations and Cordials premium variants in 2018 and both continued to grow this year. Along with strong price variation on our core variants, this contributed to another year of growth for the brand and further market share gains.

New growth segments

Alongside our scale brands, we continue to explore and access new growth segments. Robinson's Refresh'd was launched into the water plus category in 2017 and is already the number three brand in the segment, approaching £10 million of retail sales value. Lipton Ice Tea is the clear leader in the fastest growing segment in the UK, with RSV approaching £30 million and nearly 21% value growth in 2019. You'll remember we relaunched Purdey's two years ago, repositioning it in the natural energy segment. With increasing awareness and penetration, it recorded £14 million of retail sales value this year and a growth of nearly 24%. And finally, in premium adult soft drinks, we continued to build London Essence. While it remains small, we've continued to make progress both in GB and internationally. For example, it's now listed in over 1200 outlets in GB and in 78 cities across 29 countries around the world.

Innovation an important growth driver

Our GB innovation feeds into our group innovation performance, which as you see on this slide, continues to be an important growth driver across the group. Britvic's innovation track record is outstanding and since 2013, we've consistently invested in two broad areas. Firstly, in stretching our core brands to expand their footprint and secondly, by bringing differentiated propositions to market in fast growing emerging categories, such as natural energy. Clearly, innovation will remain absolutely critical to Britvic as the soft drinks' category continues to evolve.

Supply chain transformation

Now, many of you here today joined us at Rugby last month to see for yourselves part of the transformation which has taken place in our GB supply chain over the past three years. Over that time, we've built ten new scale production lines and one pilot plant, three new onsite warehouses, including one fully automated high bay, a combined heat and power plant and we've also invested in our supply chain footprint to provide capacity for some further expansion. This programme was completed on time and we will deliver the final £5 million of cost benefits as guided in 2020.

Our focus is now shifting to continuous improvement to unlock further efficiencies from optimising our new lines and three-factory network. Beyond the cost savings, however, this programme has given us other benefits. We're enjoying significantly increased capacity, most notably in cans and 1.5-litre PET, where we have step changed our ability to compete and are taking greatly increased market share as a result.

We also now have increased flexibility, for instance we can produce carbs and stills on the same lines and we can offer a much broader range of pack sizes and multipacks. And we're starting to realise the environmental benefits this investment offered, using less power, less water, less packaging, more renewable energy, and we're travelling fewer road miles.

Through our BCP programme, we have built a leading-edge platform for sustainable growth.

Brazil

Continued growth despite fragile market

In Brazil, we continue to make progress. Now reporting six consecutive quarters of growth. The external market remains volatile and while the recovery is fragile, we are confident that we are doing the right things. As you know, we lead the liquid concentrates segment in Brazil and we continue to take share through the development of Maguary, Dafruta and our Bela Ischia brands.

Overall category performance though has been subdued and we're currently developing new liquids and pack formats to lead its rejuvenation. These will come to market next year. We've launched a range of new pack formats enabling increased distribution across the differentiated regions of Brazil. For example, Fruit Shoot growth has been accelerated by introducing a smaller 150ml Tetra Pak format, increasing affordability and increasing our distribution gains. We've also continued to expand our category presence across a number of new segments, including coconut water, with a brand called Puro Coco, and the Natural Tea range and Maguary Seleção, a premium grape juice.

Be Ingredient

Now, we've not previously spoken much about 'Be Ingredient', which forms a vertically integrated part of our business. It buys and processes fruit direct from the farm and once our internal requirements are satisfied, we market the processed fruit to external customers around the world. The fruit processing capability was one of the synergies in the acquisition case and we now use Brazil to procure certain fruit concentrates on behalf of the group, for example orange and passion fruit.

Investments focused in France and USA

Smaller but more profitable French business

We continue to be proactive and disciplined in deciding where we will deliver the best return of shareholders. We've therefore decided to focus our resources within France and the USA. We've said many times in the past that private label juice is not a strategic priority for us and therefore we were pleased to announce two weeks ago that we are in exclusive discussions with Refresco to sell this business, along with three of our four manufacturing sites in France. The proposed transaction will leave us with a smaller but more profitable business in France, based around our core brands, Teisseire, Moulin de Valdonne, Pressade and of course Fruit Shoot.

We will retain the syrups factory in Crolles while Pressade and Fruit Shoot will be manufactured for us on a third-party basis by Refresco with a long-term co-packing partnership. We're currently in consultation with a significant number of employees over this potential transaction, so we will update you further following the conclusion of the process, which we anticipate will be towards the beginning of H2.

USA: Exiting multipacks, Pepsi partnership profitable

We've been similarly open regarding our challenges in achieving long-term profitability for multipacked Fruit Shoot in the grocery channel in the USA. Despite our distribution gains, most notably in Walmart last year, we cannot see a path to sufficient scale to unlock sustainable profitability, so we've chosen to exit the multipack and focus instead on our profitable single-serve partnership with Pepsi Co as well as in premium adult soft drinks through London Essence.

Significant progress in performance and strategy

So overall, we've made significant progress in 2019, delivering both robust in-year performance and continuing to advance our strategic priorities. I'll now hand over to Joanne for more detail behind the financials.

Financial Performance

Joanne Wilson

Chief Financial Officer

Robust performance

Thank you, Simon, and good morning everyone. I'm delighted to be here for my first set of results with Britvic. As you know, I joined in September and I'm pleased to say I've had a very positive start working alongside Simon and the very energetic Britvic team.

Strong performance across key metrics

As you will have seen from our RNS this morning, we have delivered robust performance across all our key financial metrics: revenue, margin, cash and earnings. This has been underpinned by our disciplined approach to revenue management and also the successful completion of our business capability programme. Our organic group revenue increased 1.4%, our adjusted EBIT margin expanded 40 basis points and our adjusted EPS grew 6.2%. With growing cash flow, I am pleased to say we have declared a final dividend of 21.7 pence, which takes our full year dividend to 30 pence, an increase of 6.4%. We have also reduced our net debt to EBITDA ratio to 2.1 times, which is in line with guidance.

Business unit highlights

Simon has shared some of the strategic highlights from across the business and I'm going to give you some more colour on performance in each of our reporting segments.

GB stills enjoy second year of growth

Starting with GB stills, I am pleased to say we've enjoyed a second year of growth, with revenue up 0.4%, driven by Robinson's squash, Refresh'd, as well as Lipton Ice Tea. Brand contribution has increased 3.3% and brand margin has stepped forward 120 basis points. This is driven by product mix and also strong price realisation, with ARP increasing 4.5%.

GB carbs revenue up but margins down

Moving on to GB carbonated, we have grown our revenue by 5.2% as we continue to take market share. As expected, in H2 we saw particularly strong volume growth when we lapped the CO_2 shortage last year. Our ARP has grown by 4.7% and that has been driven by mix and disciplined revenue management. Brand contribution has increased 2.9% and we saw margins step back 90 basis points. That was driven by mix, cost of goods inflation and also increased A&P as we supported the relaunch of Tango.

So overall in GB we increased revenues by 3.6% with both Britvic and Pepsi brands contributing to this strong growth.

Ireland volumes down

In Ireland we experienced a tougher year, with revenue down 1.6%. Whilst our ARP increased by 3.9%, volumes declined 4.2%. Performance was mixed across the portfolio, we saw good volume growth in MiWadi and Pepsi Max, however this was offset by declines in full-sugar carbs and Ballygowan. This reflected a strong base in 2018 but also changes to our pricing and promotional strategy. Revenues in Counterpoint declined with a competitive and challenging own-trade channel.

France performance disappointing

Turning now to France, performance in the year was disappointing. Revenue was down 9.2% and that was driven by a number of factors: consumer confidence was weak throughout 2019, shopping was disrupted earlier in the year by the yellow vest protests and our business was impacted by the introduction of the EGalim law. This law limits promotional activity and also stipulates minimum retailer margins, which has resulted in price increases for some of our key SKUs. Our private label business also saw revenue decline as we focused on margin, with the result that we lost some of our existing contracts. Our brand contribution increased 250 basis points, driven by mix and tight management over our cost of goods.

Brazil: strong growth across brands and new segments

In Brazil we had strong performance, with 9.9% revenue growth and 20.4% brand contribution growth. As Simon said, we saw growth across our brand portfolio. We also benefited from the entry into new segments and also from bringing new pack formats to market. Brand contribution and margin also benefited from reclaim of historical local taxes.

International growth driven by Teisseire

Finally on to international. We saw revenue growth of 10.2%. This was led by Teisseire, most notably in the Netherlands, where we saw Teisseire double its market share. We also had strong growth in our travel and export business. Our brand contribution and margin benefitted from tight control over our cost of goods and also mix.

Cost management

Fixed costs flat

We have managed our cost control tightly in 2019. Our A&P spend was broadly flat year on year as we continue to focus on the effectiveness of spend and more targeted activations. As you can see, our overall fixed cost base was broadly flat. Within that, we saw lower co-pack costs, reflecting the higher costs in 2018 as we rebuilt stock after the CO_2 shortage.

Selling costs and overheads up

Our selling costs increased 4.5% as we increased investment in selling and field-sales resource, and our overheads reflect additional costs from Brexit planning.

Free cash flow

I'm pleased to say we have reported a material improvement in our free cash flow, which at £116 million, is £51 million higher than last year. A key driver is the normalisation of our CAPEX as we completed the BCP. This was partially offset by working capital outflow, driven by revenue phasing into Q4 and higher stock levels in GB and Brazil.

Our increase in cash has enabled us to pay down our net debt by £9.4 million. Going forward, we expect to see continued improvement in our underlying free cash flow, driving by organic profit growth, lower adjusting items and improved working capital.

Adjusting items

Now, moving on to adjusting items, I wanted to give you some context to the £84.6 million of adjusting items that are included in our reporting profit. First of all, we have £33 million of costs relating to the Business Capability Programme and other restructuring including the exit of multipack Fruit Shoot in the US.

We have £7.5 million of pension scheme and other costs. This is primarily driven by past service costs relating to the equalisation of the guaranteed minimum pension in GB and Northern Ireland. Both of these costs are in lane with our guidance at interims.

In addition, we have a further costs of £33.7 million which relates to our proposed transaction in France. This is primarily driven by a revaluation of assets held for sale at the balance sheet date. It includes a small amount of impairment on goodwill and associated deal costs.

We expect to see a cash drag of £6 million in FY20 from adjusting items in FY19.

Reporting changes for FY2020

I wanted to take the opportunity today to share some highlights on reporting changes that you will see in FY20. The first is driven by our simplification of business processes and it is a move from period to monthly accounting calendar.

Secondly, in FY20 we will be adopting IFRS16, the financial reporting standard for lease accounting, which I am sure by now you are all very familiar with.

Finally, as we indicated earlier in the year, we have reviewed our definition of innovation and we will use a revised metric going forward, which better represents Britvic innovation.

Capital allocation

With the Business Capability Programme now complete and free cash flow moving to more normalised levels, I wanted to talk to you about our capital allocation. We take a disciplined approach to our allocation. It's underpinned by a progressive dividend policy with a 50% payout ratio. We have a targeted net debt to EBITDA ratio of 1.5 to 2.5 times and annual CAPEX of £70 to £80 million.

Our priority is to invest in the business to deliver sustained organic growth and attractive returns and it's our intention in FY20 to further pay down our debt to below 2 times leverage.

We will also consider M&A opportunities where they present an opportunity for us to accelerate some of our strategic priorities. In the event we were to find ourselves with excess cash and an inefficient balance sheet, we would of course returning cash to shareholders, using an appropriate mechanic.

Guidance for the coming financial year

Turning now to guidance for FY20, we expect to see low to mid single-digit input cost inflation. This reflects modest inflation in our traditional cost base, with higher inflation coming from some of the costs associated with our investment to deliver our sustainability goals. This primarily relates to the increased use of recycled PET and also our purchase of packaging recovery notes.

As indicated, we expect to see CAPEX of between £70 to £80 million, with adjusting items falling to £5 to £10 million.

In December we will make our final £20 million contribution to the pension deficit. Under the current guidance, we expect contributions to fall to £10 million in FY21. I expect before then, we will have reached agreement with the trustees following the March 2019 revaluation and we will update you in due course.

Our effective tax rate is expected to be between 19% to 20% and our interest charge £21.5 to £22.5 million. This reflects our intention to refinance our existing bank facility and private placement notes which are maturing in the next 18 months, in the first half of FY20.

We expect our net debt to EBITDA ratio to be in the range of 1.8 to 2 times. This excludes the impact of IFRS16 on finance leases, which we expect will have an impact of 0.2 x the reported ratio.

Finally, we will see additional cash tax payments relating to new HMRC rules on payment of corporation tax and also from our move to a monthly accounting calendar.

Financial summary

2019: strong performance

So, in summary, 2019 has been another year of strong performance, driven by growth in GB, Brazil and International. Where we have seen underperformance, we have taken action. We continue to tightly control our cost base and take a disciplined approach to revenue management and investment across all of our business units.

2020: further efficiencies

In 2020, we look forward to delivering further efficiencies from our supply chain and also further improvements on our underlying free cash flow.

Thank you very much and I will hand back to Simon, who will talk you through some of our strategic priorities.

Strategic Outlook and Priorities

Simon Litherland

Chief Executive Officer

Evolution of our strategy

An increasingly attractive category

Thanks, Joanne. Moving on now to speak more broadly about the evolution of our strategy. As I said earlier, the strategy has delivered consistent returns over an extended period of time, so we start from a position of strength. It’s important to remember that soft drinks remains an attractive category, offering consistent growth in per capita consumption. It is actually becoming more attractive as adult consumers are increasingly choosing non-alcoholic beverages over alcohol. At the same time, the world moves on and we are continuing to evolve our strategy along with it. We are well placed to capitalise on industry trends and we are clear on the role that each part of business will play. We remain passionately committed to our sustainability agenda.

In today’s fast changing world, consumers are evolving their drinking habits in four main area:

- Firstly, consumers are more health conscious and are making informed choices to achieve a heathier diet;
- Secondly, they are seeking differentiated and more personalised experiences, which are often more premium;
- Thirdly, consumers are increasingly channel agnostic in where they buy their drinks, where they shop, whether it be online or visiting the most convenient stores or outlets;
- Finally, they are looking for simple ways that they can do the right thing to help protect their planet and they’re expecting brands to do likewise.

We recognise all these trends and have evolved out strategy to capitalise on the exciting future opportunities that they offer.

Strategy evolving in response to these trends

First and foremost, we are focused on stretching and growing our core brands, which are predominantly low or no sugar, are number one or number two in their categories, and we believe are well positioned for future growth.

Beyond these core brands, we see a number of further growth opportunities as set out on this slide. We’ll continue to innovate on our core brands or with new ones to access new growth spaces, whether they be emerging consumer needs, blurring retail channels or different drinking occasions.

In response to healthier lifestyles, we are leaning into our unrivalled ability to flavour water and other liquids for consumers wherever they may be, and we know we can do so at a very low average calories per serve without ever compromising on taste.

In response to the desire for more elevated experiences, we continue to build our adult premium soft drinks portfolio in every market where we compete.

And we're also building on strong sustainability credentials for all our production, packaging and dispense solutions as people start to look for ways to consume soft drinks that go beyond traditional packaging. As well as being the right thing to do in society and for the environment, it's a very interesting growth area for us.

A role for each part of the business

We're also very clear on the precise role of each part of our business. We see GB as a growth market and we intend to continue to take share by leveraging our strong multichannel route to market and the breadth and strength of our low and no sugar portfolio. We have deep category and customer partnerships and we will also continue our successful track record of innovating into new growth spaces.

Our International business is increasingly focused on premium brands, such as Mathieu Teisseire and London Essence, which have the right value chain to allow for asset-light expansion around the world.

In Europe, as demonstrated by the proposed transaction in France, we'll focus our business on stretching and growing our core brands and align our business models as efficiently as possible to achieve this.

And finally, in Brazil, we have a well-developed route to market in the modern trade in the most populous areas down the East Coast. However, our limited category footprint means that we're currently only present in around 10% of the total market. We plan to expand into further segments through a combination of innovation, partnership or acquisition.

Strategic and geographic growth drivers

Continuous improvement mindset

Here we've summarised our geographic and strategic growth drivers on one slide. Critical to our ability to invest in these growth drivers is a continued focus on unlocking efficiency. Following the completion of the Business Capability Programme, we move to a continuous improvement mindset, both to increase margins and also to fuel reinvestment in our brands and other growth initiatives. We continue to build the organisation-wide capabilities and culture that will increasingly set us apart.

Selective M&A

Selective M&A will continue to form an important part of our strategy where it can accelerate progress into attractive new markets, categories or capabilities. And we'll focus more than ever on creating a better tomorrow through our increased commitment to healthier people and a healthier planet.

Healthier people, healthier planet

Healthy people agenda

I'll conclude by explaining this critical part of our strategy in a little more detail. Our healthier people agenda is focused on promoting good health and wellbeing, which is one of the UN Sustainable Development Goals. As you know, we led the industry in product reformulation well ahead of the introduction of the soft drinks levy in GB and Ireland, and we reached our 2020 goal on total calorie reduction one year earlier.

Going forward, we've set a target not to exceed 30 calories per serve across our total portfolio. While it will always remain important that we offer choice, we will continue to focus our marketing efforts on promoting the healthier alternative.

Our stance on sugar is one the key reasons our strategic partnership with Diabetes UK works so well. In the first year of our partnership, Britvic employees have raised over £190,000 for the charity, money which is funding a programme to help schools understand and support children who are suffering from Type 1 diabetes.

We also take the good health and wellbeing of our employees very seriously, and we recently launched a new global wellbeing programme, 'My Life', which offers instant free access to wellbeing support for our employees and focuses on mental as well as physical health and wellbeing.

Committed to a healthier planet

We're also more committed than ever to a healthier planet. As you know, we were an early signatory to the UK Plastics Pact, which means that we are committed to the very stringent standards that are expressed in that. This year, we've taken a number of steps to further reduce our use of plastic and to promote recycling. These efforts have been helped by our successful BCP programme, which also enables us to harness the environmental benefits of reduced road miles and more energy efficient equipment. We've successfully removed over 1500 tonnes of plastic since 2017 through lightweighting and we have significantly increased our 'recycle me' messaging to encourage consumers to recycle more.

Critical to achieving our sustainability goals is our ability to source and manufacture in the UK sufficient food grade recycled PET or RPET. Today, I'm delighted to announce that we have provided £5 million of investment support to one of our strategic suppliers, Esterform, who will use it for a new returnable PET factory in Leeds. This deal supplies Britvic with secure access to UK-sourced RPET and enables Esterform to invest in a major capital project that will enhance the UK's efforts to create a circular economy for plastics. It means we are well on course to meet our UK plastics packaging targets not only next year but also for the next few years.

We are also supportive of a well-designed deposit return scheme and we were actively engaged in working with both the government and industry to establish it.

And finally, we've just signed up to the science-based targets initiative, which seeks to limit climate change to within 1.5 degrees Celsius. Britvic commitments here include reducing by 50% our direct carbon emissions over the next five years. This is a very stretching target, but we're determined to make a real and lasting difference.

Summary

So, to summarise, 2019 continued our long-established track record of strong performance and meeting market expectations. While 2020 will bring further external uncertainty, we have repeatedly demonstrated the resilience of both our category and our business in the face of significant headwinds. We consider Britvic well placed to take advantage of the future trends and to play a full part in creating a better tomorrow. I therefore remain confident in making further progress and in delivering increasing value to all our stakeholders in this and future years.

So, thank you for listening and we'll now be delighted to take your questions. As ever, if you wouldn't mind stating your name when you get the microphone, just for the purposes of the webcast and transcript. Thank you.

Q&A

Fintan Ryan (JP Morgan): Good morning. Two questions please. Firstly, on France, could you give us an indication of what the continuing or the run-rate business growth was for sales and EBIT in FY19 as well as an indication of whether you expect that business to return to growth? Would the continuing French business return to growth in FY20?

And you gave an ambition to improve your profitability within Europe. Do you have a specific margin or a specific EBIT in mind with that target?

Simon Litherland: Thank you. I'll take the first. So, on France, remember we bought this business nine years ago and the key reason for it was the Teissiere brand, and along with it came our own-label juice business. Teissiere over that time has actually performed incredibly well. When we bought it, it was outside of the top ten soft drinks in France and today it's within the top three. And likewise, we're delighted with the growth we've seen out of Fruit Shoot to become the number one kids' brand and Pressade to become the number one organic juice brand. So historically I think the performance has been great, but we're also delighted to have the opportunity to exit a scale business that we can't compete effectively in, with the own-label juice disposal to Refresco.

The challenges that we've had I think in the last 18 months or so and certainly in the last year, 2019, are driven by a number of factors. First of all, we're lapping a very hot summer and secondly, we've talked about the introduction of this EGalim law, which comes alongside what is quite a challenging consumer and customer environment.

Looking forward, the first half will certainly be challenging. We had a 9% revenue decline last year and I think we'll see a continuation of that sort of order in the first half as we lap into the EGalim law in February, March of next year. And secondly, most of our activity, certainly behind Teissiere, will start to be activated in the second half. It's the 300-year anniversary of that brand and we've got a full marketing programme from then. Clearly we also have a lot of work to do to establish our service agreements with Refresco and the transition to that business.

So I see 2019 very much as a year of transition for France and I see a continuing challenge certainly in the first half and you'll start to see some improvement in that business in the second half.

Joanne Wilson: So, just looking at profitability in Europe, as Simon said, our proposed transaction in France will leave us with a smaller, more profitable business in that market in FY20. As Simon said, it will be a transitional year as we set the business up for success and to really drive that profitability in 2021 and 2022.

In the other markets outside of Europe, we've talked about our growth opportunities in the top line and we're confident about those. The difference in Europe is while we still want to grow our top line, our focus and priority will be how do we drive much more profitable growth than we've seen historically. If I take Ireland, we know that our margins are not where we would like them to be and we believe that there are further efficiencies that we can drive from our business model.

Andrea Pistacchi (Deutsche Bank): Two questions, please. First, based on what you were saying earlier in the prepared remarks, it seems that there's a slightly different tone on M&A, as if it's probably moved slightly up on your priority agenda. Could you confirm whether that is the case and if it is, what has driven this, and whether from an M&A point of view, you'd be looking at markets where you'd already present – and you alluded to Brazil – or would you still consider entering new markets?

And if I could please go back to France and the top line growth there that you aspire to, leaving aside the comps issues, leaving aside the impact of the EGalim law, what are the key planks to address this top line growth and how, over the next few years, that should improve? Obviously, disposing private label is one step.

Simon Litherland: Thanks, Andrea. I'm not sure my tone's any different, I need to be careful of how I sound, but I think the message is the same. We will look at selective M&A when we can. The key point is that we don't believe we need M&A, we can see plenty of growth opportunities without it, as hopefully the articulation of the strategy shows. But the reason why we would participate in M&A is the same as in the past: so either entering new markets where we can see attractive local brands with a strong route to market, or indeed as you've suggested we might fill in into our portfolio in existing markets in categories that we have a small or no presence. And that would include Brazil but just as likely or possible in GB or any of our other markets.

So, I don't think it's really any different to what we've seen in the past, and as I say, we see plenty of opportunities for growth without it but we'll obviously look on a selective basis if we find something that is attractive on those lines at the right sort of price.

And secondly, in terms of the key drivers for France, I think this transition is difficult. It's actually not a massive transaction but it's quite complicated with a service agreement, setting up third party manufacturing and all that sort of stuff, so the first half of the year, as I say, will be challenging. And then we get down to the business of focusing on the growth of our core brands, and that is through traditional A&P investment: we've got a great opportunity this year with the 300-year anniversary behind Teisseire, we've got some interesting innovation in the marketplace with Fraicheur de Fruits, for example, which is an 85% fruit-based syrup, so a more healthy alternative. Likewise with Fruit Shoot we are expanding the distribution of Fruit Shoot Hydro and Fruit Shoot au Jus in that marketplace.

So, the plans, I think, are robust, but as I say, I think to expect them to turn around in the first half will be challenging, particularly as we lack promotion in store and the margin determination for the retailers has meant that grenadine and some of our core Teisseire variants have gone beyond key price points. So that will remain challenging for the short term.

Nico von Stackelberg (Liberum Capital): I just want to ask you a quick question on trying to find an estimate of the proceeds from the Refresco deal. So, I see that the value of the assets has been written down to £13.7 million, is that roughly what we should be expecting in terms of proceeds? It would seem plausible given that the auditors wrote that value down.

And secondly, I'm trying to get a feel for the degree of promotional activity within London Essence as you enter into new outlets. I'm not sure if you could provide me with maybe the gross profit per unit case or maybe some indication of how many of those outlets you are, let's say, temporarily offering favourable trade terms in order to get into the outlets? And if you have a view of whether it's three to five years of when those sort of favourable promotional activities roll off in time? Thanks.

Joanne Wilson: Okay, let me take the first one. So, as we announced, we have signed a put option and we are in consultation with our employees in France. What I can say about that proposed transaction is that we do expect to receive cash proceeds for the sale and we have also entered into a long-term supply arrangement with Refresco for supply of some of our products, including Fruit Shoot, and that forms part of the transaction.

Simon Litherland: Secondly, on LEC. So, what we're trying to do is build a premium brand and therefore it is at a premium price point. And I'm not that aware of a whole amount of promotional activity or not, so where you've seen that, let me know and I'll have a look. But generally speaking we are selling the brand on its credentials, on the quality of the liquid, the quality of the packaging and the taste. And the reception to the brand is very positive. We're starting in more premium outlets, at the top of the triangle if you like, and then we'll start to drift down further.

Where we are active is we do work alongside certain spirits brands in the off-trade in customers like Tesco or Sainsbury's, for example, or Waitrose, where we may see promotions alongside spirits brands, which are specifically designed to drive trial and build the brand that way.

So, the core is to go relatively slow and build a sustainable platform in the future. Three years in we're really pleased with the progress we've made. Some markets are getting traction faster than others but on the whole, I think we've made great progress. We're building some great third-party distributor relationships and we're quite encouraged about where we might go with this in the future. And it is across the range, so obviously it's tonics but also premade adult sodas, and in some instances where we might not get listed as a tonic because there are existing contracts with some of our competitors, the barmen are very attracted by our soda range, so we'll get a listing on one or two of our sodas for specific cocktails. So, it's the breadth of the range and premium and the quality liquid and packaging that's allowing us to win through.

Simon Hales (Citigroup): I wonder if you could perhaps start by giving us a little colour on current trading? I didn't need my umbrella this morning but it's one of the first in many. Secondly, the BCP savings you flagged in the statement coming to an end at the end of 2020, what were the savings in 2019 and what's left to really come through there? And then just finally, do you have an aspirational target of the percentage of revenue you'd like to see coming from innovation on a rolling basis?

Simon Litherland: Current trading, the year started reasonably well. What's exciting is we've got some good momentum on our core brands, particularly in GB, and you can see that in the presentation and that has continued into the first couple of months. Likewise, Brazil has started well. France is challenged, as I've said, and our International business is very much on track, and Ireland is kind of there or thereabouts. So, I mean, the way I see the year ahead, I think there's a lot of uncertainty around. I think consumer confidence has dipped again or a bit, so there's some sort of recessionary behaviour taking place. But as I say, this category is resilience. It's an affordable consumer staple and we've seen recessions before and we've continued to make progress through those and indeed through some more crisis-type events. So I fully anticipate that 2020 will be a year of further progress.

Joanne Wilson: So, on the BCP first of all I'd say really successful completion of that programme on time. It was a huge transformation for our business and supply chain. Many people have seen that first hand. We're also pleased that we're delivering the benefits that we guided to, which total £21 million. In FY19 that was a £5 million benefit and we expect to see the final £5 million coming through in FY20. Of course, it now gives an opportunity that we have completed it, to focus on continuous improvement through business as usual and that will absolutely be a priority, but for now we're not in a position to change the guidance that we gave on a 15% return from that programme.

Simon Litherland: And on innovation, we don't actually set a percentage revenue target. And you'll remember that the percentage on that slide is a percentage of Britvic innovation over total revenue, so it's quite a harsh measure and excludes, for example, some of the Pepsi innovation, like Pepsi Max raspberry, for example. And indeed we've recently launched Arto Lifewtr, which is tiny but just another example.

I think the key message is four, five years ago we felt we were under-indexed in terms of the amount of innovation we were bringing to market. We've significantly increased that and I think there's the opportunity to, yes, bring interesting new stuff into new growth categories but at the same time it's important to be able to scale what we have in the market. And so I'm delighted to see the likes of Purdey's and natural energy growing at 25%, Robinson's Refresh'd in water plus over £10 million of retail sales value and still growing, Aqua Libra's small but has high growth potential in a new category. So we have quite a lot out there and it's important to take some of these and see if they'll scale.

Now, of course, with new brands and small brands and new categories, that doesn't happen overnight and we'll take a number of years and we kind of marry our investment with the growth that we see. Whereas innovating off our core, like cordials or Creations, you tend to get a faster payback and that's absolutely what we've seen.

So no specific target. We're up at the right level, we've got the R&D and the marketing capability to innovate and I think it's a balance between putting new stuff into the market. Because there's an awful lot of new stuff that goes into these markets, there's very few that actually scale. So it's a balance between those two things.

Chris Wickham (Equity Development): Three things. Firstly, segueing on from Simon's question. If we look at that chart which shows your NPD rate and we stick a trend line through that, would that be roughly the right way to go about it?

And then secondly, what scope is there for markets outside the core, your non-domestic markets, to be a source for innovations. Obviously, you're showing us some quite interesting stuff you're doing in Brazil, does that then find its way back into the centre and then get adopted as a source of innovation?

And then thirdly, you were just talking a bit about consumer confidence. I mean, obviously, were consumer confidence is most likely to show early signs of a wobble is in the on-trade relative to the off. Are you seeing any material divergences in terms of those sort of performances, when you're looking outwards rather than looking to the year you've just completed?

Simon Litherland: On the first one, I actually don't think it's correct to put a trend line, because the way that currently works is after three years it drops off from innovation. So just be careful of how you look at that. Brazil's a good example, we've got some strong brands in a couple of categories, but those categories are actually quite small relative to the total soft drinks category in that marketplace. So there we do absolutely see opportunity to participate in new categories, and I gave a few examples today: coconut water, grape and natural tea, and there are other categories that will continue. And I think the key thing for us is, how do we leverage what we've got in Brazil, both the talent and the people that we've been building over the last few years? We haven't got a massive route to market but we've got a satisfactory route to market and now the job of work for us is to actually scale what we have and we can do that, as I say with the brands that we have, but we'll also start to participate in a wider range of categories. If any of those, if we think they have opportunity back in GB or other markets, clearly we have the freedom to look at that.

And then just on the on and the off-trade, traditionally you tend to see people dropping off consumption in the on-trade quicker than the off, I guess. I would say that basket sizes are shrinking a little bit in the off-trade, this is what I understand. And in the on-trade I'm not sure that we've seen a massive reduction but I think people are possibly trading down. I think you might be seeing a growth for example in fast-food type outlets versus more mainstream or premium outlets.

Ewan Mitchell (Barclays): I was wondering if you could talk a bit more about your plastic announcement this morning. Can you give us an idea of what percentage plastic is on your CoGs bill? And an idea of what RPET will be as a percentage increase in cost of plastic?

And then secondly, just some of the one-offs, you mentioned a Brazil tax benefit. Could you give us a little more colour on that? And then the overheads around Brexit this year and without going into the full scenario analysis of what we see next year, what might we expect on Brexit?

Joanne Wilson: Okay, starting with the partnership that we announced this morning with Esterform. This partnership will be critical to delivery on our objectives in delivering recycled PET that we're using across our portfolio and also supporting investment in the general recycling infrastructure in the UK, because that is an area that needs further investment. In terms of the impact of recycled PET on the overall cost of PET, look, today it's a small proportion of our overall spend on PET but we expect that to increase going forward. RPET versus virgin PET is trading at approximately 30% higher on average. The Esterform deal will over the medium term hopefully enable us to close some of that impact and mitigate some of that inflation that we see in the market today.

In terms of your second question on Brazil and the taxes, so, this is a widespread reclaim in Brazil of local taxes akin to, I guess, VAT. In Brazil the term is PIS and COFINS, if any of you want to go and read about them. We have seen a historic claim, as I said, the impact is about £1 million in Brazil this year and going forward there will be a small reduction in those PIS and COFINS versus historic levels in our numbers.

Your final question on overheads on Brexit, as I said, we did see a drag in our overheads from costs relating to Brexit planning in 2019. We continue to make appropriate contingencies, as you'd expect us to, into FY20. I don't expect to see – well, depending on the outcome, I guess – I don't expect to see a significant increase on that in FY20. We have done all the things that you'd expect: additional warehousing space, we've brought forward a little bit of raw materials stock and we will continue to watch with eager anticipation.

Edward Mundy (Jefferies): Morning guys, I've got three. The first is on the Be Ingredient within Brazil. I was wondering whether you could perhaps provide a bit more colour on that, what the opportunity is with using that for the wider group.

The second question is on slide 25, where you show your evolved strategy. As you execute that evolved strategy, what are the key things that you'd look for in the group over the next three to five years that might look different relative to today?

And then the third question is, when you look at some of the bullets there – innovating into new spaces, flavouring billions of water occasions, sustainable packaging – what is the opportunity to do more with Pepsi and with their Sodastream product?

Joanne Wilson: Okay, I'll cover off Be Ingredient. So, as Simon said, when we bought that business in Brazil, Be Ingredient fruit processing was part of it then. It is an opportunity first and foremost for us to take the opportunity to buy fruit for our local Brazilian business and in the past year we have also taken the opportunity to buy fruit raw materials for the wider Britvic business. For example, we've done that with orange juice and with passion fruit. Where they have excess fruit, they have sold some of that to third parties and that's generated some growth for that business in FY19. But I think the appropriate way to look at that business is it's an opportunity for us to get secure and stable pricing for some of our raw materials, both in Brazil and increasingly across the group.

Simon Litherland: Thanks, Joanne. I think on the second one, what's different? I think we have been more specific, Ed, in defining the role of each business I think more clearly than in the past. So, I think, France, Ireland, Netherlands, Belgium, our European markets, we really are saying we're going to focus those businesses on our core brands and we want to do it in an efficient way, we want to drive margin probably more than top line growth in those markets but clearly profitable growth is what we're after.

I think you'll also see continuation of our focus on concentrates and flavour in water and other liquids. We really do see that as an opportunity for us. There's over 50 billion water occasions in GB in a year alone. Consumption of tap water's grown really fast. We are the best and biggest in the world at flavouring water at low calories, so how do we exploit that opportunity further and how do we grow with it, is an example.

Innovation, we've talked quite a bit about that. That will continue to be a focus. I think consumers are evolving the way they drink, how they drink, where they drink. Some of the trends I highlighted earlier. I do think we have a track record that says we can participate in new occasions and channels.

But it's not just with brands, it's also with formats. So, if you think of the whole sustainability agenda, you know, we have a big dispense business. Thousands upon thousands of outlets. We've got vehicles and technicians who service those outlets and that's a very environmentally friendly way to serve soft drinks. So how do we build on that capability, for example? So, there's just some examples of how you might see the business evolving.

And of course, we've got a fantastic partner in Pepsi. The performance on their core brands continues. As you guys know, we've taken share in Pepsi Max for a large number of years. Last year was no exception, 260 basis points on Pepsi Max. 7UP Free is now the number one lemon and lime variant as well and growing really fast. Lipton iced tea, as we've said, is also a really fast driver. So, the performance really helps that relationship and we really do have a strong relationship with them. And that enables us also to access their thinking, their innovation and their pipeline. So Arto Lifewtr is an example, which we're kind of trying that out in GB. And their acquisition of Sodastream, some of the logic behind that is consistent with some of what I've said. You know, that's completely independent from the relationship we have with them at the moment but as they grow and develop their business and the kind of partnership we have, I can only see that as beneficial over time.

Patrick Higgins (Goodbody): Just a question on the US. Obviously, you flagged this morning moving away from the multiserve with Fruit Shoot, could you just give us an idea of the impact that'll have from a top line perspective firstly? And then I believe that International business was about £5 million loss making on the EBIT line this time last year. Could you just give us an idea of the impact this will have on that basis as well? Cheers.

Simon Litherland: I think it wasn't quite £5 million. It was low single digits, I think, in the past, and actually it was profitable in 2019, our international business.

Joanne Wilson: Yes, so just on US. if you stripped multipack Fruit Shoot out of the base, we reported 10.2%, it would have been a couple of percentage points higher than that, so it gives you a sense of the scale. In terms of, as Simon said, the impact on the bottom line we expect to be negligible as this really allows us to refocus some of our resources and efforts in International to some of the brands that we believe will deliver higher growth.

Speaker: On the US as well, what exactly went wrong with the multipack format? Was it an issue of scale or was it higher competition within that format? And how is that making you look at the rest of the US business and the future of it?

Simon Litherland: Okay, thank you. Yes, I think both of those actually. As you know, our single-serve Fruit Shoot business does very well. We're the number two kids' fruit drink in the US with that business, which is profitable and has good consumer liking and traction. But when we went into grocery, which is, as you know, in the US very competitive and the category is quite low priced and in fact quite challenged, we recognised that with a mainstream brand like Fruit Shoot, you struggle to make the margin. And the way you make the margin is by getting scale. And so for a number of years we gave ourselves a chance of getting scale and turning this opportunity into a more scalable piece of business for ourselves. But I think we've called time on it, because we did make some significant progress with Walmart 12-18 months ago, where we had some fantastic feature and display on the shelf way beyond the size of the brand and the pickup just didn't give us confidence that we could get to scale fast enough and that the extent of the margin was going to be there for the long term.

So I think calling it is the right thing to do. We can take our resources elsewhere. And as Joanne articulated, part of our international strategy behind premium adult soft drinks, some of the resources that were focused on the multipack are now kind of redirected towards the premium adult soft drinks opportunity.

Fintan Ryan: Just a question on working capital, please. So, you saw a net flow of around £20 million in FY19. Can you give us a view on the outlook for working capital into FY20? And should we start to see any of the benefits from BCP come through in terms of working capital and inventories? I believe there was about £100 million investment in working capital at the beginning of the programme, should that start to unwind?

Joanne Wilson: Thanks, Fintan. In terms of the working capital, as explained, the drivers of that outflow were some of our phasing in 2019 with very high sales levels in August and September plus the increase in stock, and that was primarily in GB and Brazil. Now, in Brazil the driver of that was we took the opportunity to buy some raw materials, for example coconuts, at good prices and that resulted in an increase in our year on year stock.

In GB, through the BCP programme you rightly said, we did build up buffer stock to make sure that we were able to deliver the right service levels to all of our customers and there's a little bit of that in 2019 still. There's a small amount of Brexit contingency stock as well but it's small and primarily around raw materials.

As we look to 2020, we do expect to see an improvement in working capital. We do expect to see a reduction in stock and we will be pushing that across each of our business units. And on other working capital, it is driven quite a lot by the phasing of our sales, so with our biggest quarter being Q4 that is a dependency, but we're focused on driving an improvement in 2020.

Doriano Russo (HSBC): I would like to come back to the margin opportunity that you see within the group. Obviously, you have made a lot of investment behind your capabilities in GB, which has now come to an end. A little bit was delivered in the current year. You mentioned another £5 million, if I'm not wrong, for next year expected. But what do you think is actually the opportunity for you to deliver much more in say five years? How much do you see your operating margin improving as a result of what you've invested?

And number two, can we expect another BCP being announced soon, perhaps not focused on the UK, perhaps focused on some other of your territories?

Simon Litherland: The margin, I think we have made great progress. I think 350 basis points over the last six years. And margin continues to be important for us. We don't give specific guidance, but I think we've demonstrated our ability to manage revenue, which is a big driver of margin. So, our promotional and price effectiveness, our pack price strategy and architecture. Innovation tends to be margin accretive, it's one of the criteria we judge our choices behind in that regard. We have invested a lot and while you quite rightly say we'll get the £5 million from the BCP in 2020, but we've still got work to do to get these machines humming, if you like, and the shift is to focus on that continuous improvement.

Of course, as we generate cost savings, we also need to fund growth and brands in the future, so it will be a balance between how much we drive to the EBIT and how much we put behind our brands. But profitable growth is the journey that we're on.

BCP 2, yes, sorry. So, there's nothing of that scale at all. We will of course continue to look to improve our business, and that applies to our manufacturing efficiencies as well as any other part of our business, but we're not looking to have another major investment programme like that. I mean, as Joanne guided this morning, capital expenditure is in the range of £70 to £80 million. There is some flexibility around that, if we need to invest in a new line for growth we may go just beyond that, but that's kind of the order of what we're talking about.

Damian McNeela (Numis Securities): Just a sort of broader one. If we look at the soft drinks and wider beverage category, there seems to be a blurring of lines behind alcohol drinks and adult drinks. We've seen some of your competitors move into the adult-alcohol space. Is that something that you would consider in time, given current trends?

Simon Litherland: If I've heard you correctly, you said 'adult-alcohol space'. So, I don't think alcohol is part of the strategy but if you're talking about non-alcoholic soft drinks that meet adult consumer occasions, then possibly. So certainly, premium adult soft drinks I think is an area that's underserviced, so the likes of the London Essence tonics and sodas would play into that. Mathieu Teisseire is a premium adult mixer, if you like, and I do think there's a space for us to evolve our business into. At the moment it's tiny but as you rightly point out, there's a slow but relatively consistent trend to more healthy options. So, it's an interesting space and you can see it in the circle of our strategic areas of focus.

Okay, I think we're all done. Thanks very much for coming and good to see you all. Thank you.

[END OF TRANSCRIPT]