# Britvic Preliminary Results Presentation

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London - 020 7870 7100
www.global-lingo.com

## Overview

Gerald Corbett

*Chairman, Britvic*

### Opening remarks

Good morning, everybody. I think you know our Chief Executive Simon Litherland well enough by now, and Mat Dunn, who is no longer our new Finance Director because he has been with us for over a year. They are going to take you through the results. I think we are kicking off with Simon, and then we go to Mat, and then back to Simon, and then Simon will chair the Q&A.

## Chief Executive's Remarks

Simon Litherland

*Chief Executive Officer, Britvic*

### Agenda

Thank you, Gerald, and good morning, everybody. Over the next 35 minutes or so, I will give you an update on the progress we have made in 2016 against our strategic priorities. Mat will review our financial performance and headline our F17 guidance, and I will then come back and talk about our F17 priorities before we open up to Q&A.

### Another strong year

2016 has proven to be another challenging year across the markets in which we operate. We have, however, delivered another strong set of financial results, demonstrating both the resilience of our business and the effectiveness of the strategy that we laid out in 2013. We believe we are well positioned to deliver sustained growth going forward, as we continue to execute against it.

### Strong progress delivering our strategic priorities

We have made good progress within each of our four strategic pillars. We are profitably growing our core markets through utilising the breadth of our portfolio and low- or no-sugar bias of our brands, to best meet evolving consumer and customer needs. We are winning in the growth channels, and are successfully growing the contribution to revenue derived from innovation. We continue to expand internationally, with an excellent first year in Brazil despite the very tough macroenvironment there. 39% of our revenue is now generated outside of GB. We continue to grow Fruit Shoot internationally, with the launch of multipack in the USA, and 46% of Fruit Shoot revenue is now outside of its home market. Through our transformational business capability programme, we are building a stronger, more efficient and simpler business. The three-year investment programme into the GB supply chain is on track, as are the benefits we have outlined within it. Our fourth priority, building trust and respect in our communities, is focused on industry-leading leadership in public health. Given the progress we have made with our portfolio since 2012, we are well placed to respond to the proposed soft-drinks taxes that are expected in 2018 in GB and in Ireland.

**Portfolio delivering against consumer needs**

*GB*

Some of the specific portfolio highlights across our core markets are as follows. In GB, we continue to take share, with another excellent carbonates performance, led by our low-sugar variants of Pepsi Max and 7UP Free. Tango, which also falls below the proposed soft-drinks levy, achieved its highest sales since 2005. Our stills performance was weaker, with much of the year impacted by the removal of added-sugar Robinsons and very competitive pricing from own-label squash. It was, however, pleasing to see a stronger H2 and in particular Q4, and Fruit Shoot Hydro continued to grow strongly despite a softer Fruit Shoot core performance in a declining category. We continued to innovate and to grow segments in the market. The complete relaunch of Drench, our juice and water drink, providing healthy, tasty hydration; and Purdey's, a natural energy, were both well received by GB consumers.

*Ireland*

2016 has been a very successful year for our business in Ireland. Ballygowan contributed more growth to the soft-drinks category than any other brand, and MiWadi has led the dilutes category back into growth following the launch of MiWadi Zero Sugar, and sugar-free MiWadi Minis, to sit alongside Robinsons squash.

*France*

In France, we continued to grow Fruit Shoot, introducing a large 1.5 litre sharing pack, and a variety of new flavours. Pressade, our organic juice brand, was the fastest-growing brand in the juice category in France. Total syrups sales were slightly down year on year, reflecting a cooler summer.

**Increasing share in growth channels**

Our customer relationships and service levels remain strong, and we were once again highly rated in the annual Advantage Group survey: number four and number two in grocery and convenience channels in GB, and number three in Ireland in the grocery channel. Looking at our performance from a channel perspective, within the GB market at home we have taken share in grocery, driven by carbonates, and have grown strongly in the convenience and discounted channels. Out of home, we have grown in leisure and licensed, winning accounts such as Subway, with over 2,000 outlets; and G1, the leading hospitality group in Scotland. We have also retained some major contracts, including KFC and Fuller's. Overall, we have delivered 32% of the market growth in immediate refreshment single-serve packs, gaining share for the fourth consecutive year. In Ireland, solid growth in the grocery channel was driven by our stills brands, and we have also successfully taken share in convenience and on-the-go, where our share has grown from 18% to 21% over the last three years. Our licensed wholesaling business Counterpoint also grew revenue in double digits. In France, we faced a particularly challenging consumer environment following the tragic terrorist attacks and other social and economic pressures in that market. The retail customer base was also difficult as they bought in combined groups for the second year. Our private-label business came under pressure as a result, but our branded business continued to perform well.

**Growing contribution from innovation**

Our investment in marketing and innovation capability over the last few years is starting to bear fruit. The contribution from innovation is now up to 4% of revenue, against 2% in 2013 or 1.5% in 2010. Examples of some of the successful launches in the last three years are $J_2O$ Spritz, the fastest-growing adult juice brand in the UK; Robinsons Squash'd in GB and Ireland, which has an over-60% share of the pocket dilutes market; Purdey's and Purdey's Edge, and Drench, in GB and Ireland; MiWadi Minis and MiWadi Zero in Ireland; Teisseire Fruit Shoot and the Teisseire pump pack, which has been hugely successful in France.

**Excellent first year in Brazil**

Internationally, we have had an excellent first year in Brazil. We have completed our functional integration, and are working extremely well with our talented local management team. The business has begun the process of relocating our Recife office to São Paulo, where all functions can now work together in new offices, properly connected to the rest of Britvic. Despite the challenging macro and consumer environment, we have grown the business year on year; we gained market share and also maintained margins by successfully taking multiple price increases in the face of double-digit raw material inflation.

**Fruit Shoot launched in São Paulo**

Beyond our existing brands, we have also recently launched four flavours of Fruit Shoot in São Paulo, which were developed specifically for the local market. To develop and launch Fruit Shoot in under 12 months is testament to the quality of our people and the collaborative working between Brazil and our other markets. We are initially focused in São Paulo, a city with a population of around 20 million, and Fruit Shoot is currently listed in retailers with a weighted distribution of nearly 60% in that city. It is early days, but the initial consumer reaction and rate of sale is good, and our intent is clearly to expand distribution to other parts of the country when we have established the brand in São Paulo. Let me share the Fruit Shoot ad that we are running in São Paulo this month.

[VIDEO]

**Progress on Fruit shoot in the USA**

In the USA, we have continued to make good progress in single-serve with our partners Pepsi, and have launched multipack Fruit Shoot into the grocery channel. While some single-serve sales in the grocery channel were lost as we moved to a different route to market for multipack, we maintained our 17% share of the single-serve market. Performance of the brand in Pizza Hut is good, and we are now available in around 3,000 of their outlets. With our partner Advantage Sales and Marketing, a well-established operator in grocery, we have now established a route to market for multipack and achieved initial listings with some of the major retailers, including Walmart, Kroger and HEB. Our initial distribution reach is 17% weighted and growing. While the scale of the opportunity in the USA is huge, it is a complex and highly competitive market. Over the next year, it will be important for us to continue to grow the base distribution and the quality of visibility in existing stores, to ensure we build a solid base for Fruit Shoot in the grocery channel.

**Business capability programme**

A year ago, we announced a three-year capital investment programme into our GB supply chain that would deliver cost savings through lower production costs and a more efficient logistics network; provide capacity and pack flexibility to enable us to better access revenue and margin growth opportunities; reduce energy usage and water consumption; and reduce ongoing maintenance capital costs. We said it would deliver a minimum cash return of at least 15% on an ongoing basis, underpinned by cost savings. The first year of the programme is on schedule, with our large PET line, the fastest in Europe, which produces pack sizes from one litre to three litres, now running in Leeds. Additional warehousing is also operational in Leeds, giving us additional space to supply the North and Scotland. We also have additional warehousing space available to us now in London, reducing mileage, stockholding and emissions. We are in the process of building three new can lines in Rugby, and a new PET line in London, all of which will become operational in spring 2017.

**Industry leadership on public health**

Playing a proactive role in helping to address obesity has been an integral part of our strategy since 2013. We have taken bold steps to help consumers make healthier choices through reformulating our drinks without compromising taste or quality, and we use the power of our brands responsibly. Our actions have led to an annualised calorie reduction in our portfolio of over 19 billion calories, and our innovation pipeline is significantly weighted towards better-for-you products. To illustrate, we were the first UK soft drinks company to introduce stevia, and removed the added-sugar Fruit Shoot range in GB in 2014, and then added-sugar Robinsons in the summer of 2015. We have a responsible marketing code and do not market to under-12s. We do not advertise high-sugar products to under-16s and, since 2005, all ATL advertising in relation to Pepsi has been led with Pepsi Max. In F16, we have continued to innovate and reformulate through the launch of MiWadi Zero Sugar and MiWadi Minis in Ireland, relaunching Drench and R White’s with sugar levels under the proposed tax threshold in GB, and reducing the sweetness of Fruit Shoot further while adding multivitamins. As we have said previously, we believe that an integrated, holistic approach is the right one to tackle obesity, as its causes are complex. For that reason, we were disappointed at the UK and Irish government’s decision to impose a soft-drinks levy. However, the work we have done in this regard over the years, and our wide portfolio, means that we are well placed to respond. At present, 68% of our portfolio in the UK is below or exempt from the proposed GB tax threshold, and 65% below or exempt from the proposed Irish tax. We will continue to evolve our portfolio, and continue to engage constructively with the governments in the UK and Ireland.

## Financials

Mathew Dunn

*Chief Financial Officer, Britvic*

**Market conditions**

Thank you, Simon, and good morning, everyone. Starting with market conditions: these remain challenging throughout the year, although we did see an improvement in the soft drinks category in the fourth quarter of the year, particularly in GB and Ireland, reflecting the more benign weather we experienced this year. However, the long-term fundamentals of the category remain the same. These fundamentals reflect a number of factors: increasing demand for soft drinks in our markets, deflationary pressures driven in particular by the grocery environment, disproportionate growth in the on-the-go channels both in convenience and leisure, and an increasing consumer preference for low- and no-sugar beverages. Within this context, we are continuing to win – and Britvic has grown – share in GB, Ireland and Brazil. In France, whilst we held share in syrup and took share in juice, syrup in particular suffered disproportionately from the weather, meaning our overall soft drinks share declined.

**Another year of strong financial performance**

Our good trading performance, combined with strong cost control and an excellent first year in Brazil, has led to another year of strong financial performance. Our reported revenue and EBITA have increased significantly, and whilst our reported EBITA margin has declined 20 basis points, reflecting the inclusion of Brazil for the first time, on an organic basis this has also improved 40 basis points. The combination of organic growth and the strong performance in our newly acquired Brazil business has led to an increase in EPS of 6.5%. This strong performance has led the Board to declare a full-year dividend up 6.5% to 24.5p. Despite our upweighted capital expenditure programme, our net debt to EBITDA ratio has increased only marginally to 1.8 times, still well below the middle of our stated range of 1.5-2.5 times. Following our successful refinancing of our US private placement debt, our business has never been on a sounder financial footing.

**Resilient organic growth**

Moving now to our organic performance, which is presented on a like-for-like basis at constant currency, excluding the impact of Brazil and the 53rd week. Our organic performance has continued to be resilient despite the challenging trading conditions we have faced, and we have grown our revenue, margin and EBITA. We are particularly pleased to have delivered an increase in revenue given the tough market conditions. A strong summer performance for the business underpinned the delivery of these results, as weather patterns improved on the prior year, and the business was able to capitalise on this through a period of sustained excellent execution. Whilst commodity costs were relatively benign throughout the year, deflationary price pressure and mix trends were less favourable, with performance in our stills portfolio in France being challenged. However, we were still able to deliver EBITA growth of 3.8% thanks to strong cost control, with a particular focus on discretionary spend and non-working A&P. These activities drove a margin improvement of 40 basis points.

**Improving revenue trend enhanced by good summer**

One of the things that is particularly pleasing about our revenue performance this year is that we have seen a quarter-on-quarter improvement across the year. Whilst the fourth quarter has undoubtedly benefited from the more favourable weather we have experienced, we do believe our underlying momentum has been improving throughout the year. Notably, we have seen our stills performance improve in the latter half of the year, and particularly in the fourth quarter, as we began to fully lap the removal of the full-sugar variant of the Robinsons brand. We have also seen good results from the Subway win, with all our outlets being converted by early July.

**Business unit performance**

*GB*

Turning now to our segmental results; I will cover our GB business in more detail shortly, but the performance headlines are as follows. In the GB carbonates business, we delivered significant volume growth whilst also growing average realised price. The result has been strong growth in both revenue and brand contribution, with a margin expansion of over 100 basis points. Our GB stills segment has been more challenged, leading to lower revenues and brand contribution.

*France*

Our performance in France, as Simon noted, has been impacted by a number of factors this year. Social and economic pressures in particular weighted on consumer sentiment and affected demand in the whole grocery sector. Weather patterns in the critical summer months were much worse than in the prior year. This particularly affected the higher-margin syrups category, which is the most seasonal part of the soft drinks market. Overall, our branded business continued to grow, however, with both Pressade and Fruit Shoot performing well. However, our private-label business, which is more susceptible to the competitive and economic pressures in the market, declined.

*Ireland and international*

Ireland has had a strong year, driven by our stills brands Ballygowan and MiWadi, as Simon shared earlier. It was also a strong year out of home, where our licensed wholesaling arm Counterpoint grew ahead of the market. The fast growth of lower-margin Ballygowan, and growth in non-soft-drinks products through Counterpoint, did impact margins. In our international business unit, while reported revenue, ARP and brand contribution declined, this was in part due to a change in the route to market in the Netherlands, resulting in costs that were previously reported against overheads now being reported against revenue. On a comparable basis, revenue declined 0.6%, and this revenue decline was driven by weakness in our European exports division, including our operations in Benelux and travel sectors, where volumes declined in the mid-single digits. Our increased A&P investment in the US also affected brand contribution.

*Brazil*

Our newest business unit in Brazil delivered an excellent first year under the Britvic umbrella. On a pro forma basis, volumes increased by nearly 8%, revenue increased by nearly 19% and brand contribution increased by over 7%, and our brands gained retail market volume and value share. Price increases have been successfully implemented to recover the inflationary cost pressures in the market. Investment in the business has seen a doubling of A&P spend, as well as the recruitment of additional heads into the commercial team.

**Another year of outstanding carbonates performance in GB**

Returning now to provide some more detail on our GB carbonates segment. This year, carbonates performance has been truly outstanding, with all three major brands in growth. Quarter four was no exception, with double-digit revenue growth and increasing average realised price. Our market share gains also continued, which was particularly pleasing given the significant competitor activity seen in this period. Overall, this year Pepsi grew its retail value by £28 million, with a new Max Cherry variant leading this growth in a category that declined. This is not a new phenomenon; as the chart here demonstrates, Pepsi has consistently grown market share for the last ten years in GB. Clearly, our Advantage no/low-sugar platform played a major part, but other contributors have been good early performance in Subway, and growth in higher-margin immediate refreshment pack formats.

**More resilient GB stills performance**

GB stills performance continues to be more challenged, but performance was more resilient in the second half of the year. The performance trajectory of the Robinsons brand improved, particularly in the fourth quarter of the year, as we began to lap the removal of the full-sugar variant in the prior year, which, when combined with the introduction of new flavours, delivered the improved performance. As we look forward, we continue to see further areas to improve performance, including further flavour, pack and channel growth opportunities. Fruit Shoot gained share, as we reformulated to reduce sweetness and add vitamins, and Fruit Shoot Hydro, our flavoured water variant, grew strongly and continues to represent a significant area of opportunity. Overall performance, however, suffered from a decline in the kids category. $J_2O$ had a disappointing year, as new limited editions underperformed, and we plan to address this in 2017 through the return of our very successful GlitterBerry Christmas edition.

**Relentless focus on delivering cost efficiency**

Cost efficiency has been a real focus in 2016, with a 2.2% reduction in our organic fixed cost base, and we see more benefit to come next year from the actions we have taken to drive efficiency. We have also applied a cost efficiency focus to our A&P spend, which has seen more investment move from non-working to working, allowing as much of our spend as possible to end up in front of our consumers and shoppers. Overall, our A&P spend was flat in the second half of the year, following the lower spend in H1 as we cycled the relaunch of the Robinsons brand in the prior year. It should be noted that the inclusion of Brazil has a dilutive effect on the percentage of net revenue, as historical A&P spend has been low in this business. However, our A&P spend levels there will increase as we invest to support the Fruit Shoot roll-out and further brand expansion.

**Have delivered continued margin growth since 2013**

Our focus on cost efficiency has improved organic margins 40 basis points this year, and as this chart illustrates, our margin has expanded consistently since 2013. Continuing to grow our margin remains a key focus for Britvic, and we have a number of levers available to us to drive further progression in the future. Whilst we face input and inflationary cost pressures in 2017, our continued focus on cost efficiency, as well as a number of revenue management initiatives, should enable us to mitigate these pressures. As we look forward, our investment into our GB supply chain programme, further cost efficiencies, innovation channel mix and an improvement in international profitability should underpin further margin growth.

**A solid financial platform underpinning the strategy**

Moving now to our balance sheet, we have undertaken a number of initiatives to further strengthen our funding platform this year. We have extended our revolving credit facility for another year to 2021, and have successfully refinanced our maturing US private placement debt, with an average maturity of 11 years at a very attractive interest rate of 2.51%. As a result, we now have total available facilities of £958 million, and would expect our average coupon to drop by around 50 basis points.

**Proposed distributor acquisition in Ireland**

The strength of our funding platform allows us to selectively look at M&A opportunities, and I am pleased to announce the proposed acquisition of a complementary on-trade licensed wholesale business in Ireland. East Coast Suppliers Limited operates on the eastern seaboard of the Republic of Ireland, with a particular strength in Dublin city centre. This acquisition will support our expansion into growth channels, and will expand the reach of the Counterpoint wholesale business; a key route to market to get Britvic soft drink brands into more licensed premises, especially in the critical Dublin area. The acquisition price is not material to Britvic, and the price is in line with precedent multiples for distributor acquisitions. There are a number of synergistic benefits to the transaction, and as a result it is EPS-accretive from year one, and it will cover its cost of capital in the second full year. This deal is subject to regulatory approval by the Competition and Consumer Protection Commission in Ireland.

**Comfortable with market expectations for 2017**

While Simon will shortly headline our plans for 2017, I will at this point give some guidance from a financial perspective. We face a number of challenges in 2017: trading conditions are set to remain difficult, and we will also see the return of input cost inflation for the first time in a few years, exacerbated by the weakness in the pound relative to other currencies. We expect the impact of this to lead to mid-single-digit input cost inflation. However, as I have already noted, we will seek to mitigate this through a combination of cost control and a strong focus on revenue management. We will also continue to invest in our growth drivers, including the US and innovation, although this continued investment, combined with the input cost pressures we are facing, does lead us to expect our margin growth to be more constrained than in recent years. Overall, taking into account all of these factors, we remain confident that we can deliver results in line with market expectations whilst continuing to invest in our strategic priorities.

From a cash flow perspective, we are expecting our capital expenditure to be in the region of £145–155 million, with a new line in France and a projected spend on our GB supply chain of around £90–100 million. At the same time, we anticipate a number of property disposals over the next 18 months, which should yield in the range of £10–15 million, with our net capital expenditure reflecting these proceeds. This should leave our year-end debt leverage in the middle of our stated range, whilst continuing our progressive dividend policy.

As I mentioned earlier, we expect our interest coupon to be lower than in 2016, and in the range of 4.5–5%, and our effective tax rate to be in between 22.5–23.5%, depending on the mix of profits. I would also like to remind everyone that we return to the standard 52-week year in 2017 from the 53 weeks in 2016.

## 2017 Priorities

Simon Litherland

*Chief Executive Officer, Britvic*

**Challenges to overcome in 2017**

Thank you, Mat. Looking ahead to 2017, the challenges that we face are clear: continued difficult trading conditions in our grocery customers; heightened uncertainty following the UK's vote to leave the EU, with probable inflation and weaker income growth; commodity inflation, as Mat has highlighted, has returned, and combined with sterling weakness, it means our input costs are increasing; and the proposed soft-drinks tax in the UK and Ireland coming into force in April 2018 will require further portfolio work, and indeed further preparation, to be able to implement this on our behalf.

**Our 2017 strategic priorities are clear**

Just as the challenges for 2017 are clear, so too is our response. We will continue to implement the strategy we laid out three years ago, with the clear areas of focus for 2017 set out on this slide. I will now expand on some of these, to share more of what we will be doing.

**Growth will come from revenue management, channel development and innovation**

With rising raw material costs, revenue management discipline becomes even more important. We will protect margin using a combination of change promotional mechanics, headline price, pack architecture, SKU and channel mix. Utilising the strength of our portfolio, innovation pipeline, category capability and high service ethic, we will endeavour to continue to win new business in the leisure and food service channels, and we remain focused on accelerating our share gain in convenience and single-serve on-the-go, where despite recent growth we still are under index against our overall market share. To continue to grow in our core markets, we will also continue to innovate, nurturing recent launches such as $J_2O$ Spritz, Robinsons Squash'd, Teisseire Max, Purdey's and Drench, which will also be expanded with a sparkling variant. We will also continue to build our presence in the premium adult category, by relaunching R White's with new modern flavour variants, relaunching our tonic Britvic mixes with a new pack and improved tonic recipe, and bringing super-premium adult drinks to the market such as Thomas & Evans, and the London Essence Company premium mixers range, through our WiseHead incubator company.

**Investing to accelerate our performance in USA and Brazil**

Internationally, we are focused on accelerating our performance in Brazil, and growing Fruit Shoot in the USA, France and Benelux. In the US, we will continue to build distribution in multipack and single-serve, drive brand awareness, and trial and improve on-shelf and in-store presence. We will also add new flavours tailored to the US market, and will expand the pack format and range. In Brazil, we will finalise the move of all employees to São Paulo, and we will roll out Maguary Fruit Shoot nationally. We will continue to manage margins against higher inflation, as the Brazilian team have done successfully to date. More broadly, we are starting to use our Group expertise to help revitalise and reinvent the flavour concentrates market, and look at how we might stretch the Maguary brand across new market segments or formats.

**Extending business capability programme to deliver incremental benefits**

*Transformational GB supply chain programme*

Continuing to manage our cost base down remains a core strategic priority, not only to help offset some of the rising input costs but also to continue to successfully build margin, as Mat shared earlier. Despite the heightened uncertainty in the market, our transformational GB capital investment programme remains compelling. Year one has been implemented successfully, and we will commence year-two investments knowing that we need the incremental capacity and flexibility that these investments provide, but we also do so with more confidence in our ability to deliver this scale of change and the financial benefits that go with it. We remain committed to a minimum 15% EBITDA return, and estimate a net capital spend of around £240 million over the three years, with further commercial benefits and a working capital improvement on maturity.

*Further opportunities to improve business capability*

Within the same business capability programme, we have identified the need for additional Fruit Shoot capacity in France, which will come online in 2017, the capital for which is already included in the existing guidance. We are also in the process of changing our warehousing and logistics network in Ireland, to increase capacity for growth and improve our route-to-market capability and efficiency. We continue to seek new procurement opportunities through better buying and value optimisation, such as bottle lightweighting or recipe agility.

*Cost and overhead efficiency*

Beyond the supply chain, we have recently flattened our management team structure, and identified efficiencies in working across business units more in functional teams such as procurement, supply chain, innovation and technical. This, combined with a rigorous review of all discretionary spend, will realise at least £5 million additional overhead savings in FY17.

**Helping consumers who want to make healthier choices**

Finally, in our fourth pillar of building trust and respect, we will continue to lead the industry in helping consumers make healthier choices through reformulating our drinks, with no compromise on taste or quality; continual innovation in our products and ranges; and using the power of our brands responsibly. Through our innovation programme, we are extending Teisseire's 0% sugar range, we are introducing a new Pepsi flavour in the sugar-free Max, and expanding the Drench range of flavours and introducing sparkling variants. We are continuing to use the power of our brands responsibly through MiWadi Zero's partnership with Diabetes Ireland, and supporting the UK government's public health change4life campaign with Robinsons.

**Summary**

In summary, we have delivered a strong performance in FY16 in challenging conditions, by continuing to implement the strategy we set out in 2013. We are well positioned to deal with a challenging year in 2017. Our business has clear and attractive opportunities to drive growth in each of our markets, but at the same time we will continue to invest in building the business capability, flexibility and efficiency that we need for the future. We remain confident in our ability to continue to deliver strong shareholder returns, going forward.

## Q&A

**Ed Mundy (Jefferies):** Mat, can you just remind us first of all, on your cost outlook, mid-single digits: where are we on the hedging, and how much visibility do we have on that?

The second question is on GB carbs and the sustainability of that growth. It has obviously been extremely strong. I think going into 2017, on the one hand, you will have some further benefits from the roll-out, but on the other hand you have now rolled out Cherry, so how do you think about the sustainability of that run rate in GB carbs?

Then the third question is, on slide 34, you talked about further opportunities to improve the business capability programme: are you able to quantify what those benefits might be at this stage?

**Mathew Dunn:** In terms of hedging, in terms of the raw materials themselves, we have pretty firm visibility on the vast majority of our raw materials, so we have bought forward on most of them. There are some areas around the edge where we do not have contracts, but in most cases we have pretty good visibility and certainty. In terms of our FX hedging associated with that, we are about 80% covered for this fiscal year, so, again, we have pretty good certainty on what our expectations are around the currency outlook.

**Simon Litherland:** On the carbs, that tends to be a question we get every year; how sustainable is it? As you saw from the slide that Mat put up, we have taken share every year for the last ten years. Clearly, it is a very competitive category, and we have a very strong competitor. As you rightly say, Cherry Max was a big portion of the growth in the existing year in the share gains. We remain confident that we are doing the right things in the brand; we continue to execute a very consistent marketing programme that is clearly working for us, and even with a heightened focus on no-sugar variants from our competition, we know that Max in blind tests tastes better, is preferred. We believe we will continue to build the brand and take share.

**Mathew Dunn:** On your last question, Ed: the piece we are firm on is the extra £5 million we will deliver in 2017. The actions associated with that have already been taken, so that is the benefit of actions we have already delivered. Going forward, it is not possible to give you a quantification of additional opportunities; we are looking at a number of areas, and we will update you and the market when we have more certainty over the actual numbers associated with some of those things we are looking at currently.

**Richard Felton (Morgan Stanley):** Just one question from me, please, on Robinsons. Clearly, it has been quite a difficult year. I was wondering if you could comment on the market share of Robinsons, and whether you have been losing share to private label?

If you could also please comment on the price premium between Robinsons and the private label: are you comfortable with where that is at the moment, or is there any adjustment that needs to happen on that? Thank you.

**Simon Litherland:** Yes, we have lost a little bit of share over the year, driven by two things: the removal of added sugar in summer 2015, which we are now starting to lap in quarter four. However, our share is not massively down compared to our average, so we average around 40% market share over the years, and we are just below that at the moment. The second reason for it, yes, has been competitive price pressure, led by discounters in own-label squash, which to some extent has been matched by the grocery channel. The premium that we have has been around 20%, probably stretched a bit too far, and therefore we will look to address that, to some extent, going forward, but not necessarily with headline price. We have already put into the market some new packs, so for example a two-litre pack of single concentrate into the grocery channel, which creates better value for us; and also, for example, a 900ml pack into the discounter channel. We continue to monitor the price differential with own-label closely, because it is really important.

The final thing I would say is that we relaunched the brand last year with a full new flavour suite, making sure that the taste and quality of Robinsons liquid, with our Real Fruit in Every Drop campaign and our hydration campaign, is absolutely superior to own-label; which we had lost over time, but now we are very confident that we have the best-quality dilute in the market, as well.

**Patrick Higgins (Goodbody):** Just two questions from me. Firstly, on the US, I think last year you mentioned you made a £15 million EBIT loss as you invested behind the brand. Where is that standing at the moment, and when do you expect that to break even?

Then secondly, just on GB carbs: how much of the Subway contract contributed to the 13% growth in Q4, and is there scope for new business wins like that over the next year? Thanks.

**Mathew Dunn:** What we have said with respect to our investment in international, and it is international rather than just the US, is that there was about 100 basis points of margin investment, which would give you broadly the number you just quoted, Patrick. That has been our run rate now for a couple of years. We would see it I guess being at a similar level in the next year, as we continue to invest in the US, with some of the benefits that we have derived from exiting India being reinvested in the US in forms of investment there.

**Simon Litherland:** On the carbs, the Subway business would have had an impact. We basically rolled out to over 2,000 outlets by the end of July, so you would have seen some of the stock load go in there. What I would say is that we would have grown in double digits anyway, without Subway, but on an ongoing basis it will add a point, probably, to our carbonates growth, 1–1.5%. We do see other opportunities within the leisure and food services channel; we start from a strong position, we have a good market share, but we are successfully retaining accounts that we have, which are obviously just as important as winning new accounts, but we do see opportunities to win with new customers, I think. Customers particularly like our no- and low-sugar bias, and particularly like the breadth of our portfolio. They like the way we are thinking about the category, and are excited by the innovation that we bring to the market. Of course, we have a very strong service ethic, so we are successfully winning customers and hope to continue to do so.

**Carl Walton (UBS):** Three questions, if I can. One on the underindexing on the 500ml, 600ml PET, 330ml cans. Can you remind us, actually, in terms of how that compares to your market share overall, and is there anything structurally that would mean you could not chase your competitors completely in that segment, for any reason? So, just how much upside you see there, exactly.

I am afraid – apologies, but the weather question: in terms of the fourth quarter, are there any counts that you have done that you can share in terms of, if you were to ex out for the GB, Ireland and France, how we can think about that underlying like-for-like fourth-quarter trend?

Finally, on innovation and A&P, probably more working A&P: how should we think about the sustainable level? How much further do you need to increase the innovation rate, given the trends in the market, and how should we think about sustainable A&P going forward in FY17?

**Simon Litherland:** In terms of the on-the-go market share, we have taken over the last three or four years two or three percentage points in GB; I presume you are referring to GB. Overall, our market share is around 12%, so we suspect that we have a bit more to go. It is a focus, it is higher margin, and it is the single-serve portfolio that we continue to grow through our innovation pipeline. Having said that, Pepsi Max, Pepsi Max Cherry, 7UP and 7UP Free are big parts of the share gain as well, so the base business has distribution growth, visibility and space across the market, as well as new brands into that segment.

**Mathew Dunn:** In terms of the weather, I think it is always had to completely disaggregate the weather, but I think the market has been tracking at about 1–1.5% volume growth, and in the fourth quarter you will see AC Nielsen was talking about growth of around 5–6%. So, I think the difference between those two numbers will be the effect of the weather. Just to be clear, though, that is the Q4 impact; the Q3 impact would have been negative, probably to a similar degree, so June and the early part of July in particular were very cold and wet, and you will remember us talking about that in terms of our Q3 statement. So, I think overall, the weather patterns were broadly neutral to maybe slightly positive in 2016, but that was lapping a very poor back end of 2015, so you have sort of seen that weather dynamic happening.

**Simon Litherland:** Then on innovation and A&P: yes, we would anticipate working A&P ticking up, but not massively so from an innovation perspective, because what we tend to do is try and innovate off the shoulders of our existing core brands, where we think we can. For example, Robinsons Squash'd or MiWadi Zero or MiWadi Minis or the Teisseire Pump or the Fruit Shoot 1.5-litre pack in France, and we therefore can move our A&P spend from the mother brand onto the innovation, which has a halo impact on the mother brand. Every time we innovate, it does not necessarily mean a huge tick-up in A&P. Having said that, sometimes we will put money behind new brands and new launches, just as we have done behind Drench and Purdey's, both of which are performing really strongly and would expect to generate a good payback from the incremental spend.

**Chris Wickham (Whitman Howard):** Just three things. One, on the margin; you were talking about the geographic impact and the inclusion of Brazil. Just when we look at the EBITA margin and the pattern between the different regions, does that roughly mirror the pattern on the brand contribution margin, so is H2 roughly at that level, similar to H1, for completeness?

Then secondly, I was wondering if you could comment about the impact of the higher import costs, and where you expect that to go in terms of some of the very deep discounting that we have seen in the carbonates, particularly in gondola ends; will that sort of behaviour ease off?

Thirdly, I was just wondering if you could give us some comment about competitor conditions in terms of pricing in the HORECA channel?

**Mathew Dunn:** I think it is broadly a fair assumption to assume that EBIT margins broadly track brand contribution. We do share overheads on a number of areas, and as Simon highlighted, we are doing that increasingly. So, it is not a complete read-across, but I think certainly it is indicatively correct.

In terms of the H1/H2 split, because of the summer period, our H2 period is more profitable for two reasons. One is just the demand on the fixed cost base, if you like. The other one is that you tend to sell a higher proportion of on-the-go products in that period, because people are out and about doing things, so those are the two simple structural drivers that drive a higher margin in H2 than typically we see in H1.

From a COGS perspective, the factors driving COGS are quite broad-based, so they affect most of our packs in different ways; whether it is sugar or PET, you can imagine that they impact across a lot of brands. I think from our perspective, a couple of things to note in the results. The first is that you saw there that ARP in carbs was actually up year over year and in Q4, so I think that is indicative of the fact that, whilst it is a promotionally driven category with broadly 80% sold on promotion, actually, the management of those promotions has been quite effective this year. So, on your point around discounting, I actually think we are seeing a positive trend in terms of the way pricing is moving, certainly in our numbers. I would point to that, and then I would point to the overall carbs margin versus the overall stills margin; whilst there is a difference, it is not massive, and therefore I think there is not a structural piece of the business where we are more worried about COGS than other parts of the business, because our margins are reasonably comparable now.

**Simon Litherland:** If I could just build on that with your reference to the revenue management in the grocery channel: as you rightly point out, it is an expandable category, and that is why promotion and visibility in store is important, because it does drive incremental consumption. Therefore, as we think about price, we think about revenue management; because yes, headline price has a role to play, but more effective promotional pricing probably has an even more impactful role to play, as does SKU mix and channel mix. We will look to move all of those elements, if you like, on a selective basis, and the trick is to continue to get the feature in display, albeit at a higher margin. In our approach, we will certainly make sure that what we are proposing to our retail customers is beneficial to them and to ourselves, and still creating value to the consumer, as well.

**Charles Pick (Numis):** I have four questions, actually. On the supply chain and efficiency front, regarding the extra £160 million, can you just please clarify how much of that is outside the GB operations?

On the input cost situation, is it possible to clarify, please, what you feel you had to absorb by way of extra costs last year from sterling weakness and/or commodity changes, and what you feel the quantum might be for this year in terms of the headwind factor?

The kids GB segment in decline; is it possible to say a word about that, what you think is behind that, please?

Finally, I think at the interim stage, you were talking about the 53rd week effect adding about £30–40 million to working capital. Was that valid, and will you get all of that back this year?

**Mathew Dunn:** I am just trying to work out how you got to your £160 million. You are talking about the investment over the next two years. It was on the slide, but we only spent £64 million in 2016, and that would explain to some degree the tick-up in 2017. That reflects the fact that actually, although the programme is progressing on track, as Simon said, we actually managed to negotiate slightly more favourable working capital terms with our suppliers than we thought, and so some of the payments have actually fallen into 2017.

In terms of the quantification of that, it is broadly all aimed at GB, so most of that activity will take place in GB. Some of the things that Simon referenced, such as the Fruit Shoot line in France, is captured in the rest of our capital spend, and in Ireland, the outsourcing of the warehouse is not a capital-driven project.

In terms of input costs in F16, we have seen relatively limited impact from FX because of our hedging policy, so we will have seen a little bit of FX impact towards the back end of the year because sterling had started to devalue around this time last year, and particularly in January

2016 you started to see sterling move down. It has seen some impact, but very little, so I would say overall, as I noted, F16 input costs were relatively benign.

In terms of F17, as I highlighted, we are kind of calling mid-single digits for the Group. Given the sterling weakness, you would expect more of that to show up in GB than in other parts of the Group, but it is fair to say that with underlying commodities starting to come back into an inflationary zone, we are experiencing input cost inflation across our markets.

Then on the 53rd week: absolutely, we did see quite a significant working capital outflow associated with the payment run; in effect, we had another payment run in F16 than we typically would do, so we had 13 payment runs versus a normal 12. We would only expect to have 11 payment runs in 2017 as a result, and so we should see a similar level of working capital inflow, probably around £30 million of working capital inflow, associated specifically with the benefit of the 53rd week in F17.

**Simon Litherland:** Your final question on kids. The kids segment, as defined by ourselves and Nielsen, has declined, but kids are not actually drinking less; they are just drinking different. The core Fruit Shoot offering we have improved, we have taken added sugar out, we have reduced sweetness, we have added multivitamins, and that core offering has actually taken market share, but we will also continue to expand beyond core. An example of that is obviously Fruit Shoot Hydro, which is a still flavoured water variant, which kind of leverages the Fruit Shoot brand name and is very much targeted at kids, as well. We will also look to expand that with a sparkling variant in due course. Another example would be a healthier offering such as My-5. My-5 is doing reasonably well in the marketplace, but we think there is more potential for a better-for-you kids' offering with higher juice content, like My-5 but in slightly different packaging. We are working on evolving that part of it, as well. Kids as defined is declining; overall, not drinking less. What we need to do is to continue to evolve our portfolio, and we believe we can do a lot of that through leveraging the strength of our core Fruit Shoot brand, as well.

**Andrea Pistacchi (Citi):** On your innovation, you have been clearly expanding with more innovation in areas which have not been typically your core categories, like water plus, adults' premium. Can you talk more broadly about what changes you are bringing to the innovation process at Britvic, and how you are incrementally resourcing the department?

Then on Purdey's, you said that it was performing strongly. If you could put a bit more colour around that, and what ambitions you had for the brand, on a five-year view.

Also, is Mountain Dew still a priority in your portfolio?

Finally, on Brazil, which is doing well, I think the target is to double EBITDA by 2020. I imagine that that is still the case; could we get there faster?

**Simon Litherland:** On innovation, you will remember that when we launched our cost savings programme in 2013, we said that a portion of that we would invest behind our international business, and a portion behind our sales and marketing capability. Effectively, that has meant more senior marketing resource, as well as more technical resource, to enable us to build that innovation pipeline. We also said we would focus with our brands on three categories: the kids category; the family category, which is essentially dilutes; and then the adult category, and that is exactly what we have been doing. Of course, we have the Pepsi partnership and the Pepsi portfolio, and their innovation as well, which is something that we will certainly tap into, but our focus is on those three categories. The kind of products that you talk about and the spaces that you are talking about, like water plus, better-for-you in general, and more premium, we are just moving where the consumer is going, right? I think what we have done over the last three years is we have built the resource and the capability and, indeed, a pipeline that is fit for changing consumer needs, and we will continue to evolve the portfolio in the way that we have illustrated today. Again, we will take it a step further in 2017, when we start to bring some of our adult, more premium offerings to life with the launch of London Essence mixers, for example, or Thomas & Evans zero-proof that you saw outside. Purdey's is a great example of moving with consumer needs, where we believe there is an opportunity driven by consumer needs for better-for-you energy. Purdey's is a more natural energy, and Purdey's Edge, the new variant, is the same. It is off a small base, but growing at – I cannot remember the last number, I think it was 60%-plus year on year. It has been around in the marketplace for some time but we think it has good potential, not only in GB but also in other markets. Many of our innovations will be applicable in other markets, as well, and that is what is fantastic; we have something to build our international presence with, with a market like Brazil.

**Andrea Pistacchi:** Is Purdey's listed with the main grocers?

**Simon Litherland:** Some of them, yes. You can find it in Waitrose, you can find it in Sainsbury's; I think you can find it in Tesco. The key for us is not so much the core listing, but getting into the front of store, in the fridge; that is what the big focus is, as well as in convenience and on-the-go channels. For example, you will find it in BP convenience outlets, as well, on forecourts, which is exactly the bull's-eye.

Then Brazil, we are really excited by Brazil. We have had a good first year, but very much looking to build this business for the long term. Yes, we did articulate two times the profitability by 2020; that is absolutely still our goal. I think we gave made a great start getting Fruit Shoot into the marketplace in under 12 months, and as I said in the voiceover, we are starting to focus on kids, family and adult opportunities in that marketplace and starting to look at how we can build the Maguary brand beyond the current concentrates and RTD juice offerings.

**Andrew Holland (Société Générale):** Two or three if I may, just firstly on UK pricing. You have talked about carbonates pricing. Your stills was down slightly. It sounds as though you are not getting much of a sympathetic ear from the retailers when you point out that your costs are going up? Is that right? Are you going to have to take the full pain of that across your UK business with really no better pricing this year than last year?

Secondly, you said you have about 20% penetration of US grocery with Fruit Shoot. Where do you hope that to be in, say, 12 months' time?

Thirdly – and I am happy to be put right on this – I cannot find anywhere in the numbers that you have given, numbers that add up to the 53rd week, by the segmental split. I do not know if you can either give us those or point to those?

**Mathew Dunn:** I can give you them, but they are not split segmentally.

**Andrew Holland:** Yes, that would be handy. Thank you.

**Simon Litherland:** On the stills pricing, there are a number of factors driving that, one of which is mix. We have talked about the Robinsons performance; that is one of our higher-margin brands. How do we evolve that? One way is headline pricing, but also, as I mentioned earlier, new formats, new pack sizes also have a huge role to play, like the two-litre or like the 900ml. We will remain competitive with own-label pricing on Robinsons.

Another mix factor in a high-margin brand was $J_2O$. We know that the performance of $J_2O$ last year was not what we wanted. $J_2O$ Spritz is doing very well and growing really nicely. Core $J_2O$ suffered. We did not have a good Christmas, where we launched two Christmas flavours that did not do very well, and then our summer limited edition did not do very well either, but this year we are going back to GlitterBerry, and we learned a lot about those, so we expect to have a better year on $J_2O$.

Price with the retailers, yes, they are not as welcoming as we would like when we talk about price. We are at that phase of the year now where we are starting to have those conversations, and as you know, that will play out through January, February, March next year. We will use a combination of factors: headline price, promotional efficiency, channel mix, SKU mix, so it is not a blanket price increase across everything that we need or want, or indeed that we think is appropriate for our brands or indeed the consumer. A balanced and targeted approach to price, and then we will support our margin through the internal cost reduction programmes that we already talked about.

USA grocery: yes, we are just under 20% distribution. We are in about 7,000 or 8,000 outlets. Again, we are going into conversations with new customers in the coming months, and indeed with existing customers, as we try and expand the distribution base from the number of stores we are in to a wider remit. Where we will be will depend on the success of those conversations and the space that we can secure, but we will look to certainly take the 7,000 up to 13,000, 14,000, 15,000, if we are successful, and we will see how those conversations go.

**Andrew Holland:** In 12 months?

**Simon Litherland:** Indeed, yes.

**Mathew Dunn:** On your question on the 53rd week, you will not find it in the segmentals because we do not give EBIT by business unit, but we only have a 53rd week in two territories, which is in the UK and Ireland, so those are the only two impacted. They are broadly impacted similarly, so you can assume that the benefit in the UK was 80% of the total benefit; roughly something like 80%/20% would be an approximate split between the UK and Ireland.

**Stoyko Moev (JP Morgan):** I just have a question on the GB supply chain programme. Obviously, you provided a lot of detail in terms of what you did in the first year of the programme; can you share a bit more colour on what is coming in this year next?

**Simon Litherland:** We continue to work; this programme is a three-year programme. The focus this year is getting the three can lines in Rugby up to speed; further warehousing in that facility as well; and bringing online the PET line that we have started in Beckton. Then further than that, we will be bringing a new smaller PET line into our Leeds factory, and we will be bringing an aseptic line into our Rugby factory, as well. I have already mentioned the French aseptic line in France, as well.

Great. Okay, well thanks everybody for coming, and thank you for your questions.

[END OF TRANSCRIPT]