

Cadbury
Presenters: Todd Stitzer, Ken Hanna, Andrew Bonfield
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15h00 GMT

Operator: Please stand by, we're about to begin. Good day ladies and gentlemen and welcome to Cadbury's 2008 Results Conference Call. For your information today's conference is being recorded. At this time I'd like to turn the conference over to your host today, Mr. Todd Stitzer. Please go ahead sir.

Todd Stitzer: Good morning ladies and gentlemen if you're ladies and gentlemen from the US and good afternoon if you're ladies and gentlemen from the UK. With me here today are Ken Hanna, our CFO; and Andrew Bonfield who has recently joined Cadbury as CFO designate and will be taking over from Ken as CFO in April. I am delighted to report today that 2008 was a record year for Cadbury's continuing confectionary business. We delivered a strong financial performance with revenue growth of 7% and an underlying margin improvement of 150 basis points. Our reported margins were 11.9%. As a result our reported earnings per share were up 30%.

While delivering this strong performance we also made significant progress toward becoming a pure play total confectionary business. In May we completed the de-merger of our US beverage business. More recently we announced an agreement to sell our Australia Beverages business to Asahi for £550 million. Finally to underpin our commitment to deliver our goal of mid-teens margin by 2011 we took the significant step of simplifying our business model by removing the regional layer of management in the fourth quarter.

Our vision is to be the biggest and the best confectionary company and while we have every reason to aspire to being the biggest in the long term we will focus on being the best in the short

term. In this respect our Vision Into Action business plan is at the heart of our strategy and has been the driver of our strong performance in 2008. The implementation of the plan has started well and we've made good progress delivering on our key priorities of growth, efficiency and capability. For example the overall result of effectively implementing our growth priorities has been excellent. In a year where many markets saw some weakness toward the end of the year we sustained revenue momentum and generated very good levels of growth. Our chocolate, gum and candy categories grew 6%, 10% and 6% respectively. Our focused brands grew 8%, our focused markets grew 8% and our emerging markets grew 12%, clearly a strong performance in a difficult economic climate.

Turning to our efficiency priorities, our initiatives have had a positive impact on our overall reported margins and reflect strong, early progress implementing our Vision Into Action. Reported margins will have improved over 200 basis points from 2007 with almost all the benefits coming from our Vision Into Action cost reduction programme. At the same time we have sustained our investment in marketing which increased by £50 million to 10.8% of net revenues. In addition we've strengthened our capabilities through reconfiguration and made good progress on our sustainability agenda.

To summarise we've delivered a strong result and achieved or exceeded all of our performance objectives in 2008.

Gazing into the proverbial crystal ball is always a challenge. Attempting to call 2009 at this point in the year is probably a mission impossible, but let me share a few thoughts and observations. 2008 was a very good year for Cadbury but we know the economic environment has changed dramatically. We know the rate of confectionary market growth has eased in the last six months although emerging markets are holding up better than developed markets. We know we're going to have to work harder in 2009 to deliver good levels of revenue growth and that's particularly true as we must defend price increases to ensure we recover cost inflation and cycle strong 2008

results. We have always maintained that there are good reasons to be positive about the ability of our confectionary category to outperform most consumer segments and why our Cadbury business model will outperform the category.

Let me share four of the reasons for our confidence. First, both the confectionary category and Cadbury should continue to benefit from a high degree of brand preference, low penetration of own label products and the small cash ring or affordable treat nature of our product. Second, our chocolate and candy products with their strong family sharing heritage will show increased resilience from an emerging stay at home culture. Third, we continue to trade through a diverse route to market that gives us access to multiple channels. We are better placed than most consumer segments which are dependent on a consolidating modern trade. That access provides additional resilience, particularly in countries where our route to market is strongest like Brazil, Mexico, India or indeed the UK. Fourth, we should also continue to benefit from our balanced exposure to emerging markets where we now have almost 40% of our turnover. We will also benefit in those markets from opportunities to leverage our total confectionary offering.

From our perspective it is this spread and balance of categories, customers, countries and brands which gives us great opportunities to deliver consistent growth across our confectionary model. 2009 will also be a year of important progress on our core cost saving and efficiency programmes. Central and regional costs will be lower reflecting the incremental benefits of the programmes we started in 2008. In addition there will be further SG&A cost savings from the regional de-layering we implemented in late 2008.

As a result of our Vision Into Action programme and the focus we'll apply to costs in 2009 we will generate benefits from self-help that should help us overcome the impact of adverse market conditions and make further progress toward our mid-teens margin goal.

So to conclude 2008 has demonstrated the resilience of our focused total confectionary model. That said we don't expect to be immune from the impact of economic weakness, so we're taking steps to mitigate the impact of weaker consumer demand through focused cost management and ensuring the expected benefits of our Vision Into Action plan come through in 2009. As a result we expect revenue growth to be around the lower end of our 4-6% goal range. We also expect to make good progress toward our mid-teens margin goal by 2011.

Thanks for your attention, Ken and I would now be delighted to take your questions.

Operator: Thank you very much Mr. Stitzer. Ladies and gentlemen, the question and answer session will be conducted electronically. If you would like to ask a question please press the * or asterisk key followed by the digit 1 on your telephone keypad. Please ensure the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find your question has been answered you may remove yourself from the queue by pressing *2. Once again ladies and gentlemen please press *1 to ask a question. We'll pause for just a moment to allow everyone to signal.

Today's first question is coming from Jonathan Feeney of Janney Montgomery Scott. Please go ahead.

Jonathan Feeney: Good morning, thank you. Todd, I'm wondering how recent is your...you said emerging markets have held up better than developed markets and I think that's the elephant in the room for everybody. What data can you give us from specific markets to the extent you're comfortable about it, can you give us some comfort that that not only was true and say September, October, November in the second half on average but it's true today in late February where they seemed to be at Cagney week I'm sure you heard a fair number of companies with a comparable emerging market presence, maybe not so robust categories expressed maybe a little bit more scepticism about emerging market growth. Could you give us more detail on that?

Todd Stitzer: Sure. First on the not so positive side I would say since the beginning of the year most of the governments of many of the emerging market countries that we participate in have pulled down their own estimates of GDP and that applies to Thailand, Malaysia, Singapore, Hong Kong, India, China, Brazil, you name it, they have been less robust about their prospects than they were before. That being said as I think you heard me say in the intro the confectionary category generally trades a little bit better than GDP and we generally trade a little bit better than the confectionary category, so in the first six or eight weeks of the year and again this is the early part of the year, trading in India, China, Pakistan, South Africa, Nigeria, Brazil, Venezuela, Colombia, they have traded pretty much the way they traded in the last quarter, in December I would say in markets like Thailand, Malaysia, Singapore, actually Singapore has done well, Thailand and Malaysia are a bit less robust than they were in December so again I think I described to you the sort of relative breadth of our geographic participation. I think we'll certainly see a different pattern of production of revenue growth in 2009 as compared to 2008 but because it's broad and because it's deep I think we have a better chance than most to continue to grow ahead of the category and ahead of GDP.

Jonathan Feeney: Thank you Todd and just one follow-up if you wouldn't mind. Again if you're comfortable doing so, you talked about the low end of your long term guidance range for revenue growth for '09 and I guess could you possibly split that into developed versus emerging roughly?

Todd Stitzer: We shared a slide in our presentation today that tracks our perspective of confectionary market growth in developed and emerging markets and I think...I can't remember what the number of the slide is...Ken, go ahead.

Ken Hanna: We did say that in 2008 60% of our growth came from emerging markets and 40% from developed markets. Sitting here today I wouldn't dramatically change that for 2009.

Jonathan Feeney: Great. I wanted to capture the share gain projection as well there. Thank you very much Ken, I appreciate it.

Operator: Thank you very much sir. Ladies and gentlemen, as a reminder if you wish to ask a question please press *1. The next question is coming from Mr. Kevin Dreyer of Gabelli & Company. Please go ahead sir.

Kevin Dreyer: Hi, good morning.

Todd Stitzer: Hi Kevin, how are you doing?

Kevin Dreyer: Good. Just a couple of questions, one, with Wrigley and Mars now together have you noticed any difference in competition? Is it harder at all to get shelf space particularly in the US?

Todd Stitzer: I would say the answer to that is that we haven't seen that yet. They came together in October. We have seen little evidence either in the United States or other places of them actually doing joint presentations. We know of some joint presentations having been made but if you are, I'm sure you are a student of the consumer products industry, the plans that Mars and Wrigley execute for 2009 will largely have been generated by the constituent companies and it won't be until 2010 that they actually have the change to plan and execute together to the extent they determine that's what they want to do.

Kevin Dreyer: Ok, great. Could you also expand a little bit on the situation in Russia, kind of what went wrong and how are you trying to fix that?

Todd Stitzer: Sure. We chose to go with a single large distributor for most of the cities in Russia. That was a distribution relationship that was to have been effective in May of 2008. We I think got about 40% of the way into the transition and the distributor said "you know what, this isn't really

going to work for us. We're sorry, we'll keep what we have but we don't want to expand it the rest of the distance" which required us to go back to a number of distributors we had terminated and say "listen"...I'm sure you can appreciate the challenge of this conversation, but "listen, we terminated you four months ago but we'd like to get back together and be blood brothers again", so that's just taking a while to get back on track and frankly it is getting back on track but in the context of a Russian market that is challenged at the least. It's just a difficult situation, so we're frankly not expecting a huge amount of growth in Russia in 2009.

Kevin Dreyer: Ok, thank you.

Operator: We'll now look to Chris Pelinsky of Jennison Associates. Please go ahead sir.

Chris Pelinsky: Good afternoon. I just have a couple of quick cash flow questions to follow up.

Working capital I know has been kind of a pet peeve of Ken's for a while now...

Todd Stitzer: Ken doesn't have any pet peeves!

Chris Pelinsky: I was just wondering given all the progress that has been made so far and what you've shared with us today if you could kind of comment on where you think you are in that whole process and cycle in terms of the improvements that have been made and what's left and then the second question is related to Capex and how we should think about the Capex number as we get closer to 2011. I know there's £100 million or so in the budget as it relates to the whole VIA so maybe some thoughts on that. I'm not necessarily I guess looking for specific numbers but just conceptually how you think about Capex and how it plays out as the programme winds down?

Todd Stitzer: Ken thinks Andrew has a lot of opportunities on cash flow!

Ken Hanna: Agreed! In terms of working capital '08 continued the trend of our average working capital throughout the year and our teams are incentivised on average working capital, not just a year end snapshot because it's worth more if it's averaged down, was good. Inventories were planned to increase slightly at the end of '08 and will be at the end of '09 in anticipation of plant closures and product launches, so we've flagged that a while ago and it's not a huge amount of money but inventories are planned to peak. I think when you see our report and accounts which is out in a couple of weeks' time you'll look it up, we're required under IFRS to look at debtors' ageing, so I'm quite impressed by the ageing profile of our debtors in a tough economic environment. We've reduced the amount of debts that are overdue to terms quite considerably, so very good control of working capital, planned inventory increase and as always when do you stop? There's always more to go for. I would say more on the inventory side than under receivables and payables but there's always more you can do on working capital. On cash flow just a reminder to everyone, we did say that '08 and '09 would be years of relatively weak cash flow because they were the peak years of Capex and restructuring behind the VIA. There's about 100 million of extra Capex in our numbers for '08 on the VIA and another 100 million in '09. After '09 we would expect Capex to settle down in the 5-5.5% of revenue which is we think about right bearing in mind we've always got some innovation and growth Capex in that number.

Chris Pelinsky: Just a quick clarification, the planned inventory increase as we transition plant geographies, did I hear you say that we should see the peak of that this year in '09?

Ken Hanna: No, there's a little bit in December '08 and there will be more in December '09 but not huge amounts of money. We're closing some factories in '10 and we're closing some factories in '09 that we have to build some customer service supply stocks for.

Chris Pelinsky: Most of that will be done in '09, right, or will we have a lingering kind of...?

Ken Hanna: I think you'll have a little bit just built in the last quarter of '09 to cover anticipated plant closures in '10.

Chris Pelinsky: Ok, thank you.

Ken Hanna: Thanks.

Operator: Thank you very much Mr. Pelinsky. Ladies and gentlemen, as a reminder please press *1 to ask a question. We'll now look to Mr. Pablo Zuanic of JP Morgan. Please go ahead sir.

Pablo Zuanic: Hello everyone.

Todd Stitzer: Hi Pablo.

Pablo Zuanic: Just a follow-up question on my side if I may. Let me play devil's advocate here and obviously we should all congratulate you on the margin expansion in '08 and the visibility you're giving us in 2009, but just based on pure maths we made the argument that you're getting there on the back of price increases ahead of costs and maybe there's nothing wrong with that but that's not necessarily what you're telling us or what the guidance or strategy is. How do I come out with that? If I take your revenues of 5.4 billion, take out the FX, take out the 7% growth you have a base revenue of 4.4 billion, you had 6% pricing on that and you've said that input costs are about a third of your sales and your cost inflation in '08 was about 5-6%. If I do the maths and I take the resulting benefit over your base sales I get a benefit of about 400 basis points. I know some went to marketing, you said 40 basis points went to marketing, so I'm just wondering and again if I look at your commentary, pricing 6% versus cost inflation 5-6% for '09, the same idea, parity pricing 6-7, cost inflation 6-8, what am I doing wrong with that maths? If you can answer that and then I have a follow-up please.

Ken Hanna: Pablo, this is a very detailed question, I'd love you to take it offline with our IR team but just a couple of points I'd point out. Our SG&A costs have gone down by 1% compared to revenue, 100 basis points. Our central costs have gone down and there's a margin track in there, you would have seen if you think we have been recovering prices way ahead of our costs you would have seen our gross margin being much increased and it's not. It's only 50 basis points coming from gross margin which I highlighted on a call actually earlier this morning which was a combination of mix benefits which is higher margin gum growing 10% against chocolate and candy at 6% and supply chain efficiencies i.e. just working really, really hard on the basics in the supply chain. There hasn't been a huge over-recovery of costs by price and the IR team can take you through that in some detail offline and can show you that.

Todd Stitzer: I really wish you would follow up with the team and go through the numbers because your math is not quite the same math we have and I'm sure we can understand and agree what the elements are.

Pablo Zuanic: Ok, that's good. Just a very quick follow-up, in the first half gum sales were up 10% for the full year, you were saying they were up 10% but in the press release you indicate Canadian gum sales were negative and the US gum sales slowed down, so what actually picked up in gum? What were the regions that picked up in the second half to offset the consideration in the US?

Todd Stitzer: Mexico, South America, India, bubblegum, Turkey had a very strong second half.

Pablo Zuanic: Alright, thank you.

Operator: Thanks very much sir. Ladies and gentlemen, again if you wish to ask a question please press *1. As we have no further questions I'd like to turn the conference back over to the organisers for any additional or closing remarks.

Todd Stitzer: Thanks everyone for your time and attention this morning and for your interest in the company. I certainly hope to see some of you on our road show next week and take care, thanks.

Operator: Ladies and gentlemen, that will conclude today's conference. Thank you very much for your participation, you may now disconnect.