Cadbury plc
Interim Management Statement
Thurs, 30th April 2009
15:00

Todd Stitzer: Good afternoon everyone or good morning as the case may be, depending on where your geographic location is, and welcome to our call.

I am Todd Stitzer, CEO of Cadbury and I'm joined today by our CFO, Andrew Bonfield, and our Investor Relations Director, John Dawson. The purpose of today's announcement is to update you on trading and other important developments for the first three months of 2009. Since this is a new team, and it's our first IMS, Andrew and I will share the opening commentary and John, who is the font of all knowledge, will join us in answering your questions at the end.

So, let's get started. Overall, the key message from me is that after a very satisfactory start to an incredibly challenging year from an external perspective, Cadbury are on track to deliver our commitments for the year as a whole.

From a trading perspective, I'm pleased to say that we've made further progress in the first quarter with revenues ahead by 2% in constant currency, and 11% in reported currency. At the same time, we continued to deliver cost and capability benefits from our Vision into Action plan; we completed the disposal of Australia Beverages; and we strengthened our long-term financing position.

In the quarter, our business benefited from the breadth of its category and geographic presence. This has been demonstrated by the overall positive performance of the company.

Let me explain what I mean by this. Chocolate delivered strong revenue growth. At the same time, gum and medicated candies were held back by trade de-stocking and lower levels of market growth. De-stocking, particularly in the US and Canada, had a material effect on volumes in the quarter. The biggest impact was in the first two months of the year and mainly with one major distributor in the US who managed down trade inventories significantly around their year end in January. However, from the positive momentum we have seen since then, we feel that most of the major de-stocking is probably behind us, and that any further reductions will be modest.

We are confident that the US gum market has plenty of room to expand driven by innovation and marketing investment that will drive increased product penetration and consumption frequency. As you know, we have an exciting innovation agenda planned for the second half of the year.

Turning to chocolate, the Easter season was very good for Cadbury, particularly in the UK, where strong market share gains drove significant out-performance, compared to relatively flat markets. We also achieved significant market share gains in a number of our important emerging markets.

Overall, given that we are cycling tough comparatives, and the impact of destocking, we consider 2% growth a good start to the year. Were it not for destocking, revenue would have been up 4% in the quarter, and volume down 1% - a performance which underpins our revenue expectations for the year as a whole.

Let me now turn it over to Andrew who will take you through some items in greater detail.

Andrew Bonfield: Thank you Todd and good morning everybody.

As Todd emphasised, our performance in the quarter was influenced by the impact of trade de-stocking, local market share gains and the relative market growth for chocolate, gum and candy.

So, allow me to start by giving you a bit more detail on our category performance.

Chocolate delivered revenue growth of 7%, reflecting good performances in the UK, India and South Africa. Australia grew despite clearing trade inventories in preparation for the relaunch of the core Cadbury chocolate brand in the second quarter of the year. An important point to note is that pricing actions taken to offset higher input costs have held despite the difficult economic environment.

In gum, our market share performance in key markets, including the US, Mexico and France was robust. However, underlying demand weakness in developed markets such as France and Japan, and the significant impact of de-stocking in the US had a negative effect on volumes. In the US, we estimate that there was a 10% difference between ex-factory sales and total consumption in measured and unmeasured channels. As a result, overall gum revenue declined 2% in the quarter and rose by around 3% if de-stocking is taken out.

In candy, despite strong performances from mainstream candy brands in Australia, Middle East and Africa and Asia, a relatively weak cough/cold season for Halls in the first quarter resulted in overall candy revenue decline of 2%. Excluding Halls, candy revenues grew by 2%.

As in prior years, growth in emerging markets was more robust than in developed markets - although slower than previously. Strong growth in India, South Africa and South America more than offset the impact of weak trading conditions in South East Asia and Russia and as a result, overall revenue was up 6% for the quarter.

In developed markets, revenue was unchanged. Given the impact of trade destocking, this was a good result.

Looking at the revenue by region In Britain and Ireland, revenue grew 10%, reflecting continued significant market share gains in the UK including the benefits of a strong Easter for Cadbury. Seasonal products performed strongly, for example, Shell eggs and Cadbury Creme Eggs were both up by over 20%. Growth also included the sustained benefit of innovation from countline products, such as Wispa, launched in the last nine months of 2008. All in all, our UK market share in chocolate including the Easter period rose by over 200 bps.

In Europe, revenue was down 8%, with only Poland delivering good growth. Most markets – and in particular France - continued to see weaker consumer demand, and several were impacted by some retailer de-stocking.

In the Middle East and Africa, revenue growth of 12% was led by a strong performance in South Africa.

In Asia, revenue grew by 11%, reflecting strong performances in India and China which more than offset softer markets in South East Asia.

In Pacific, revenue was 3% ahead. As we noted earlier, the business in Australia grew well despite reducing inventories in preparation for a major product relaunch in the second quarter.

Revenue in North America was down 6%, reflecting significant de-stocking we talked about earlier, particularly in the US and Canada, as well as softer demand. However, adjusting for reduced trade inventories, revenue was unchanged.

In South America, revenue growth of 10% was strong in a more challenging economic environment, with market share gains and modest volume growth underpinning the positive performance.

Turning to our cost saving initiatives and margins, our underlying operating margin improved in line with our internal expectations. This was led by the continued implementation of our Vision into Action business plan. As detailed in the press release, we announced further supply chain reconfiguration projects and headcount reductions in Nigeria during the quarter.

There are a couple of additional points to note as you think about the outlook for margins. Firstly, as it relates to our marketing investment, we have been taking advantage of media spend deflation to maximise the return on our media investment. In addition, with a strong innovation programme planned for later in the year, we are likely to invest more in marketing in the second half.

Secondly, with volumes down, we are taking the necessary cost control actions in the plants to minimise the impact of any overhead under-recovery. All this underpins our expectation of our ability to deliver good margin progression in 2009.

Finally, before I hand you back to Todd, a few words on the balance sheet. We completed the sale of our Australia Beverages business in early April for £550 million and we also issued a new 300 million Sterling bond in March. As a result, our financial position is strong with secure, long-term financing in place.

I'll now hand you back over to Todd for some closing remarks

Todd Stitzer: Thanks Andrew. I'm going to summarise and end with the outlook for the year. We've made very satisfactory progress in the first quarter despite cycling tough prior year comparatives. A strong chocolate performance and good growth in emerging markets more than offset customer de-stocking and softer demand in North America and Europe. Our Vision into Action plan remains on track to deliver planned central, SG&A and supply chain cost savings we told you about as well as growth, efficiency and capability benefits that we've described for 2009. As a result, we reconfirm our guidance to deliver revenue growth around the lower end of our 4-6% goal range and to make good progress toward our goal of mid-teens margins by 2011.

Thanks for your attention and now, Andrew, John and I would be happy to take your questions.

Operator: Thank you. The question and answer session will be conducted electronically. If you would like to ask a question, please press the *key followed by the digit 1 on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. We will take questions in the order received and take as many as time permits. If you find that your question has been answered, you may remove yourself from the queue, by pressing *2. Again, please press *1 to ask a question. We will pause for just a moment to allow everyone to signal for questions. We will take our first question from John Finney from [Journey Montgomery Scott] please go ahead.

John San Marco: Good afternoon, I guess, to you. This is actually John San Marco on behalf of John Finney. I'm sorry if I missed this on the first call; do you have any estimates on where customer inventory stands today relative to before the de-stocking impact started to take place, if not in aggregate, maybe for the one major distributor?

Andrew Bonfield: Yes John. The major distributor that we actually measured most of the destocking through actually reduced inventories from around about 30 days at the end of the year down to about 17 days. That single distributor represents about 75% of the impact of destocking in the quarter in the US and that seems to be the largest single incident we've been able to identify of de-stocking across the board. Whether 17 days is normal, is hard to work out, but their usual practice, was to have around about 21 days, they'd actually allowed it to creep up to 30 days at the end of last year. Obviously we'll have to see whether that is sustained going forward or whether they allow it to creep back up again as we go through the year.

John San Marco: Thank you, that's very helpful. It sounds like the de-stocking issue was mostly isolated in the gum business; do you think there's some risk that there's another shoe to drop here on the chocolate side of things?

Todd Stitzer: It was mostly in gum and Halls in North America. There was some de-stocking in Europe. But frankly, it's mostly North America. We think that most responsible businesses, given the economic circumstances ought to have, would have taken inventory adjustments by now to manage their cash and their inventories, so, while you can never say never, most of the people we trade with in developed markets are pretty responsible and they would have taken these actions, frankly in the back end of 08 and in the very beginning of 09.

John San Marco: Got it, great, thank you, then just one last one, more strategic. In the past I know you've given us your marketing spend as a percentage of sales and I didn't catch it this morning, if you gave it again; can you talk about that in particular how your marketing spend as a percentage of sales compares across your business line, product wise from gum versus chocolate?

Andrew Bonfield: John, we don't give margin information on a quarter. There's only a sales update that we give on a quarterly basis, unlike most companies in the US, which give P&L. But at the end of last year, marketing – total A&P as a percentage of sales is around 10.8%. That is higher, slightly higher in gum, slightly lower in chocolate and candy markets, in particular. So that will be with the mix effect. On media spend, as I mentioned in my comments, we are looking to take advantage of media spend deflation where appropriate, in order to maximise the bang for our buck and also, we are expecting because of the innovation profile, to see more media spend in the second half than the first half; and that will mitigate some of the mix effect which we may see as a result of lower gum sales in the first half versus chocolate sales, gum having a slightly higher margin obviously.

Operator: Once again, if you would like to ask a question please *1 to signal. As a reminder, if you are using a phone with a mute function. please be sure that your mute function is turned off to allow your signal to reach our equipment. As we have no further questions, I would like to turn the call back over to you Mr Stitzer for any additional or closing remarks.

Todd Stitzer: Well thanks ladies and gentlemen for your participation this morning or this afternoon as the case may be. We're grateful for your interest in the company, look forward to seeing you in person at some time in the not too distant future, so thanks and we'll call it to an end for now. Take care.

Operator: That will conclude today's conference call. Thank you for your participation ladies and gentlemen.