

Trading Update
Afternoon Conference Call and Q&A Transcript
18 June 2009
Andrew Bonfield (AB), John Dawson (JD)

AB Hello everybody. Good morning to those of you who are in the US, good afternoon to those of you who are in the UK, and welcome to our trading update conference call. I'm Andrew Bonfield, CFO of Cadbury, and I'm joined today by John Dawson, our IR Director. The purpose of today's trading statement is to give a brief update on our performance since our interim management statement that was issued at the end of April and provide you with some up-to-date technical guidance. This introduction should last round about five minutes and then we can hand over to Q&A.

As you will have seen from our announcement, we have today confirmed that we have built on a good first quarter performance with improved trading in April and May. We expect to deliver growth and cost efficiencies for the year and we re-confirm our guidance for 2009. Let me outline our category progress and then briefly review our performance by business.

I'm pleased to say that gum and candy revenues improved in April and May after a slow start to the year compared to a strong first few months in 2008. Whilst some of this improvement can be attributed to the non-recurrence of the de-stocking we saw right at the start of the year, there were positive developments in many of our businesses, particularly in a number of developed markets. At the same time, growth in chocolate remained robust continuing its solid revenue performance from Q1.

Turning to our business units, our Britain and Ireland business sustained its strong performance owing to the excellent growth in the UK, which offset tougher trading in Ireland. Cadbury UK continued to gain a share in seasonal chocolate products due to a very successful Easter, which lasted into April, but also in standard products helped by the continued success of Wispa and our new bitesize peanuts, raisins and clusters. Conditions in Europe, however, remain challenging. Gum and candy category growth has been weak in France and Spain, although we have gained share in gum year to date in those markets. However, in Russia challenges with our distribution network continue to hold back our revenue growth. Our Middle East and Africa business grew well, with a strong performance in South Africa and improved growth in Nigeria.

Turning to Asia, the pace of growth of our business there has been very satisfactory, led by strong revenue growth and continued market share gains in India. Our Pacific business benefited from good seasonal chocolate sales in Australia and an improved candy performance from the recent Sansei acquisition in Japan. The re-launch of Cadbury Dairy Milk in Australia is now under way, although it's very early days to comment on results.

Revenue in North America continues to recover from the impact of de-stocking in the US early in the first quarter and underlying market growth there has remained positive. In Mexico, growth has slowed from the high levels achieved in 2008, in part reflecting a small negative impact from the swine flu situation. South America continued its good progress with some favourable market share developments in Brazil and strong growth in base brands, such as Trident and Halls, across the business unit.

Overall, our guidance for revenue and margin for the full year is unchanged. Having

said that, it is worthwhile explaining the expected differences between the two halves of the year. Looking at revenues, as expected, the slower start to the year will hold back growth somewhat for the first half. The second half should be stronger as we expect to deliver further growth, underpinned by new product launches. While our margin growth is unchanged for the year, first half margin improvement is expected to be higher than for the year as a whole, reflecting the impact of re-phasing some of our marketing investment to the second half to support the new product launches I've just referred to.

I would now like to draw your attention to three points about technical guidance. Firstly, you will be pleased to know that our technical guidance for input costs, price realisation, restructuring costs, interest rates, tax rates, depreciation and capital expenditure are unchanged from those included in our full year results statement for 2008 and the first quarter IMS in April. On raw materials in particular, whilst some raw materials are marginally cheaper, we remain in the 6-8% input cost range that was disclosed in February, albeit at the lower end of that range. You may remember that on the first quarter IMS call, we mentioned the negative mix impact at the gross margin level of chocolate and candy relative to gum. I am pleased to say that we have seen some favourable purchase price variances which we expect will offset the negative mix impact at the half year. This improvement, compared to our previous expectations, underpins a slightly higher margin growth now expected in the first half. In addition, price realisation has remained good with no major attrition on the recent price increases implemented to cover cost inflation.

Secondly, turning to foreign exchange translation and its impact on our revenue and operating profit, as you know, the impact is impossible to predict with certainty and you will certainly have your own house views on the projected rates for the balance of the year. That said, assuming exchange rates remain unchanged for the balance of the year from those as of 11th June, we would expect an increase in net revenue of around 5% for the year and then underlying operating profit of around 6% for the full year. The increase for the first half is expected to be 10% and 14%, respectively. The change from our previous guidance reflects the strength of sterling and the impact of the Venezuelan bolivar where, as required by international accounting standards, we are now using the parallel exchange rate rather than the official rate.

Finally, let me point out that the full income statement for the first half of 2008 is attached to our press release as an appendix to aid the comparison of half year on half year performance.

So, to recap, I am pleased to say that our early progress has continued into the second quarter, with our business units focussed on delivering market share gains and efficiency improvements. As a result, we reconfirm our full year guidance for revenue growth around the lower end of our 4-6% goal range and [that we will] make good process towards our goal of mid-teens margins by 2011. Our half year results for 2009 will be announced on 29th July. Thank you for your attention and now John and I will be happy to take your questions.

OP We have a question from the line of Jonathan Feeny from Janney Montgomery. Please go ahead.

JSM Hi there. Good afternoon to you. This is John San Marco on behalf of Jonathan Feeny. Out of the remaining 2-4% margin expansion you have to get your mid-teens target, out of what you have left to do there, how much of that, if any, do you anticipate getting from marketing efficiencies or reducing marketing?

AB Hopefully very little will come out of marketing, because we will continue to invest in marketing behind new product launches. I think we will look this year to see some further progress on SG&A costs, reduction as a percentage of sales and, as we previously indicated, in 2010 and 2011 the vast majority of the savings will come out of cost of goods. So looking at it, most of this year we anticipate will be SG&A, a little bit out of CGS efficiencies and in 2010 and 2011 mostly cost of goods.

JSM Thank you. And then changing subjects, you've referenced the Russian distribution issues a couple of times in a row now in public calls. Can you just give a progress report there, what's going on there, and when you would expect that to start moving in the other direction?

AB John, you may recall the company tried - I think it was in the second quarter of last year - to move its distribution to another distributor. Unfortunately due to complaints from its other customers, they actually withdrew from those arrangements and we've had to move back to our previous arrangements. As you can imagine, that has caused some disruption to the business. We will start to lap that in the second half of the year, so hopefully that disruption will be virtually complete. Also on Russia, there has been some weakness in the market. We are starting to see that improve as well, so I think the two things - one, lapping that temporary distribution change and, two, the impact of improvements in the underlying performance of the gum business - will help improve the performance in Russia in the second half.

JSM Are you seeing any impact related to the swine flu outside of Mexico in your comments this morning?

AB Nothing perceptible and in Mexico, it's fairly small. It just did have some impact on the growth. Mexico has been a strong growth area for us, as you know, and that's just caused that to slow down slightly in the second quarter as you would expect, as people didn't go out as much.

JSM And then one last subject. I guess one of the most attractive things about your portfolio has historically been low levels of private label penetration and you guys confirmed that's still very much the case, that it hasn't changed dramatically. Are there any specific markets where you're most concerned about the private label threat or maybe that differ from your global portfolio in terms of other markets where it is an issue already, private label penetration?

AB The only market where it was an issue has been Australia in chocolate, where there was some private label competition, basically from the two major retailers, Coles and Woolworths. That actually has mitigated a bit because they've had to take price increases as a result of changes in cocoa pricing. On the gum side, there hasn't really been any significant, no real changes in that regard at all.

JSM Well, that's all I had. Thank you very much for your time.

OP Thank you. We have no further questions in the queue.

JD Well, if there are no other questions, what we'll do, if we may, is bring the call to a conclusion. This is John Dawson, so if anyone's listening and wants to ask further questions, don't hesitate to contact me or the IR team here at Cadbury. We'll be happy to tackle any outstanding issues. Until next time, which will be on 29th July, thank you very much for taking part and goodbye.