Cadbury plc
Presenter: Todd Stitzer
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15h00 BST

Operator: Good day and welcome to the Cadbury's Trading Update conference call. For your information, today's conference is being recorded. At this time I would like to turn the conference over to your host today, Mr Todd Stitzer. Please go ahead, sir.

Todd Stitzer: Hello, ladies and gentlemen. Thanks for joining us today. I'm Todd Stitzer, Chief Executive of Cadbury, and I'm joined by Ken Hanna, our Chief Financial Officer. The purpose of our call is to update you on Cadbury's trading in the year to date ahead of our interim results which will be published on July 30th.

This is our first formal trading update from Cadbury plc as a standalone confectionery company, and I'm delighted to report that the new company is off to a very good start, both from a revenue growth and a margin perspective.

Revenue momentum has continued to be strong and we expect to report like-for-like growth above our 4-6% goal range at the half year. We have seen good growth across all three of our categories (chocolate, gum and candy) as well as continued double-digit growth in emerging markets.

We have also made very good progress on margins, which will be at least 150 basis points ahead on the first half of 2007 despite a further increase in marketing spend. This excellent progress on margins is the result of a tight focus and control across all aspects of our business. We have put prices up in most of our markets around the world to recover unprecedented increases in input costs. We are benefiting from positive mix, which is to say higher growth from our more profitable categories and brands.

And most notably, we are also beginning to see the benefits of our Vision Into Action cost reduction programme. In October last year we announced a raft of cost reduction initiatives. These are now well underway and bearing fruit. They include the relocation of our head office from Central London to a new office in Uxbridge, where we will be co-located with our Britain, Ireland, Middle East and Africa region. That team moved into the building this week and the central team are moving in on Monday. Other SG&A initiatives include the merging of our Canadian and US businesses and the outsourcing of IT and HR activities around the world.

Turning now to the regions, revenue growth in our Britain, Ireland, Middle East and Africa region has been driven by increased marketing and double-digit emerging market growth. In Britain, confectionery growth is expected to be ahead of the market, with the exit from less profitable promotions and brands more than offset by good growth in core brands, including Cadbury Dairy Milk. Profit and margin growth in the region is expected to be strong as a result of further improvements in Nigeria, cost reduction initiatives and lower one-off costs in Britain and Ireland.

In Europe, planned route-to-market changes in Russia and Turkey and lower growth in Southern Europe have had some impact on growth. However, gum growth has remained strong, reflecting market growth across the Europe region and share gains in Southern [*corrected*] Europe. Margins are expected to be a bit lower owing to the route-to-market reorganisation.

In the Americas we continue to see excellent revenue growth. The US gum market is up 8% year-to-date, helped by higher prices and continued innovation. Trident and Stride continue to trade well and results from Halls have improved, helped by a robust cough category. Revenue momentum in Latin America also remains good.

In Asia Pacific, revenue growth in the first half has benefited from an improved performance from confectionery in Australia and strong double-digit growth in emerging markets. India had another excellent half, with good performances in all categories.

Let me finish with a brief comment on the outlook for the half and the year. As mentioned, we expect first half revenues to be above our 4-6% target range and at least 150 basis points of margin growth. For the second half of the year we will be cycling stronger comparators, both in relation to revenues and margins. While we continue to expect commodity costs to increase in the 5-6% range for 2008, we believe these will be more weighted towards the second half. So while there will be some bias in terms of revenue and margin growth toward the first half, we remain confident of a good outcome for the year as a whole.

With that, Ken and I will be happy to take your questions.

Operator: Thank you, 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 star or asterisk key followed by the digit 1 on your telephone keypad. Please ensure that your 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 we will take as many questions as time permits. If you find your question has been answered, you may remove yourself from the queue by pressing *2. Once again, please press *1 to ask a question. We will pause for just a moment to allow everyone to signal.

Today's first question is coming from Jonathan Feeney of Wachovia. Please go ahead.

Jonathan Feeney: Good morning and thank you, guys.

Todd Stitzer: Good morning, Jonathan.

Jonathan Feeney: Todd, I was wondering if you or Ken, I could ask a little bit about the role of positive mix, not only in the 150 basis points this year but in your longer term three-year vision. I know a question was asked on the earlier call, Ken, and you didn't want to get too granular about how we parse that 150, but just maybe then you could comment about the long term. What's going on through the long-term plan as far as positive mix from gum and the like? Is there some geographic positive mix that's happening today and what role, what is happening right now that gives you confidence that its doable, please?

Ken Hanna: Jonathan, I think the main impact of mix is…mix is a very complicated subject but let me try a couple of headlines.

Gum: gum for the year, sort of '05, '06 and '07 grew at double digits and is continuing to grow very strongly. That gives a good mix. When Halls grows well, as it did this year in the first half, and particularly the first quarter, that is good mix. The USA, you can see the margins on our press releases from previous earnings releases; when the USA or North America grows well, that's good mix. So there's lots of mix. I mean, there's about ten areas of mix that we look at internally but they are the three big ones.

The other most obvious one is the difference between impulse products and, if you like, grocery sales. Clearly people pay a higher premium for a smaller pack size at impulse. But that's the mix, so mix is generally helping us at the moment.

Todd Stitzer: And that has been helped by the focus we have had on SKU rationalisation and actually getting people focused on driving and investing behind the brands and the channels that give us a better mix.

Jonathan Feeney: And when you look at the three-year mid-teens target, any way you could give us a sense of what share of that expansion you expect to come from mix?

Ken Hanna: Well Jonathan, a year ago we put up some charts and we didn't break down the challenge to get to mid-teens. We said it was four or five things and…

Todd Stitzer: In four years.

Ken Hanna: In four years, and price, mix and operational leverage were one of the levers that we will use. We have not broken it down but if we keep growing gum at double digits and the other things I talked about, there will be a little bit of a mix change in our favour.

Jonathan Feeney: And just, thank you, and just one other…you know, since we heard from Hellenic Bottling a couple of weeks ago, there's been a lot of talk from companies with promising emerging market…about companies with promising emerging markets businesses about the confluence of inflation and a less certain economic environment. Are you seeing any of that? Are you concerned about Eastern Europe or any other markets right now in the face of potential macroeconomic challenges?

Todd Stitzer: Jonathan, I would say what we're seeing right now is very strong performance across a very broad portfolio of emerging markets. So we have the biggest portfolio of emerging markets in the global confectionery sphere. Most of them are performing quite well. Some of them are a little bit off. Eastern Europe is a little bit slow in chocolate but it's continuing to perform well in gum and Halls. So we think we have a good mix in markets and we can manage the portfolio.

We would be fools to say that in the face of continued food inflation and fuel inflation we won't be totally unaffected, but right now our business is robust.

Jonathan Feeney: Great, well thank you very much.

Operator: Thank you, Mr Feeney. We'll now go to Mr Todd Duvick of Bank of America Securities. Please go ahead.

Tom Truxillo: Hi, this is actually Tom Truxillo standing in for Todd. I'm just wondering if you guys could talk a little bit about your cash flow priorities and if things have changed now that the beverage group is on its own.

Ken Hanna: Cash flow priorities are exactly in line with the outline we gave a year ago, which is obviously relentless focus on working capital but we are investing in '08 and '09 a substantial amount of money in capex and restructuring. There are no acquisitions on the horizon so we're concentrating on paying down a little bit of debt, but not a lot, in '08 and '09 as we, as I say, it's the peak years of capex and restructuring.

Tom Truxillo: Okay, great. Thank you.

Operator: Thank you, sir. We'll now go to Mr Jeff Kanter of UBS O'Connor. Please go ahead, sir.

Jeff Kanter: Good afternoon, gentlemen, and a good quarter.

Todd Stitzer: Hi Jeff, how are you doing?

Ken Hanna: Thank you.

Jeff Kanter: Fine, thank you. Hey, just a quick question: did I understand you right you said that gum globally grew double digits? Is that correct or did I misunderstand you?

Ken Hanna: It is correct.

Jeff Kanter: Okay, thank you for that. And Todd, I realised you just answered the previous questions no acquisitions, but I'd love for you to expand on that. You were quoted in a newspaper recently saying no big acquisitions or asset sales or anything like that. How do you define a big acquisition?

Todd Stitzer: I think we've previously said that our acquisition strategy would be focused on bolt-on, largely in emerging markets or in white spaces where we have a strong position, and that the amount available would be in the sort of £250-300 million range, so that would be $500-600 million worth of acquisitions.

Jeff Kanter: Okay, so just cutting to the chase, I know this is kind of a leading question but the investment community is convinced that you just have a desire to buy Hershey. I don’t know. $250-300 million seems a little…

Todd Stitzer: A little short.

Jeff Kanter: A little short, is that fair to say?

Todd Stitzer: Yes, I think it's way short and I think examining that particular company, the leadership of that company has said they're not for sale; and we are focused on an emerging market bolt-on acquisition strategy if we do any acquisitions. I mean, our first priority is to deliver the revenue and margin targets that we've put into the marketplace on a consistent basis and supplement that when it happens, through that kind of bolt-on acquisition strategy. I mean, we fully appreciate that we need to deliver on that promise, and that's what we're focused on.

Jeff Kanter: And Hershey obviously does not get you there.

Todd Stitzer: It doesn't, and I think I said to someone this morning, I mean we're focused on what we said we were focused on.

Jeff Kanter: And that's good enough for me. Thank you very much, gentlemen.

Todd Stitzer: Okay, yes.

Operator: Thank you, Mr Kanter. Ladies and gentlemen, as a reminder, if you have any questions please press *1 at this time. Thank you. We do have a follow-up question from Mr Todd Duvick of Bank of America Securities. Please go ahead.

Tom Truxillo: Yes, this is Tom Truxillo again.

Todd Stitzer: Okay, Tom. We got you, we got you. We got you covered.

Tom Truxillo: Good. It looks like you guys have a few maturities coming up on second half of this year. Can you just talk about your plans to refinance those; what markets you think you're going to bring that debt in, and if you plan to refinance the total amount?

Ken Hanna: We have a $1 billion bond maturing, Tom (I think it's public information, it's in our 20-F) backend of this year. We'll be looking to the right window to refinance that. We probably don’t need as many dollars as we used to because obviously we've demerged our beverage business. So it's more likely to be either pounds or euros but we will look and fill that gap at the right time.

Tom Truxillo: Great, that's perfect. Thank you.

Ken Hanna: Okay, thanks.

Operator: Thank you very much, sir. Now we will go to Mr Chris Pelinsky of Jennisson. Please go ahead, sir.

Chris Pelinsky: I've got just a couple of quick ones. On the marketing spend, can you give us kind of rates of growth for the year and maybe the two periods, if there's going to be any weighting one versus the other, first half/second half?

Ken Hanna: All I'd like to get into, Chris, at this stage is to say that our marketing-to-sales ratio has increased, or will increase in the first half, and we expect it to increase in the year. So you can deduct it's growing a little bit faster than revenue. But the absolute split first half/second half is just a little too precise for a trading update, but it will be up in both first and second half.

Chris Pelinsky: Okay, a bit ahead of revenue growth then?

Ken Hanna: Yes, yes.

Todd Stitzer: Yes.

Chris Pelinsky: Okay, and then as far as the investment in the route-to-market with Russia and Turkey, what's the timing on that in terms of the duration? Do we finish it up by the end of this year? Is it going to run into the first half of '09?

Todd Stitzer: Actually, we haven't invested in it. We have changed it. So in Turkey…

Chris Pelinsky: But there's incremental expense, right? I mean, that's how I read the line in the press release as far as the impact of margins in the first half versus second half.

Todd Stitzer: It's actually…yes, the cost is actually the disruption of lost sales

Chris Pelinsky: Okay, so it's not incremental expense

Todd Stitzer: No, not…

Chris Pelinsky: How you are changing the distribution system. It's just the whole lost sales.

Todd Stitzer: Right.

Chris Pelinsky: As you transition from one to the other.

Todd Stitzer: Right. In prior years we invested in distribution systems in the US and in Brazil and Mexico and a couple of other places. That's not what this is.

Chris Pelinsky: Okay.

Todd Stitzer: In Turkey on the integration of the Intergum acquisition we literally changed the entire distribution structure in that market and we have done about half of our distribution system in Russia by keeping Moscow and St Petersburg in Russia under our control; but the majority of the rest of the big cities in Russia have been transferred, from a distribution perspective, to the largest tobacco distributor in Russia. So that's what we're talking about.

Chris Pelinsky: Okay.

Todd Stitzer: And whenever you do that there's a bit of disruption and that's what is impacting the back part of the first half in Turkey and Russia.

Chris Pelinsky: Last one for me just on the capex front I think you guys have been pretty consistent in stating 6-7% of sales or so. When you use the term 'peak spending in capex', Ken, kind of hitting in '09, should we think about the rate falling from maybe the high end of that range, 7% to 6% or below that? How do we…how shall we think about a normal level of capex, I guess is the question?

Ken Hanna: Well, I mean a year ago I said our run rate was 5-5.5% in a normal year and added onto that some restructuring capex for '08 and '09. And some of it will be in '08 and some will be '09. So '08 and '09 will still be up at the +6% level but then it should come back down to normal levels. This is all associated with our factory moves to low-cost countries.

Chris Pelinsky: All right, thanks.

Ken Hanna: You're welcome.

Operator: We will now move to Ms Holly Abitz of Blackrock. Please go ahead ma'am.

Holly Abitz: Two questions for you, first with respect to input cost inflation you're guiding to the 5-6% for the full year, and you mentioned that it's weighted more toward the second half of the year. Can you provide us some of the moving parts to your guidance?

Ken Hanna: Sure, Holly. It's Ken. The big swing, the swing factors are obviously oil, oil being much higher in the second half than in the first half. And in the first half we didn't suffer as much of a dairy increase as we thought we would so that has flattered or helped the first half a little bit. Overall we see it sort of staying within our guidance with a little bit of upside in dairy offset by some downside in oil. That's the main factors. In a confectionery-only company we've got reduced numbers of commodities so that's the main swing factors. In the whole year we think our guidance is right.

Holly Abitz: Okay, and then my second question was on the 150 basis points as margin improvement. I know at your analyst meeting you provided some guidance that central costs would be 50 basis points of that at the full year. How is that weighted first half versus…I don't know if you can give some directional guidance, but how is that weighted first half versus second half; and what are some of the other parts, since we didn't get the full cost outlay? I'm trying to figure out how much is mix, how much is leverage.

Ken Hanna: Holly, I mean I'm happy to answer the first question but this is all a bit too specific for a trading update. We'll give much more detail at our half year numbers. But first of all, I can confirm that we will deliver the 50 basis points for the full year. It will be marginally weighted to second half but obviously the demerger was only done a few weeks ago. We're only moving out of this building over the weekend, so there's some costs that will have a full six months' benefit in the second half: cost savings. So 50 basis points marginally weighted to the second half.

For the year as a whole, we are targeting commodity cost increases to be offset by pricing, and that's the target that we are working towards. And the remaining margin gain that we make in the first half and the second half will be as a result of our Vision Into Action cost reduction downsizing SG&A actions, more of which we'll give you, more detail of which we'll give you at the half year results.

Holly Abitz: Thank you.

Ken Hanna: Okay, thanks.

Todd Stitzer: Okay.

Operator: Thank you, Ms Abitz. As we have no further questions at this time, I'll turn the conference back over to Mr Stitzer for any additional or closing remarks.

Todd Stitzer: Well, thanks for the questions. Since there are no more, that wraps up today's call. Just to say I think it's clear that Cadbury Plc has gotten off to a very good start, both from a revenue and a margin perspective. We have a strong and resilient business. It's built on powerful brands and a very broad total confectionery platform. We're well spread geographically, with a large and diverse emerging markets business which allows us to play the portfolio across the total confectionery sphere, you know, very ably. Certainly the economic outlook is a bit challenged, but we are confident for a good outcome for the year as a whole.

So thanks for your time this afternoon or this morning. We look forward to seeing you in person at our July 30th results presentation. Thanks very much.

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