Press release
13 July 2017

President and CEO Henri de Sauvage-Nolting comments on the results for the second quarter of 2017

The quarter was challenging both in terms of sales and operating profit and going forward we need to focus even more on our organic sales and profit development. Cloetta's business structure now also changes significantly due to the acquisition of Candyking and the agreement to divest Cloetta Italy. As a result, Cloetta Italy is no longer part of the comparative figures and is accounted for as assets held for sale and discontinued operation.

Cloetta's operating profit decreased to SEK 90m (148) in the quarter. Operating profit, adjusted for items affecting comparability, decreased to SEK 115m (156), equal to an operating profit margin, adjusted for items affecting comparability, of 8.1 per cent (12.8). Due to the impairment of Cloetta Italy of SEK –365m, profit for the period amounted to SEK –329m (77).

The lower operating profit, adjusted, is mainly due to considerably lower production volumes in the quarter and a strong comparator. The cost per produced unit has thus increased. The increased proportion of pick & mix compared to previous year has also affected the profit development.

During the quarter, an incident in a factory caused a production line to be damaged, resulting in some production being lost.

Confectionery market
The confectionery market grew in all of Cloetta's core markets during the quarter.

Sales development
Cloetta's sales for the quarter increased by 15.8 per cent, of which organic growth accounted for –0.5 per cent, the acquisition of Candyking for 13.2 per cent and positive exchange rate differences for 3.1 per cent.

Sales increased in our core markets in Sweden, Finland and the Netherlands, as well as in the export markets. Sales declined in Norway, Denmark, Germany and in contract manufacturing. In Denmark, sales to a large customer declined due to tougher competition and in Norway sales of pastilles declined.

Sales from Candyking were up slightly in the quarter, which gives us a good base to build on during the integration process.

Candyking integration in line with plan
The acquisition of Candyking will create synergies through insourcing of production and reduced costs. In the quarter, considerable efforts were put into planning and preparing the integration of Candyking.

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Given the current volume outlook, we have identified synergy savings from Candyking of SEK 100m on an annual basis as of 2020. These synergies will be gradually realized with the majority in 2018 and 2019.

The pick & mix business is however more volatile as it is predominantly based on contracts with different maturity, which means that the savings can differ depending on the volume development.

The largest synergy driver is the insourcing of products, and we plan to start production of the first volumes in the second half of this year. The consumer is our number one priority when making insourcing decisions, since an attractive assortment, including competitor products, will drive consumer and customer preference and hence volume growth.

The Cloetta Group's target of an underlying EBIT margin of 14 per cent stands firm.

Focus on strategy

My primary focus for Cloetta is on enhancing our competitiveness, to thereby generate volume growth across our core markets and selected international hubs. Our strategy is therefore underpinned by four pillars: we must improve the strength of our brands, we must improve our ability to grow our categories together with our customers, we need to have people with the right skills and performance culture and we need to fund it through a strong cost saving culture.

This means that we need to implement sharper category and brand plans while at the same time improving our ways of working when we develop, launch, market and sell our products. We need to be more effective in our marketing spending and, over time, also increase our brand investments. In addition, we need to drive down our overhead cost in order to fund new brand investments. Furthermore, our Lean2020 program is vital in enabling us to decrease production cost and increase the capacity for the Candyking insourcing.

In the past six months, our primary focus has been on the acquisition of Candyking and the divestment of Cloetta Italy. These activities have been very time-consuming and have demanded a great deal of management attention. However, I am convinced that when we have integrated Candyking and finalized the divestment of Cloetta Italy, we will have created a stronger and more competitive company.

This information constituted before the publication inside information and is such that Cloetta AB (publ) is required to disclose pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted, by the below contact person, for publication on 13 July, 2017 at 8:00 am CET.

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About Cloetta

Cloetta, founded in 1862, is a leading confectionary company in the Nordic region, the Netherlands, and Italy. In total, Cloetta products are sold in more than 50 countries worldwide. Cloetta owns some of the strongest brands on the market, such as Läkerol, Cloetta, Candyking, Jenkki, Kexchoklad, Malaco, Sportlife, Saila, Red Band and Sperlari. Cloetta has 12 production units in six countries. Cloetta's class B-shares are traded on Nasdaq Stockholm. More information about Cloetta is available on www.cloetta.com