



Transcript
Todd Stitzer video interview
21 October, 2009

Interviewer: Todd, your Q3 results today look strong. What are the main elements?

Todd Stitzer: We had a record 3rd quarter, with growth in every one of our business units and our categories. Revenues were up 7% on a constant currency basis and it was an incredibly pleasing result. Our margins were up 180 basis points, reflecting a very strong focus on margin delivery. So all in all, great revenues and great margin delivery.

Interviewer: So looking at some of the underlying trends in performance, what are the highlights?

Todd Stitzer: Well, the category trends are terrific. Our chocolate business was up 7% in the quarter, driven by outstanding innovation in the UK, by great emerging market growth in South Africa and India. Our gum business was up 4% driven by terrific innovation in the US with a product called Trident Layers, by Trebor Mint Gum in the UK, and by tremendous growth in South America. Our candy category similarly was driven by innovation and a very strong pre-flu season in the United States. Our candy revenues were up 11%. So chocolate up 7%, gum up 4% and candy up 11%, a pretty impressive set of results for our category growth.

Interviewer: And how was performance in the markets?

Todd Stitzer: Our performance in the emerging markets was absolutely outstanding with South Africa, South America and India doing beautifully. The average of our emerging markets performance was up 10% in revenue, so absolutely terrific. The UK similarly had an outstanding 3rd quarter. North America has started to come back with an innovation called Trident Layers, so that business is coming back. And Australia, behind the launch of Cadbury Dairy Milk, is also performing well. So emerging markets really, really performing well, developed markets coming back and supporting that growth.

Interviewer: I know margin improvement has been an absolute priority for you. Are you satisfied with the progress you're making?

Todd Stitzer: Our margins have been a priority, but we're really satisfied with the progress and the focus that the team has made. For the nine months ending at the end of the 3rd quarter, we delivered 180 basis points of margin growth, 110 basis points of that was SG&A which was terrific. We had 20 basis points of gross margin growth as well. So the team is really focused on controlling costs and delivering on the bottom line.

Interviewer: I also noticed that marketing spend is down. Has that been a factor?

Todd Stitzer: Marketing spend is lower. It was lower as a percentage of sales by about 80 basis points, but importantly it was flat on an absolute basis with last year, so we spent just as much money in the 3rd quarter of this year as we did last year. And that's largely because of media deflation. Around our world this year we're experiencing media deflation of



about 5 to 10% and that's actually making our marketing investment more efficient. So we're very comfortable with the level of marketing that we have and we'll be investing heavily in the 4th quarter in marketing.

Interviewer: Now of course all this is taking place against the backdrop of the Kraft Foods bid for Cadbury. Bluntly, are you boosting your results to improve your defence?

Todd Stitzer: Absolutely not. We have had very consistent revenue delivery both across the last two years of the VIA and in 2009, except for the 1st quarter that was 2% revenue growth, the 2nd quarter was 6%, this quarter was 7%. So we're confident that the results of our revenue growth in the 3rd quarter really come from commercial plans and innovation plans that were formulated 12 to 15 months ago.

Interviewer: What is the impact of the Kraft bid on business and operations as we approach this critical November 9th date? Is it diverting the focus of your leadership team and the business?

Todd Stitzer: You'd have to be honest and say certainly at the very beginning there was some diversion because it's new news and people are going to focus on that. But we have a team of people who are pretty professional, pretty mature, they're very focused on great performance. If they perform greatly that will stand them well in boosting the defence of the company. I think they're doing remarkably well. We communicate with them on a regular basis to try to keep them up to speed, and they are very focused on delivering the plan.

Interviewer: You've made much of the Vision into Action strategy. Given these results now, where do you see yourself on that journey and are the results of the strategy proven?

Todd Stitzer: We are roughly about halfway through our Vision into Action strategy. We've delivered ahead of our commitments on both revenue and margin. I think we're confident that we have plans in place to continue to deliver the remainder of our Vision into Action strategy. And I think our shareowners and the financial market should be confident in that.

Interviewer: So turning to the full year, you are upgrading your guidance for 2009 today. Can you give us an indication of the underlying numbers and what can we expect?

Todd Stitzer: Well, we've said that we will deliver revenue in 2009 in the middle of our 4% to 6% goal range. Previously we said around the bottom. I think given the momentum of the 2nd and 3rd quarters we're confident that we can deliver around the middle of our goal range. We've also said that we will deliver at least 135 basis points of margin because of the efforts we have taken to really focus on margin delivery, cost reduction and reconfiguring our assets as quickly as we possibly can.

Interviewer: Finally, further out, how confident are you that you can deliver on these promises?

Todd Stitzer: I'm very confident because we have a great team of people. We thought quite a lot about the elements of our Vision into Action plan when we put it together in mid 2007, we've course corrected through a pretty significant recession, people have stayed focused, we've taken incremental actions to make sure we deliver on the core elements of the strategy and I think the results speak for themselves.