PZ Cussons Q3 Trading Update
Conference call transcript

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Q3 Trading Update

Jonathan Myers

Chief Executive Officer, PZ Cussons

Good morning everyone and thank you for joining Sarah and me on the PZ Cussons call today. You should have all have seen this morning's short Q3 trading statement so I will give you a brief overview of the announcement and the continued progress we have made against our strategy. Then it will be over to you and Sarah and I will be more than happy to take your questions.

I am pleased to say that we continue to make good progress in Q3, delivering a sixth consecutive quarter of revenue growth. With that performance underpinned by the strength and depth of our portfolio. At the same time we continue to make good operational progress delivering against our stated strategy. Looking at revenue performance like-for-like growth of 6.2% was driven primarily by price/mix improvements. Reported revenue growth of 13.5% benefitted from the full period contribution of Childs Farm and favourable exchange rate movements.

In terms of the key takeaways there are three things I would point to. First, as anticipated when we last provided an update our Europe & the Americas region has returned to strong revenue growth and with a significantly improved margin performance. This was driven by our continued focus on innovation and activation with a particularly strong performance from St Tropez in the US. Secondly, we have made further progress on our must-win brands which are central to our strategy. Highlights include taking Morning Fresh, Australia's number one washing up liquid brand, into the larger and faster growing auto-dishwash category and in the UK launching SlumberTime, a new range of Childs Farm products to aid the sleep of babies and their sleep deprived parents. In both instances we are capitalising on existing brand strength, moving into new adjacencies or benefit areas, backed by strong consumer insights and innovation. Watch this space for further expansion of our brands into either the new categories or new geographies in due course.

Thirdly, looking at Childs Farm in a little more detail it is just over a year since we acquired the business and we are delighted with the progress made since then. The business continues to perform well and we remain on track for double-digit revenue growth in the full year. You will have seen in the announcement this morning that we will host a Childs Farm analyst event on 4th July and we will talk more about the business then.

Finally, a quick word on the outlook. While we are of course alert to the ongoing external volatility in our markets we are confident in the strength of our brands and the work we have done over the past few years to make PZ Cussons a stronger and more resilient business. Against that backdrop we expect full year adjusted profit before tax to be at least in line with current market expectations. With that I will hand back to the operator and it is over to you for your questions.

Q&A

Siobhan Lynch (Deutsche Bank): Hi Jonathan, hi Sarah, thank you very much for taking my questions. I have got two if possible. My first one, can you give us any more details on the price/mix dynamics in what I guess was a pretty solid 9.9% like-for-like in Europe & the Americas? I am trying to establish how much is pure price offsetting cost inflation and how much is the benefit of the stronger St Tropez brands and rebranding of Imperial Leather, etc that you have been doing. Then my second question is on Nigeria. In the last few weeks Unilever confirmed that it is exiting a number of its HPC brands from Nigeria, some of which I believe are direct competitors to you. Two sides to my question, first, is this a positive for you in Nigeria in terms of market share and competition? Then also maybe slightly more pessimistically, what does it tell us about the difficulty of operating profitably there? Maybe any comments you have on why your business is in a better position to do well. Thank you.

Jonathan Myers: Siobhan, why do I not do the first one and then perhaps I will leave Sarah to pick up Nigeria and we can cover off if there is anything either one of us misses. We have seen another quarter of good price/mix delivery. As we work through our quarters though there is no doubt it is less and less straight pricing and more and more mix management and slightly more refined revenue growth management as we bring innovations to marker successfully. As you can imagine, 9-12 months ago particularly in our developing markets we were focusing on executing straight price increases on a reasonable frequency. It was always more difficult in developed markets where it required working more collaboratively with our retail partners to ensure we can still provide great value to their shoppers. However, as we move through now some of those low-hanging fruit opportunities have begun to morph into actually the need for us to execute more holistically all the levers of revenue growth management, which is more likely to be promotional optimisation, pack price architecture and ideally innovation which gives us a justification for where we want to charge a premium and can justify the premium because we are offering a cracking benefit in a consumer area that we know that we have a real edge based on our insight and understanding. Then we can successfully launch those, and SlumberTime on Childs Farm would be a good example. Luxe Serum on St Tropez would be a good example and I am sure we will come on to talk a bit more about those. As we look forward there is no doubt the window for straight price increases is closing, has closed but we will continue to look for the right opportunities to deliver great value for consumers yet still trying to ensure that we are mitigating any pressures on our margins as we go.

Sarah, do you want to talk about Nigeria?

Sarah Pollard (Chief Financial Officer, PZ Cussons): Yes. Siobhan, thanks for the question. You are absolutely right to be citing that Unilever announced its planned withdrawal from effectively its home and personal care categories in Nigeria. I think for us the key takeaway was that it absolutely represents a net opportunity. Actually, Unilever were relatively small in those categories and not winning versus us having market-leading positions and having successfully taken share, price and improved margin over the last few years. I think it is a testament to our strength in our core categories there. It may also be an opportunity to attract some new talent into the business. We are always looking at whether we have our A Team and what is the future for Africa? If we can attract some talent from Unilever that is something that we would look to do. We are of course ever mindful to the risks of operating in Nigeria which is why you saw us very deliberately three years ago talk about a self-help strategy. We have been, if you like, peeling back the peripheral layers of the onion to make sure we are a simpler, leaner and more agile business there. You have seen that come through both in terms of overheads reduction, gross margin improvement and a significantly better bottom line. We will not rest on our laurels. We think it is a net opportunity. We remain mindful of the risks.

Siobhan Lynch: Really helpful, thank you very much both.

Jonathan Myers: Thanks Siobhan.

Matthew Webb (Investec): Good morning everyone. I was wanting to understand a bit better what is driving this improvement in performance in Europe & the Americas. Obviously, you have called out some of your brands, St Tropez, Imperial Leather, Cussons Creations, but I was wondering if you could talk in a bit more detail about what has been going on with those brands to have driven that improved performance, please.

Sarah Pollard: Matthew, morning. Why do I not set the overall context in terms of the more mathematical drivers behind both the strong revenue growth and the margin improvement? Maybe then Jonathan can embellish a little bit more on some of the brand drivers. There are effectively three key factors at play. One, in the first half that has now much improved in Q3 and we see improving going forward are our two highest margin brands in Europe & the Americas. One is Carex and one is St Tropez in the US. St Tropez in the US is back to strong double-digit growth in the second half of the year and absolutely in Q3, coming with some significant margin benefits for the region and the group. Jonathan can elaborate on the marketing drivers behind that. Carex is a little more nuanced. Carex did decline again in Q3 but we see some green shoots of stabilisation. If you think about the UK hand hygiene category contraction post-Covid now bleeding into the cost of living challenges for a UK consumer, we exited Q3 in growth on the Carex brand and we see a path to low single digit growth in the balance of this year and into FY24. However, what is probably even more noticeable is we took pricing part way through the first half of the year so we are seeing a full second half benefit of that pricing in FY23. Actually, Carex in the second half of the year and in Q3 significantly higher margin than the first. That is the first theme. One is an improvement in both Carex and St Tropez.

If you recall more broadly we talked about the cost environment. More benign across the group in the second half of the year and in Q3 and that is absolutely materialising as we expected, plus us having caught up on pricing in the UK. We are now benefitting from that, having already been fast in terms of price/mix improvements across the group elsewhere. More than covering costs through price and mix in the second half of the year, actually with volumes holding up well.

The third, particularly for Europe & the Americas was the brand investment phasing. If you remember both Sanctuary Spa and Imperial Leather we restaged in the first half of the year and clearly put some serious marketing money behind both of those restages. For both of those brands a level of sufficient investment is now represented by lower absolute spend, also helping to improve margins whilst still driving those brands for future growth. Effectively, Carex and St Tropez, a more benign cost environment and us getting on the front foot of pricing, and marketing investment normalising.

Jonathan, did you want to talk a little bit more about the brands?

Jonathan Myers: Let me just pick up a couple of things. One of the phrases that I have used to typify the year to date, not just the quarter, Matthew, is honestly our job is a combination of strategy and street fighting. Nowhere has that been truer than in Europe & the Americas. A lot of that has been the blocking and tackling of getting pricing over the line then adopting more sophisticated revenue growth management approaches to help us mitigate the cost pressures we have been experiencing. Then it is also getting smart about how we use our portfolio. The Imperial Leather Cussons Creations introduction has helped us grow those combined businesses versus just the core Imperial Leather we have before. Cussons Creations is seeing distribution increases in the last quarter of around 30% increased distribution points versus the first half, which is a great sign of support from our retail partners. However, what we have also been able to do is really crank up the brand building machine with innovation at its heart, where we are able to add innovation at the top of our brands which then gives the halo across the rest of the brands. SlumberTime which entered into a new benefit area of sleep with premium pricing as an example on Childs Farm and Luxe Serum which adds premium skincare benefits to the self-tan core proposition and sells for as much as $48 a time has been an opportunity on St Tropez for us to reunite with Ashley Graham and use a digital-first activation approach in the US. That is helping us drive a reappraisal of both of those brands amongst all of the existing user bases. A good example where the PZ Cussons growth wheel begins to kick in for us to build our brands. Hopefully that helps paint a picture.

Matthew Webb: Yes, absolutely. Very comprehensive, very helpful, thank you.

Inès Franco (JP Morgan): Hi, good morning everyone. Thank you for takin my questions. I have two if I can please. Firstly, on the pricing and volume dynamics, compared to H1 where three percentage points of volume declines were explained by carriage in the electricals business I believe, what would that look like in Q3? Are you happy with the levels of volume elasticity you are seeing or are you looking to adjust your pricing accordingly? Secondly, on the more strategic side of things, you launched Morning Fresh into an adjacent category in Australia. Is that something you are also considering for other regions or other brands? If so, what are the criteria that you look at and the rationale for expanding in new categories? Thank you.

Sarah Pollard: Morning, Inès. If I take the price/mix one, then Jonathan can take the second one. You are absolutely right to say that our headline level of volume decline in the first half was 5%, of which two percentage points was the normalisation of Carex in the UK and a very conscious and deliberate choice to keep driving the Electricals business in Nigeria for profit margin knowing we would forego some volume. Actually, for the second half of the year that dynamic largely holds. As you might expect given the promotional intensity of some of our developed market categories there is some monthly and some quarterly phasing but overall for the second half of the year that headline level of volume decline is looking at around about 5% again with actually us having nudged up the price/mix growth by one or two percentage points. That is the macro picture.

In terms of by region and by brand let me call a few out. Price/mix and volume actually is holding well in UK and Americas. We are seeing that the Carex brand has been able to withstand a higher level of pricing in the second half for a lower level of volume decline. Imperial Leather and Cussons Creations together, the relaunch that Jonathan talked about, in aggregate those two brands were flat in the first half in terms of overall revenue growth. In the second half of the year they are looking like growing high single digit. Where we do see the volume slightly softer across the portfolio in the second half of the year is actually far more linked to broader category dynamics than it is where our brands have been unable to withstand pricing. That is the baby category in Indonesia which we can talk a little bit more about and, as you will have read in the press, some destabilisation in Nigeria in February through the elections. That has since normalised so we actually see the exit momentum into FY24 being favourable across the piece.

Jonathan Myers: Then if I pick up on your question about us entering into adjacent categories, the overall reference here is to Morning Fresh entering into the auto-dish category. Not only do we want to own the sink where we have a 50% market share of washing up liquid, we are now trying to go beyond the sink and into the dishwasher. We will come back and report on that in the future. However, you were asking a little bit about how we think about this. The first thing we think about is making sure before we go beyond the core that we are really sustainably growing the core. The good news is after 2-3 years of focus on core categories and must-win brands we are seeing progress. Our core categories of hygiene, baby and beauty grew at 6% in revenue in the first half. They grew at 8% in the third quarter. If you look at the subset of those categories which we have put our significant investment and focus behind, the brands that we called our must-win brands, they grew at 2% in the first half and they grew at 6% in our third quarter. That is even with some of the headwinds we have got on Carex and Cussons Baby and excludes Childs Farm which we have obviously added incrementally versus the base period. Once we are increasingly confident that in the right places we are sufficient to continue to grow the core and we have a resilience in our core business then we are ready and willing to go beyond the core. We have done quite a lot of work to identify the opportunities of where we should grow beyond the core. That could either be into adjacent categories, just like with Morning Fresh, or it could be into new geographies with a proven brand from our core. We are making sure that we are using a disciplined approach to identify the right consumer insights, consumer appeal for any of the brands, whether we have got a proven model, whether we have a good route to market through whatever the trade structure is in that geography if it is a new geography and that we are making sure we are managing the risk profile of how many battlefronts we are opening up so that we are not starving investment in the core. We are making sure that we are sufficient in the core and that we are incrementally investing behind growth beyond the core. We look forward to coming back in the future and reporting progress, not only of the moves we have already made, but about the moves we will make.

Inès Franco: Thank you very much.

Jonathan Myers: Thanks, Inès.

Siobhan Lynch (Deutsche Bank): Thank you, sorry, just a quick follow-up. Sarah, I think you briefly touched on the baby category in Indonesia. I think for a couple of quarters now the broader category has been weaker. Could you maybe just go into the details on that in terms of the longer-term trends that you are expecting? I think cost inflation and particularly things like palm oil now coming down, could you maybe talk about the dynamics of that category there? Thank you.

Jonathan Myers: Okay, let me pick that one up, Siobhan. Siobhan had asked a question about Indonesia and what we were seeing. She is asking whether there was a dynamic of palm oil playing out but actually it was much more a reaction in the category where we are seeing the baby category in decline by about 10%. We are holding our market share of that declining category, which is a good source of confidence. The team are managing, as they have always done in recent years, to do a good job of protecting the bottom line delivery. However, obviously what we have been seeing for the last 4-6 months, as other consumer goods manufacturers in the market have reported, not only has there been a slowdown in consumer demand but you then get a slowdown in distributor demand as there is an inventory correction which works its way through the distributors and the wholesalers to go from the cities to the towns to the villages. We are obviously working hard to make sure we are responding to the cost of living pressures on consumers as government subsidies have come off. The best example of that has been the rapid distribution increase of our 50ml Cussons Baby sizes which are therefore selling at a very low and accessible price point for the cash-strapped shopper. However, as we look to the long-term we remain totally committed to Cussons Baby in Indonesia. It is the most populous Muslim country in the world. They are having something like 4-5 million babies a year so there is a lot of upside for us in the future. We are determined to make sure that Cussons Baby is positioning itself to be a leading brand for all those new babies that are born and their parents.

Matthew Webb (Investec): Thanks very much. I do not know what level of detail you are going to want to get into here because I appreciate this is just a trading statement but I wonder when you talk about a significantly improved margin in Europe & the Americas in Q3 are we talking about a partial recovery versus previous levels or a more or less full recovery? Can you give any broad guidance of what you mean by that? Sorry if that is asking too much detail on a trading update.

Sarah Pollard: Matthew, no problem. You gave me an immediate out but actually I do not need to utilise it because I can give you the same level of detail as we shared back in the interims, which was we would expect the second half for Europe & the Americas this year to be in line with the full year last year, which would imply a high-teens margin. That will imply therefore full year 2023 on 2022 maybe a three or four percentage point margin contraction partly due to the drag that Carex still represents and partly because we were a little late in pricing in the UK but we have now more than made up for that and have successfully put that into the market and seen volumes holding up. However, primarily because of high brand investment behind those two brand relaunches that we talked about. That is to give a little colour about what we mean by significant and also we see some positive momentum into 2024.

Matthew Webb: Fantastic. That is very helpful indeed. Thank you.

Jonathan Myers: I will wrap up there. Thank you for joining this morning. Sorry for the slight technical glitch but I appreciate your patience bearing with us. We look forward to updating you again after our May year-end, which we will do, and if you want to help improve those numbers then as you try and find a shower fit for a king you might want to nip into Tesco to buy your bottle of Cussons Creations A Right Royal Wash. It is coming to a shelf near you. A shameless plug but we are trying to make sure that we are street fighting all the way to the end of our year. Thank you very much.

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