

COMMENT: Cadbury full year still looks sweet despite slow start

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There is a school of thinking that recessions are generally good for those in the confectionery businesses. "Some even see a direct correlation between unemployment rates and the price of cocoa," the influential business magazine Forbes wrote today.

So there will no doubt be some disappointment surrounding the first quarter trading update from Cadbury today. Most of that disappointment will be focussed on a weak US performance and less than impressive numbers from Europe.



Cadbury has plenty to cheer despite falling volumes in US [view image](#)

Cadbury's first-quarter sales grew only 2% when currency effects were discounted. The growth was in a large part driven by price increases as volumes actually fell 3.0%.

"The market will be concerned that Cadbury have not reassured on two main concerns - the US gum market and maintaining volumes," Martin Deboo, an analyst at Investec Plc in London, said in an interview with Bloomberg earlier today. "Europe remains the trouble business."

But the idea that any kind of businesses sector is immune to this current economic downturn is fanciful - just ask those involved in the spirits business at the moment, the traditional go-to stock in a bear market.

Consumer behaviour has no doubt been radically altered by the crisis with a fall in impulse purchasing being seen with any number of FMCG sectors and a move to trade down to cheaper brands.

Furthermore, the fall in volumes were heavily influenced by "significant de-stocking," in the US.

Todd Stitzer, Cadbury's CEO, told a conference call today that one wholesaler in the US accounted for 75% of de-stocking in the country.

He added. "In an environment like this we can live with that for the short to medium term."

As James Amoroso, analyst with consultancy Amoroso Strategic Insights pointed out to just-food earlier today, the first quarter was always going to be unusually weak, with all the trade, consumer and economic factors in play.

"But whilst not strong overall, there's nothing in these numbers that gives me real concern," he told us.

Cadbury has also seen share gains in some key markets and categories as well as a solid performance in its key chocolate category, especially when you compare its first quarter chocolate organic growth of 7% to Nestlé's 4%. It is also important that its core, domestic market performed strongly.

"We really need to focus upon the rest of the year to judge the company's performance, in order to eliminate the trade destocking effect and (in Q2) include the full impact of Easter," said Amoroso.

"At the end of the day, Cadbury has confirmed its full-year guidance on growth and its management has a strong track record in delivering its promises."

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