Toms Confectionery Group
"Growing a niche player in a scale game"

Objective	Complications	Question	Solution
Toms needs to profitably grow the top-line of its chocolate confectionary business	Toms is a leader in a declining market with low margins The international mass and mass-premium segments require unattainable scale Low bargaining power inhibits shelf-space penetration in foreign markets	How can Toms profitably increase its top-line while leveraging its competitive advantages?	Internationalization: 1. Creating Anthon Berg *Premium* 2. Entering German premium segment via current platform

Beat the Elite 28.02.2013

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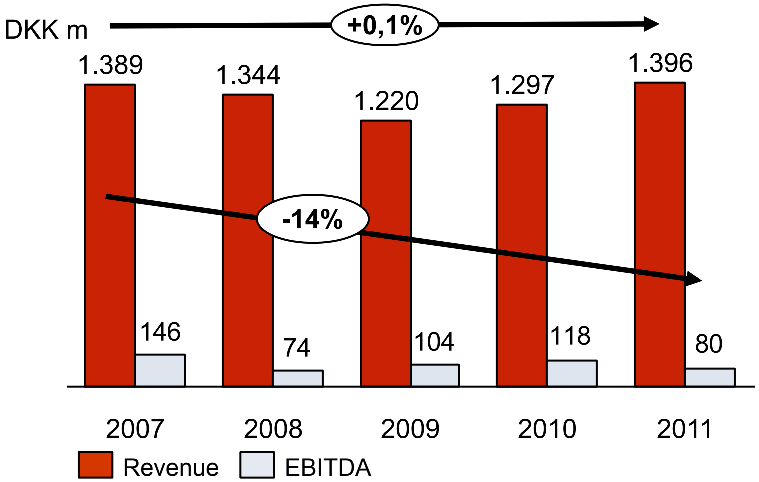
Financial development

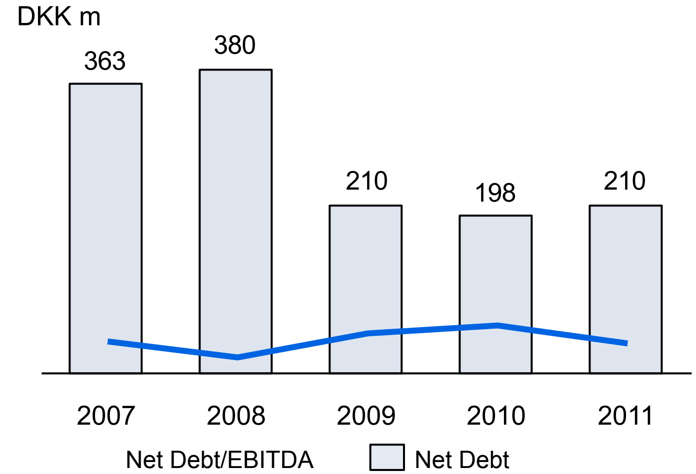
Revenues are slowly rebounding while margins deteriorate

Meanwhile strategic flexibility is high as financial leverage has been brought down through stable cash flows

Stagnant revenue growth and declining profitability

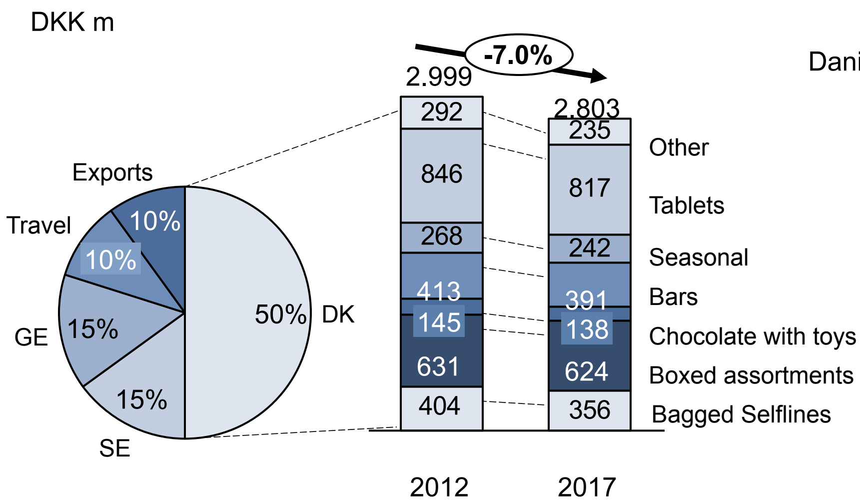


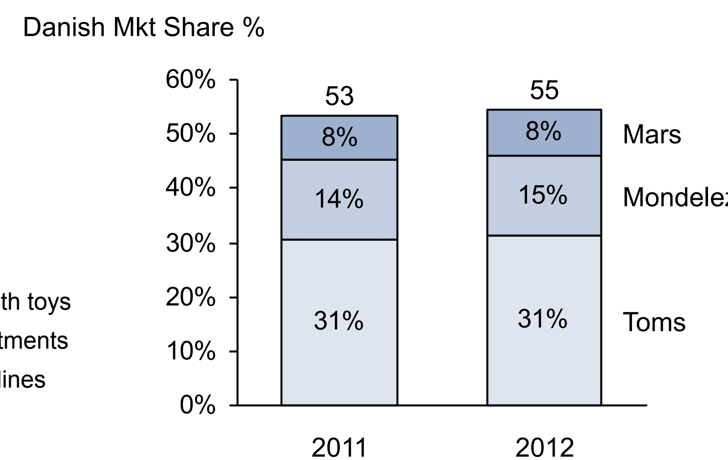
Balance sheet remains strong



50% of Toms current revenue is created in Denmark, but forecasted to decline by 7% by 2017

Toms is a market leader in a declining Danish market in which the top three players have +50% market share



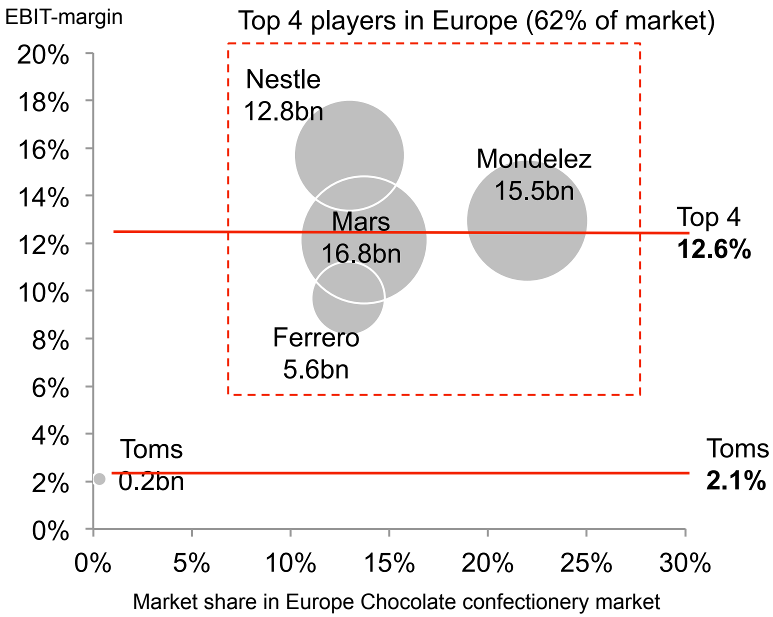


Sources: Orbis , Euromonitor Country Report, Denmark 2012

The chocolate confectionery industry is a scale game

Toms' large competitors have significant bargaining advantages for shelf space

European confectionery market distribution (2011)



- The largest players in the industry also have the highest level of profitability
- Scale economies have significant cost advantages in the confectionery industry
- Shelf space is key – small players without bargaining power stand no chance in the mass market

Selected chocolate brands in European supermarkets

Nestle

Mondelez

Ferrero

Mars

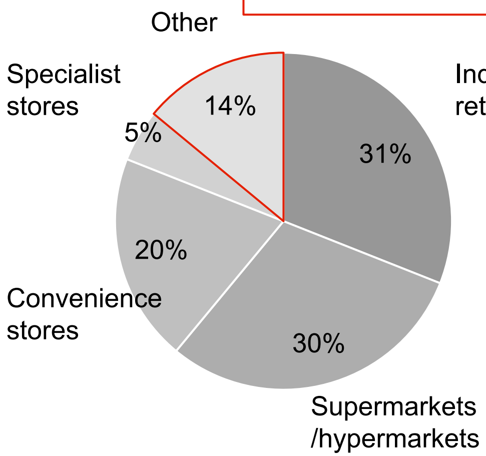
- Competitors have extensive product portfolios with high brand value products
- Large competitors have product portfolios which can cater to most segments of the markets
- Broad portfolios and company size are determinantss for operating profitability

Sources: Marketline, company annual reports, BCG industry presentation

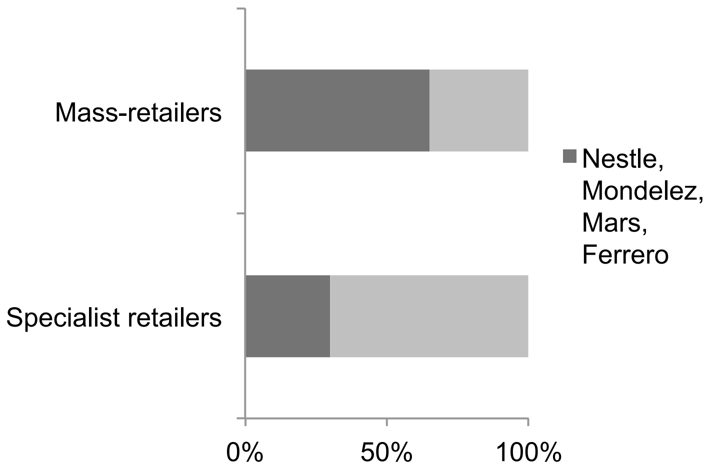
…and scale equals shelf space bargaining power in mass-retail

European confectionery market distribution (2011)

Only 14% of sales are through non-store-based channels



Est. sales through store-based channels per brand (2011)



- 86% of sales in the confectionery chocolate industry is through store-based retail channels
- "…customers – mainly retailers – demand products with high turnover…" – CEO, Jesper Møller

- The top 4 players (Nestle, Mondelez, Mars and Ferrero) have a majority share of shelf space within chocolate confectionery in mass-retailers
- Scale creates bargaining power in the mass retail sales channels

Due to its size Toms can not compete in mass-retail at the European level

Sources: Marketline

Toms' margins under pressure – focus on premium market

The premium market offers higher margins and is growing as opposed to the mass market

In order to succeed, Toms needs to promote a premium brand by leveraging the Anthon Berg portfolio to become more exclusive in foreign markets. Toms needs to acquire access to efficient distribution networks through M&A activity

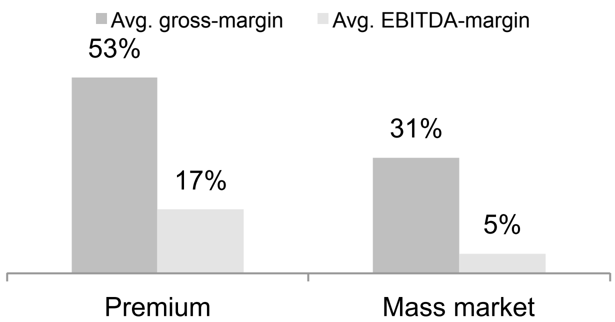
Note: avg. margin is calculated from 8 Danish and international peers (Toms, Mars, Modelez, Ferero, Nestle, Lindt, Summerbird, Valrhona)

CAGR assumption for segment growth is from case material

Sources: Case material, Euromonitor, MarketLine, Icon Group International

Higher margins

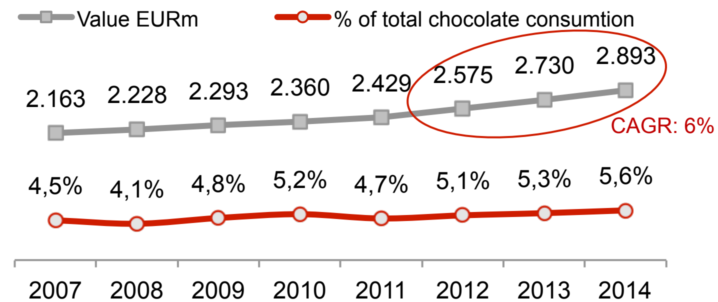
Market



Rationale

- Toms is under pressure from retailers and competitors
- The premium segment offers higher margins

Segment is growing



- The premium brand segment is growing in Western Europe
- Consumers are willing to trade up within fast moving consumer goods – affordable luxury

In order to succeed

Toms needs a premium brand, excellent quality and access to efficient distribution

- ✓ The Anthon Berg brand has international recognition and a Nordic brand profile
- ✗ Internationally, the brand must be located in the premium brand category as opposed to mass premium as in Denmark. Toms needs to leverage the international brand status gained through the strong market position in the traveling segment supported by new marketing initiatives
- ✓ Toms has the quality for a premium market promotion
- ✓ The premium market is a fragmented craft industry with single or few small scale production facilities
- ✗ Toms needs to actively pursue ways to enter international markets by acquiring distribution channels

Toms' home market is in decline – Enter German premium market

The German market is a very attractive market for a Toms premium chocolate offering

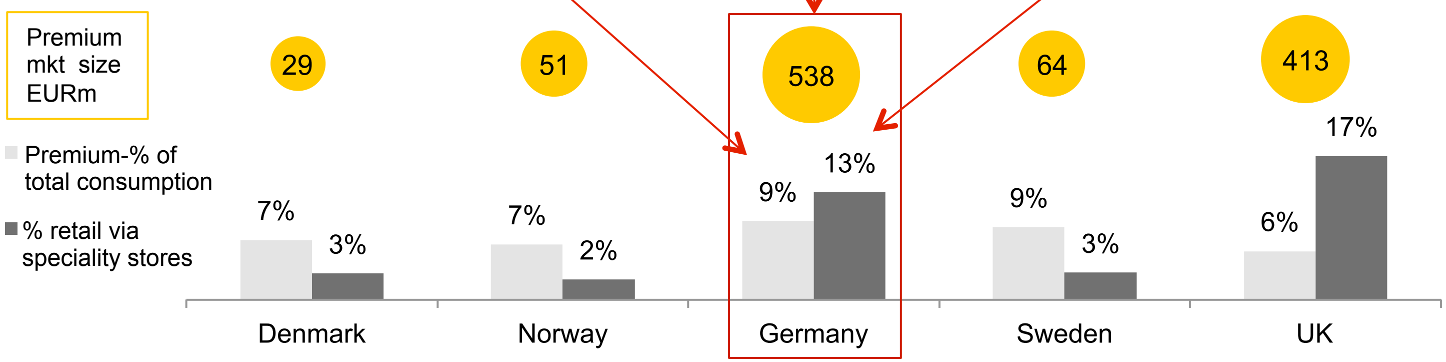
The biggest challange is gaining distribution foothold

Utilize available network and insights and a combination of innovative marketing and premium channels that support the premium brand strategy

Sources: Case material, Euromonitor, MarketLine, Icon Group International

Offers favorable consumer preferences, great market size and strong distribution channels

Market



Rationale

- The German market has the highest consumption % of premium chocolate in Europe
- The largest market in Europe
- Offers attractive retail opportunities for premium brand chocolate offerings

In order to succeed

Toms must develop a winning marketing strategy and leverage distribution network and insight from Hanseatische Chocolade GmbH

- ✓ Toms has acquired Hanseatische Chocolade GmbH to gain distribution networks in chocolate specialist stores and key insights into the premium market
- ✗ Though valuable networks have been established, serious distribution challenges must be addressed. The distribution strategy must tie in seamlessly with the premium brand strategy
- ✗ Toms Danish brand strategy is not suited for the premium offering in Germany

Retail penetration strategy catering to the premium offering (1/2)

Toms will pursue a three-pronged strategy with the specialty retailer segment as the backbone and flagship and shop-in-shop acting in part as marketing channel

Distribution strategy

- As distribution is critical for entry, Toms will pursue a three-pronged strategy catering to their premium offering
- Additionally, the impact the ofnational trade fairs must not be understated in Germany
- Further, Toms will leverage Hanseatische's network on the specialty retailer level
- The way Anthon Berg Premium is distributed has immense influence on the perceived brand value of the product

Flagship

- Toms will open flagship stores similar to Danish A XOCO shops in Berlin and Frankfurt
- In addition to being a shop, the flagship will showcase some parts of the manufacturing process and explain the bean-to-finished product philosophy
- Create an experience and a connection between the consumer - brand spillover to Anthon Berg
- Explicitly state A XOCO is an integrated part of Anthon Berg – even more than in Denmark

Shop-in-shop

- Open shop-in-shops in Berlin, Frankfurt, Munich, Hamburg
- Key benefits include "educated" and professional sales personnel who are active brand ambassadors
- The opening of these flagship stores will be accompanied by campaigns in the print media, mainly magazines and billboards

Specialty retailer

- Whereas the above channels carry a lot of marketing functionality, the specialty retailer segment is the backbone of the strategy
- These stores will be the strategy's "cash cow" in the longer term, thus succesful and significant market penetration is a prerequisite
- In the long term, specialty retailers would ideally demand Toms' Anthon Berg Premium in response to growing consumer awareness and prefence

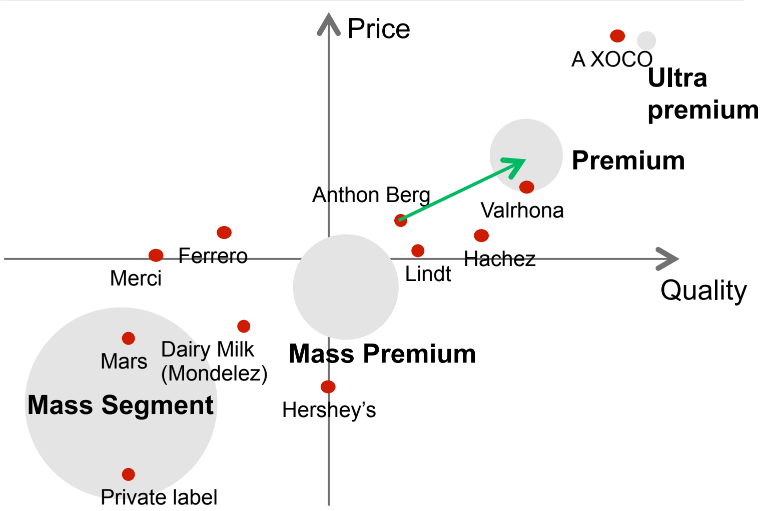
Executing a premium branding strategy in Germany (2/2)

Toms' should expand its current product portfolio with a new brand: Anthon Berg premium

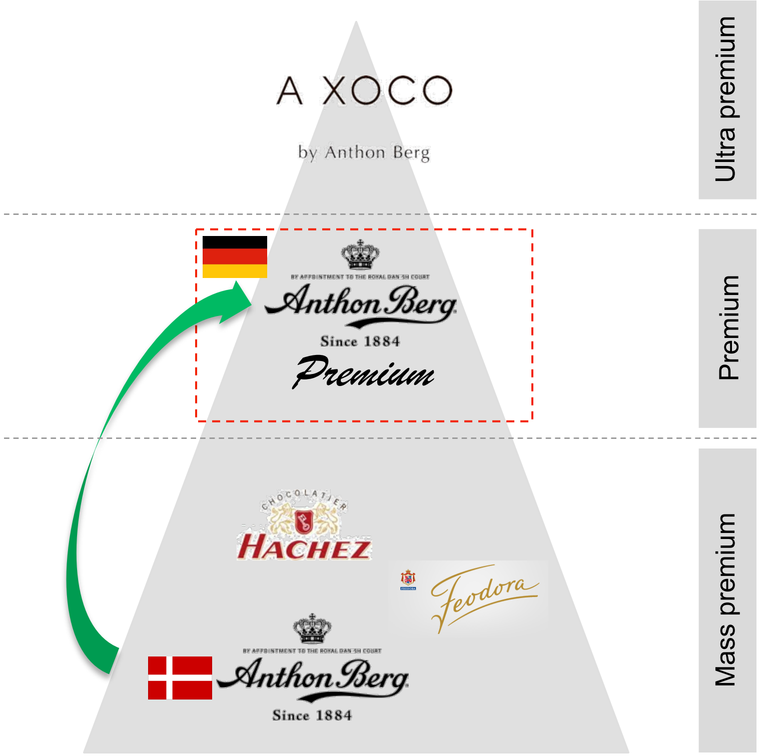
Tayloring high-end Anthon Berg brand

- Anthon Berg Premium will offer a more exquisite consumer experience through:
  - New packaging
  - A strong focus on conveying the traceability and quality products
  - Organic and FairTrade
  - Only minor changes to existing Anthon Berg products, in order to reap SKU-level profitability
  - Online sales

Positioning of the product offering



New brand portfolio



Segmented branding strategy:

In DK: Anthon Berg maintains current branding strategy: "You can never be too generous"

In Germany: Anthon Berg *Premium* is launched to cater to "premium"-segment through the slogan "Geben zum Leben?"

Source: BCG case presentation material, Euromonitor Germany report

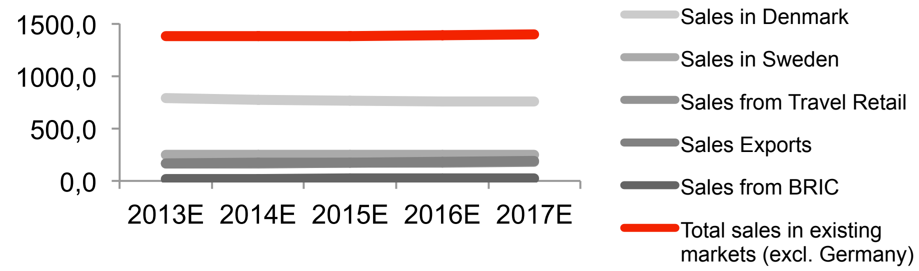
Financial impact

Cost input fluctuations must be managed through Toms already-in-place hedging strategy

The base case creates a revenue growth of 1.1% and EBITDA growth of 9.6% 2012-2017 CAGR

Base case for Toms group (excl. Germany)

- A flat case is assumed for developed markets excluding Germany (following Euromonitor estimates, if available)
- CAGR (2013E-2017E) for Denmark is -1%, Sweden 0%, Travel retail 2%, Exports 3%, BRIC 9-10%
- Overall sales growth: 0.3%



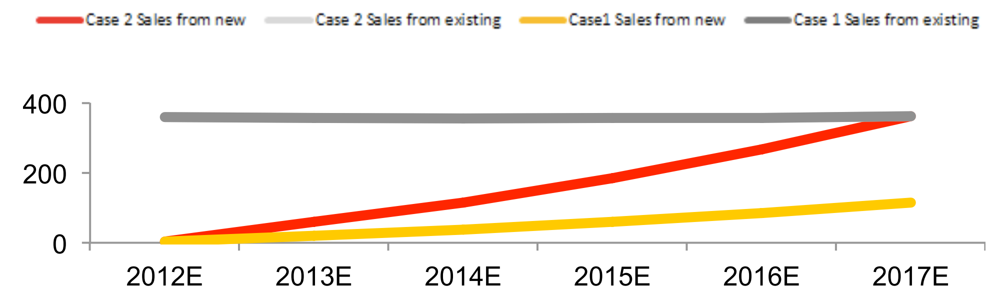
Germany penetration case 1 & 2

- **Case 1 Base case** Total market share in Germany in 2017 = 1.1%

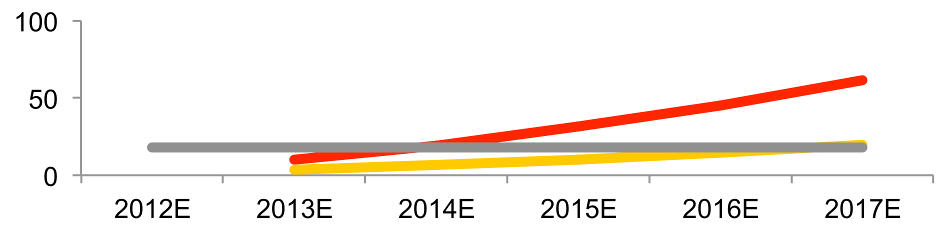
- **Case 2 optimistic case** Revenues of new products will match that of existing in 2017. Market share = 1.7% within total chocolate confectionery

- A flat case is assumed for developed markets excluding Germany

Revenue projections



EBITDA projections



Note: Based on peer analysis (cf. slide 5) we use a 17% EBITDA-margin for sales from new products

We apply a 5% EBITDA-margin for sales of existing products (3-yr historical rate)

Source: Company annual Reports, Capital IQ, Euromonitor, case materiall

Wrap-up

- Internationalizing Toms through:
- Launching Anthon Berg Premium…
- …in promising premium markets

- Leverage access to German specialty retailers via subsidiary
- Launch flagship and shop-in-shop stores in Hamburg, Berlin, Frankfurt and Munich
- Participate in regional German trade shows

- Top line growth within premium segment of CAGR 1.1% and EBITDA of 8.8%
- Strategically differentiates a core Toms product from international cost leaders in mass/mass-premium segment