Coca-Cola Europacific Partners PLC at UBS Global Consumer and Retail Conference
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Sanjeet Aujla

Okay. Great. Welcome, Nik. Thanks for taking the time out to be with us today at the UBS Consumer Conference. I think we'll get right to it.

Nik Jhangiani - Coca - Cola Europacific Partners PLC - CFO

Great. Thank you for having me.

Sanjeet Aujla

Q. Love to start on Europe. Last year, the European consumer took quite a lot of pain from significant pricing to offset cost inflation, volumes were negatively impacted across many categories, albeit more resilient for soft drinks. Just love to get your take on how you think about stated consumer and the volume outlook in 2024, just putting aside the weather comparatives for one moment.

Nik Jhangiani - Coca - Cola Europacific Partners PLC - CFO

Yes. I mean I think -- listen, we've all been pleasantly surprised and pleased with the resilience of our category. NARTD as a whole has been very resilient relative to other FMCGs. And if you look at sparkling in particular, it has really held up very well. I think a continuation of some of the actions that we took during COVID in terms of broadening our range of packs that we offer through retail and clearly, lifestyles patterns in terms of how people are living and working has changed. And so they can continue enjoying our products at home as they do in the away-from-home channel. We've talked about the consumer for the better part of a couple of years now, right?

And I think, again, linked back to our pack offerings, we feel that we've got a pack offering dependent on the channel that can serve any kind of consumer shopper who wants to go there and what we want to continue driving is incidence in the basket of our products.

So i.e., when they do shop, our product should be in there in a range of different packs and formats at price points that they can buy and enjoy.

And I think that's what we continue to see and monitor in terms of managing what we can on the affordability side of things. Primarily on large packs, large PET, multipack cans, but also keeping in mind the absolute ticket size of what might someone want to spend, right?

So if someone is a little more cautious around if they're spending that 25, 30 pounds, euros whatever on their basket, clearly, to your point, they're probably getting less for that same amount than they did 2 or 3 years ago.

How do we continue making sure that our product stays relevant at a right price point within that ticket that they can put in. So whether it means a promo on a large pack, whether it means a single pack offering as in a single pack PET offering. Those are the types of things that we'll play with.

And then at the same side, on the other end of the spectrum, there's lots of consumers who still want to buy mini cans, who still want to buy glass bottles, who want to buy smaller formats of glass or PET for their home, right, for consumption, 1 liter as opposed to buying a 1.5 or 1.75. And that's the price laddering in the range of packs at different price points that we think continues to keep us interested and available and relevant in a consumer's basket, right?

Sanjeet Aujla

Q. Got it.

Nik Jhangiani - Coca - Cola Europacific Partners PLC - CFO

So household penetration frequency are what we track and both of those numbers continue to play well.

Sanjeet Aujla

Q. I think you suggested that the full year results a bit more focused on increasing promo levels in Europe this year. Can you just give us a sense of where promo levels in Europe are versus 2019 because I think it came down a lot during the pandemic. Do you see them going back to 2019 levels? Or are they structurally lower now?

Nik Jhangiani - Coca - Cola Europacific Partners PLC - CFO

Well, listen, I think the pandemic definitely made our home channel that much more resilient because effectively, 80% of our away-from-home closed. And we realized very quickly that home channel was going to be very important. So again, that range of offerings, the level and depth of promotion that we needed to do, obviously came back a lot as -- came down a lot. And for the most part, that stayed, my reference to that in -- on the call was again playing back to my point that I made earlier.

If we need to make sure that a consumer needs to have a more affordable pack to stay relevant in their basket, then absolutely, we might have to do a little more on promotions, right, on relevant packs in relevant channels and maybe that's what we're looking at. It's very difficult to say, is it going to go back to '19 levels? Or is it not? Because I think it can vary, depending on the period of time, of when you might want to promote, right, depending on what competition is doing, what is private label doing, what might be that squeeze depending on the time of the month when people get their paycheck and they go shopping versus the end of that pay cycle before they get their next paycheck and what do you want to do, right?

So I think we're getting a lot more granular and having a better understanding of when and how do we need to be on promo and sometimes what's the depth and what's the frequency might be very different to what we had in '19 and '18 and '17 because we have just much, much better data, right? So I think of it much more around that incidence, that relevance as opposed to promo levels being back to '19 or '18 levels if that make sense?

Sanjeet Aujla

Q. Okay. I think you also spoke -- started to speak a little bit about shift to discounters. Maybe stepping up during this kind of challenging inflationary time for the consumer. Can you just talk a little bit about your kind of relevance in this channel, how that's evolved over the years? How does profitability compare here versus other channels these days, I think at some stage with a drag, but love to get your take on the channels.

Nik Jhangiani - Coca - Cola Europacific Partners PLC - CFO

Well, listen, it's been incredible growth that we've been seeing across the discount channel, right? And most people think of discounters and think of horrible-looking stores, terrible displays and that's really *changed, right? Because at the end of the day, I think every type of outlet or format has an offering that plays into what a consumer or shoppers need is, right?*

And we recognize very early from my experiences in Germany that actually we want to be present where -- anywhere where a consumer shopper is going in, right? Because we want our product to go into their basket, right? So ultimately, it's about having what you started out with, with some of them because their own hesitancy to carry a brands or branded products, but they saw us as a very attractive category and a very attractive brand in that category to be present, right?

And typically, you might have started out with them with just a limited range or even what we called when it's gone, it's gone. Just a certain amount and boom, that was it. They realized, too, the importance of what that was driving in terms of the shopper through their store by having some of the more attractive A brands like ours. And then over time, they wanted to offer a broader range. They wanted to actually even have some single serves in some of our outlets with the discounters. We even have coolers.

So the whole -- the mix of what we're selling, how we're selling has changed. So the growth in discounters have been tremendous, and we've been able to benefit from that because we've been in with them from the early days, right, and in different forms and structures over time.

We see that as an attractive channel because actually, margins are just as attractive because your cost to serve is a lot lower. Most of them actually have you just drop off at central warehouse. We do no merchandising in store. There's very little that we call on, right? Not all the stores have a cooler. So the cost to serve is significantly lower, so your margins are just as attractive, right? But again, it boils down to, ultimately, we want to be everywhere where the consumer shopper goes and have our products available.

Sanjeet Aujla

Q. And do you have your fair share in that channel? Or is there still more to go forward?

Nik Jhangiani - Coca - Cola Europacific Partners PLC - CFO

I think there's always more to go for, right? So I think it'll vary by market and it'll vary by banner within market. And clearly, we have a concerted effort to continue playing and winning with the winning channels, and discounters is clearly one of them.

Sanjeet Aujla

Q. I think you've made quite an intentional effort in recent years to give a bit more margin to retailers across Europe, right? Can you just talk a bit about what sort of impact that's had on your business in recent years and in particular, your ability to land pricing over last couple of years?

Nik Jhangiani - Coca - Cola Europacific Partners PLC - CFO

Well, I don't know if the word intentional is the right word or a good outcome from wanting to do what we were always focused on, which was around joint business planning with them. And how do they understand the growth in our category and the opportunity to be able to benefit alongside us in terms of that growth, right? And clearly, whenever we take pricing, we're very particular.

As I said, we're not going in and saying we want to take a 5% increase. It's about how do we look at that particular format, the range of what they offer, the packs on which we believe there is relatively low elasticities, and that goes back to just our broader, our RGM capabilities that I think we've honed over the years.

So it's been a nice outcome, which has clearly then supported the importance of our category for them, both in terms of the footfall but also the revenue, the absolute margin and the cash flow that they make from our category, right? So for 6 years in a row, we've been the #1 value creator across Europe, across FMCG, right? That means the absolute sales value growth and the margin that they get from our products is much higher than any other FMCG player in the market, right?

And in Australia and New Zealand, it's been the highest in the NARTD category. So we have more to play for there as well. So to your point around the outcome of that has been obviously a better ability to negotiate with them because I think they also see our capabilities as being strong to be able to do the right things to, again, drive that incidence of our products into their basket on which they can continue making good margin and good cash flows, right? That then clearly helps when you're actually having discussions with them around pricing. It's *never an easy discussion, but it definitely makes it easier when they clearly see the opportunities that are out in front of them in terms of top line and margin growth.*

Sanjeet Aujla

Q. Got it. I think you just pointed about revenue growth management has really come to the fore in recent years. The importance and impact has been validated in your business certainly in the last 2 years. Has this period of successful pricing you've been able to manage, changed your thinking about the role of pricing over the medium term within your growth algorithm? And to what extent have you been surprised about the resilience, the volume elasticities [the year] potentially.

Nik Jhangiani - Coca - Cola Europacific Partners PLC - CFO

Well, we love to believe our brand equities are very strong. And so they shouldn't have been a surprise. But yes, we have been. It's been a very positive surprise or positive elements of work that we've done that have actually paid out very well in terms of with the Coca-Cola company, building those FMCGs and making our product -- very relevant to want to go into a consumer's basket for a variety of different occasions, right?

And so there's a lot of work that we've done around, what do each product and package type of offer whether (inaudible) refreshment whether it's about fun with friends, whether it's about watching TV and gaming with family, whatever it might be, right? So we always look at need states, we always make sure our packages and our offerings for a particular channel are relevant to that. And that's a big part of revenue growth management as well as opposed to just what do you do from a pricing angle, right?

From our angle, I think we've taken it to 1 level or 1 click below. And in some ways, it was always implicit, but we wanted to make it a lot more explicit. Firstly, internally for our commercial organizations but then also externally around our focus on not just revenue growth management because it was always about profitable revenue, but we talk about revenue and margin growth management, right?

And that's a margin not just for us, but it's also margin back to that point that we were making earlier for our partners, right? Our customers, right? Because ultimately, the more they benefit from the growth in our category and make better margins, the more attractive they are to want *to work with us and want to list us and actually bring in innovations and give us more shelf space and more cooler space and all that kind of stuff, right?*

So I think that whole subtle change has also had us work in different ways to think about how do we enhance that margin story with that top line as well for both our partners and for ourselves. And I think there continues to be a lot of room to continue playing in that space, right? Your capabilities, your understanding of the markets, the granularity of the data that we now get and have at a store level helps us make better choices and decisions in terms of the offerings and the pricing and the margin story for that particular channel or that particular store in a particular post code as well within the same format.

Sanjeet Aujla

Q. Got it. And as you think about pricing for your business over the medium term, is inflation still an anchor in terms of how you think about the role of pricing within your top line? Or do you feel you need to give a little bit back to the consumer over the next year or two?

Nik Jhangiani - Coca - Cola Europacific Partners PLC - CFO

So I think we've always had a mindset and philosophy around -- we want to be able to price in line with inflation and actually continue getting the benefits of mix, right, be it channel, be it pack, et cetera. But we don't take that approach in any given single year that says, inflation's at X, I need to price at X because we try and manage this business for the long term, right? So I don't think our philosophy has changed in any way around wanting to get pricing. In any one given year, the mix of your rate/price versus your mix versus your volume might vary depending on what you're trying to achieve out in the market and what the external environment is like, what competition is like, et cetera. So I don't think there's any kind of change in our philosophy around that. If you go back to 2016 when we formed European partners, we have consistently been taking price in every one of our markets during that period of time.

Yes, it accelerated because of the levels of inflation that we saw. But again, in those years, we didn't go out and say we had to price exactly in line with inflation. And you saw our margins actually contract, but we knew we'd be able to bring that back up over a period of time, right? And I think that philosophy is still very much intact in our mindset.

Sanjeet Aujla

Q. Got it. Just going back to the creation of CCEP back in 2016, I think at the time, there was a big investment into the away-from-home channel. More feet on the street. How do you think about how that strategy has played out for the last few years and the growth opportunities going forward in away-from-home versus home in Europe in the medium term?

Nik Jhangiani - Coca - Cola Europacific Partners PLC - CFO

Yes. I mean I want to make sure that when you think about the investment we started making when we formed Coca-Cola European Partners was not suddenly that we saw away-from-home being very attractive because we still have always seen it and continue to see it as being a very attractive channel and a broader diversification of the subchannels through which we can offer our product, right?

Again, when you look at broader FMCG, typically, they're 80-20, retail and then more traditional. We were at that point, maybe 60-40. But the reason for actually investing, so to speak, and let me explain what that was, we had become a business that was too focused on selling large pack in retail, okay, at a heavily discounted price. So you could go into France and buy a 6x1.5 liter and get a second 6x1.5 liter at half price or a discounted price.

Well, think about the fact that you were walking out with 18 liters of product. What was that doing to you? Well, one, you were only appealing to very heavy users, right? Because who else is going to buy 18 liters of product unless you -- you're a very heavy user family that's drinking that product every day with every meal, right?

What that was doing was actually, in some ways, killing your own away-from-home business because if you think about some of those smaller independents, why were they going to actually want to buy glass bottles or cans or small PETs from you, when you were going into knock on their doors when they could go into a large-format retailer and pick it up themselves and pour it into a glass and sell it, right?

So you were killing in some ways your own business right? And you were, again, appealing, like I said, to a shopper that was very unique in terms of that heavy consumer, right? And our whole focus needed to be on how do we drive household penetration deeper, as in more *households and drive frequency of consumption. We measure weekly plus. So I'd rather have a mix of heavy users and more light users coming in, right? And that was how we started investing in away-from-home by actually taking up our prices in home to make our offerings in away-from-home more relevant as to why they would buy from us and why that consumer who was going to pay a higher price in away-from-home was getting a better consumer experience, right, in terms of the product they were having.*

And that's what's really served us well because automatically, what you did was you reinvigorated your away-from-home. And at the same time, you improved your profitability for yourself and your retailers, right, in the home channel by actually pulling back from this very deep discounting. And that's when we started doing that range of offering in the home channel.

When COVID hit, we obviously realized, unfortunately, well, 80% of that away-from-home just closed down, right? So what was really a big positive for us when we compare ourselves to the others, in some ways, became our Achilles heel because we just didn't have a channel through which we could sell. And it goes back to my point that I made earlier that we realized very quickly for a period of time, and at that time, we had no idea whether that was going to be 6 months or 3 years, we knew we were primarily going to be a home channel business, right?

And so we needed to improve even further the range of what we were offering. We realized, well, we didn't have to promote even where we were promoting because people were going to buy our product. And actually, they were going to upscale and upsize from a perspective, the types of packs and the ticket spend because they wanted to replicate that away-from-home experience at home because they didn't have that away-from-home opportunity, right? And so in some ways, what we had done to drive profitability away-from-home, we started doing in the home channel.

So today, I look at both the channels, and I just say, I've got a great opportunity to continue growing because my away-from-home profitability is strong. I can continue to improve that by driving more efficiencies in my cost to serve, right? My revenue per case is higher. So the more I can bring those costs down, great, that's going to go up even more. And my home channel profitability has improved because of what I've just described. Lower promotions, broader range of packs, different price points at different price ladders that we offer our packs in and that's *actually great. So I actually want to enjoy growth in both home and away from home, wherever it's coming from.*

Sanjeet Aujla

Q. And just on that broadening the price pack assortment, which has played out so well over the last few years. Where are you in that journey? And how much more upside is there going forward to extract value from that?

Nik Jhangiani - Coca - Cola Europacific Partners PLC - CFO

Yes, the classic, what innings are you in, right? And it's such a difficult one to answer because if you had asked me 3 years ago, I wouldn't have told you we had some of the new capabilities that we've developed to be able to get even more surgical with what we're doing, for instance, with the same pack offering, but in a different post code within the same banner, right? And I think that will just continue to improve, so it's almost a journey that you're going to continue to be on and the innovation pipeline, both in terms of types of packages that we might be able to offer, right?

If you think about what might be coming in terms of the next generation of free style, package list, lighter-weight package options that keep coming out, continued focus on sustainability to drive that in terms of better -- not so much better price realization, but what a consumer is willing to pay for a product that actually differentiates itself from competition in terms of the sustainable credentials as well.

So all that's really important when you think about -- there's lots more to continue going forward. We just have to stay ahead of that curve and continue to thinking on how do we do that better and more differentiated.

Sanjeet Aujla

Q. Got it. I'm going to shift gears a little bit to Australia. Just love to get an update on where you are now on the promo depth and frequency, which is a big focus immediately after the Amatil acquisition. And again, how much more opportunity is there to go for that?

Nik Jhangiani - Coca - Cola Europacific Partners PLC - CFO

Yes. Again, I would say to you, remember, and again, broad numbers, giving you painting a picture. When we took over that market, the *retailers had gotten themselves onto this drug and gotten the consumers onto -- or shoppers onto this drug around 50% of 50 weeks of the year, right? And so who would ever buy your product those 2 weeks of the year when it was not at 50% off because you knew it was coming right back up, right? For those of you in the U.S., it's like the days when 2 liters sold for $0.99 and the 1 weaker year that didn't sell at $0.99, where you didn't sell anything, right? Because everybody knew it was gung ho right back to $0.99.*

So we realized we had to break that cycle, right? And I think Peter was able to very aptly use the terminology of new sheriff in town, new owners, they just don't accept this, and we've got to change, right? So that just changed the dialogue in terms of what they were doing with the 2 largest retailers there. But more importantly, when you started doing that and the retailers realized that it wasn't a consumer that was actually asking for the low price, you had got them hooked on that based on how you were offering that discount, depth and frequency, right?

And so volumes actually started holding up. And during COVID and when some of the other competitors were having a problem getting product on shelves, we were able to even flex that and pull that even more. So roughly speaking, what went from 50% off 50 weeks of the year went down to 30% to 40% off maybe only 20 weeks of the year, right? Now there is no idea to be perfectly honest. And that's why you've got to stay dynamic and understand what's happening in the market, what's happening with competition, when you need to flex up, when you need to flex down, right?

But you now have a tool that you're playing with that's very different from what was an expectation of that 50-50, right? And that's where the team comes back to the whole element of our revenue growth management.

Some of the learnings that I talked about in terms of that post-code granularity, some of the stuff that we've been doing in terms of channel profitability are all great tools that the Australian team developed, right? And we were able to bring them into Europe very quickly, and they're getting that much smarter with their RGM, right? So they're also realizing what are those times at which they might have to dial up or dial down. And again, that's within their gift, right, in terms of what they need to do and they've been doing that very effectively. So again, I wouldn't say there's necessarily an endgame there. It's, again, continuing to be very sophisticated in your revenue growth management capabilities.

Sanjeet Aujla

Q. Right. I think there's also quite a big focus on, again, increasing feet-on-the-street in Australia going after small format stores. Can you just recap a little bit how that's evolved over the last couple of years?

Nik Jhangiani - Coca - Cola Europacific Partners PLC - CFO

Yes. I mean, that no fairness, I have to give them -- really comes from their neighboring market, and we've got a fellow Kiwi in the room who can very, very clearly talk about the success that the team in New Zealand has had. And their big focus was, we want to be in more stores and more doors, right, and doors being the cooler doors, right? And how do we make sure we get that out there.

Now a big part of that is having a sales force that can call in and is actually selling as opposed to order taking, and that's a very big difference, right? And I think part of the challenge was that they were so focused again on that home channel and those large box retailers that they realized that there was something missing when they were looking just their neighboring country and how successful they were, right?

And so in all fairness, a lot of that investment had started under Amatil ownership. We got the benefits of some of those investments that were made in '17 -- in '18 and '19. And when we took over that business that were already well-entrenched, and we'll continue to build on that as needed, right? Because as long as it's having the right impacts and effect in being able to get our product available through more outlets, through more doors and coolers, great, right? I mean, a great fascinating thing that we've seen in Australia, again, that they learned from New Zealand was if you go into a convenience store in New Zealand, I am blown away by the number of doors that in which we have our product, right?

So if you've got cooler space in that store, typically, 70% of that cooler space is co-branded. And when I say co-branded, I mean our whole NARTD portfolio of brands. That comes back to the strength of our relationships that's built by that sales force, and that's selling in story. That's built by the margin growth story that we can share with them. That's built by innovation, that's built by bringing more products to life for them. And again, that's what Australia is trying to do. And that's why some of the stuff we're stealing and bringing into Europe as well. They do a fantastic job in terms of checkout front of aisle coolers, right.

So you're standing in that line and you've got to check out, well, if you've got a bank of 12 coolers in a range of 100 different products to choose from. I guarantee you there's probably 99 of the 100 shoppers were picking something up and consuming it and putting it into their basket if they're not consuming it right there. Great way to drive incidents into basket, so lots to continue playing for.

Sanjeet Aujla

Q. Just moving on to Indonesia now. Can you just recap a little bit on some of the changes you've made across the portfolio and route to market in order to prepare it for future growth. Where are you on that journey now?

Nik Jhangiani - Coca - Cola Europacific Partners PLC - CFO

Where are we on that journey? Your teams love this question around what innings am I in? Listen, I think we went into Indonesia and realized we need to make some changes. And I think we've taken some -- we've taken our time. The first bit of work that we did was truly trying to make sure we understood what does competition do? And why is competition successful in sometimes being a mono brand and a mono category player, right? And that was our first big learning that actually what Coke and Amatil had done would overcomplicate this business.

And because they weren't seeing growth in core sparkling getting into all these other categories. And there's no bottler in the Coke system. I've been around for over 20 years, that if you're not winning in sparkling, you actually can't win anywhere else because that has to actually lead and drive what is your relevance to your wholesalers, your distributors, your partners, et cetera. So the first bit of work that we've done, and that was obviously a lot of the right choices, but that was the SKU rationalization that we've done. So I would say largely by the end of Q1, we'll be done with that. And we've got a strong focus on sparkling and tea.

With sparkling, again, we needed to make sure the relevance of that category was understood, how and when to drink that product, right? Because I think we had lost that. And in some ways, we were trying to be too sophisticated in jumping ahead, assuming that it was just as well understood and well developed that we could do everything that we were doing in the other markets, right?

Coke with food or sparkling with food is a classic example of what we use in all our markets, and it does extremely well. But it's been built up over the years of building relevance of the category, right? So we realize the things we needed to address were: one, affordability, critically important. I think we've set the right price points for our 390 ml, our 250 ml, now 1 liter, which are the 3 main packs in the traditional trade and in the modern trade. We've been starting to do a lot of work with the Coca-Cola Company, and they spent a lot of time actually even with anthropologists and a working group to truly try and understand what's driving that Indonesian consumer.

What's driving those millennials and Gen Zs who, in some ways, we've just skipped over for a number of years because we've lost relevance. So how do we bring that relevance back through gaming, through music, which are 2 big passion points of the Indonesian consumer. Food is, but with food, they typically tend to drink tea and water. So you're not going to change that overnight, but how can we hit them with some of the other passion points where refreshment or upliftment makes sense. And they can understand, well, yes, that makes sense. I want to have a Coke when I'm actually gaming with my friends or when I'm hanging out at Blok M, which is this cool place in Jakarta, right?

So those are the types of things that we're doing, both from an affordability and what I would call acceptability or have the relevance of our category. And then you work on the next elements, which is around activation and availability and the two go hand-in-hand because we know the more you drive availability and activate it well. And if you got it at the right price points and it's acceptable product for the right occasion, you're golden, right? You're going to get it done. And that goes back to what we were doing in the '80s and '90s when you were going into some of those new markets, right?

In Central Europe, I remember when I joined Coca-Cola Hellenic at that time. We talked a lot about the foray. So in a lot of ways, you're going back to some of that, and then you'll build that over time in that market. So that's a lot of the work that we've done. On the latter piece, which is about the availability and the activation, that then comes back to how do you set out that right route to market to ensure that you've got that pull-through and velocity with the right partners based on your affordability and acceptability element, and that all comes together then. So the route to market is a multiyear journey. That doesn't happen overnight. You've got to pick the right partners. You've got to pick the right models. It's going to vary depending on city and island.

And in some ways, I think Amatil and Coke had done a one-size-fits-all, which isn't really not just cost effective, but not even effective from the way you actually drive those forays. So that's a lot of the work that we'll be doing over the course of the next couple of years.

Sanjeet Aujla

Q. And as you start to lap some of the macro headwinds there and with the new price points coming through, do you think the portfolio and route-to-market changes can start deliver volume growth this year?

Nik Jhangiani - Coca - Cola Europacific Partners PLC - CFO

Well, I'm not guiding to any kind of number, but absolutely. I mean I'd be very upset if we didn't get volume growth, and I think we will get solid volume growth because you are definitely seeing a better macro trend versus what we saw in the early part of last year with a lot of pullback on the subsidies. So consumers' wallet or cash spend was definitely strapped. And we're doing the right things in terms of that affordability, that availability, that acceptability. That clearly should be driving for sparkling in terms of volume growth. We still got to crack the tea piece. I think we've got a great proposition. The taste resonate very well. It still comes back a little bit to that element around, do we have the right offerings when our main competitor, which is the local player does mainly black teas.

So how do we make sure we've got things that are relevant and how do we source some non-packaged tea as well, which is a lot more people drink over there, right, freshly brewed stuff. When you go into an outlet with food, it's not about getting a packaged bottle of tea.

Sometimes there are these big vase that they've made it in that they're pouring you a glass, right? So there's a lot of opportunity, but we still have to do work on tea.

Sanjeet Aujla

Q. Right. Just on the Philippines. Can you just talk a little bit about how that business has been trading recently. And I think margins were around 6% in 2023. Are there any structural reasons as to why profitability there is so different from the rest of your business?

Nik Jhangiani - Coca - Cola Europacific Partners PLC - CFO

I mean, when you say structurally, there's 2 big elements if you go back to what a lot of people are using at data points back in 2018, which is what FEMSA's margins were like at that point, right? And there's 2 big changes that have happened. One, there was an introduction of an excise tax. That just has a mathematical impact on your margin percentage, right? Not only absolute dollar margin, but on your percentage, it was just -- the revenue and the cost is impacted by that same absolute amount.

The second element is obviously sugar prices, right? And sugar is in that market regulated by the SRA. There's a lot of protection for the local farmers. And so there's no imports allowed by you as a producer. And if there's imports coming in because there's a shortage in the market that's still very controlled through that channel. So those would be the 2 issues, really, if you go back to trying to compare them to earlier days that have changed that margin.

Clearly, over time, we'd like to see how those might alleviate some of that pressure. But more importantly, there's things that we can do when we think about supply chain efficiencies, procurement, shared services, thinking about pack and growth of modern trade in those channels, both in Indonesia and in the Philippines. Today, it's 25% to 30%, of the mix, 70-plus-percent of the business is through general trade, but modern trade is growing. Margin is actually quite healthy, and we actually bring us very strong capability to earlier discussions, both in Australia and New Zealand, but also in Europe around modern trade, right?

So we can bring those in. So there's lots of things that we can do outside of some of those structural issues that might take a little longer to be able to unlock to be able to drive margins up. So clearly, we see that as a big opportunity.

Sanjeet Aujla

Q. Got it. Just a more broader discussion of margins at the group level. I think on a pro forma basis, 2023 EBIT margin is around 50 basis points below 2019 levels. But within that gross margin is around 200, 250 basis points below. Now you're probably on track to largely recover the EBIT margins this year, but how do you feel about the ability to fully recover gross margins over the next few years? And is that really dependent on the input cost environment?

Nik Jhangiani - Coca - Cola Europacific Partners PLC - CFO

I mean that's one of the implications. But I think I'm going to remind you again, not just you, but all the analysts and who cover us. Margin percentage is a number I don't take to the bank. And I've been very clear at the end of the day, my first and absolute focus will be on growing my absolute dollar, euro, pound gross margin and my operating profit. And I have done that very successfully, and we will continue to do that very successfully as a company. That's not to say margin percentage isn't important. But remember, the operating margin percentage has been driven a lot by what we continue to do on our efficiency programs, right? And I think you've seen that we have a strong commitment to that. Part of that also has an impact on your gross margins. So in terms of order of importance, that's the way I look at it. Absolute dollar margin, percentage operating margin and the percentage gross margin.

Is anything structurally in my business that would preclude me from achieving back to those gross margin levels other than shifts in channels or mix of packs or categories? No, right? So absolutely, I see that as being something that can be recovered. Is that my singular focus, absolutely not.

Sanjeet Aujla

Q. Right. Very clear. Just Shifting to the balance sheet and cash flow side of things a little bit. Does the higher interest rate environment change your perception of optimal leverage. I know you've got the 2.5 to 3x kind of range, which you've been pretty consistent over the last few years. But are you perhaps inclined to move towards the low end of that range in this environment?

Nik Jhangiani - Coca - Cola Europacific Partners PLC - CFO

We benchmark ourselves with the help of a couple of our banking partners around our capital structure, our capital allocation policy, our leverage levels, our dividend payout ratios, and we do that every year. I think when we did it last in July of 2023, we were in that rising rate environment. And I don't think there's any company that we saw that has meaningfully changed their leverage targets, right? So we were very comfortable staying where we were.

More importantly, at the end of the day, we also knew it didn't really matter because I was on the deleveraging path anyway, given that I was significantly above that. And I had time before I was going to get back into a range, which was the end of last year, and then obviously, we did *the Philippines, which actually puts that out to getting back to the top end of that range by the end of this year or during the year.*

Nothing in the environment today that I see has us rethink that. But again, we'll continue to benchmark and do that exercise every year. We are in a fortunate position that I really don't have to go out and refinance anything until probably mid-2025. Given that and given what is definitely happening. It's a question of which central bank moves first and how fast do they move, the rates are going to be coming down. I think we are never going to go back anytime soon to the 0 rate environment that we were in, right? So I think we all have to get used to that circa 2% inflation that the central banks are targeting, which means obviously, then you've got a certain cost of borrowing.

The beauty, again, about the way we've structured our debt portfolio is we don't have any single year in which we have big maturities beyond our cash flows, right? So even if I see that gradual increase in my interest costs, it's not something that's such a big jump or an issue that it would cause in terms of are being able to service that effectively and still maintain that level of leverage, right?

Absent again, continuing to do that benchmarking exercise area. So long answer to your question. No change. Long answer to what's probably going to be the next part of that question, no change to our capital allocation policy. We still want to invest in the business. We're still interested in M&A if it's value accretive. We see geography and geographic expansion is probably the best use of our capital for M&A. Absent that, I want to maintain an efficient balance sheet, and I want to be shareholder-friendly.

Sanjeet Aujla

Q. Got it. And just on free cash flow, clearly a big area of focus in recent years. Where do you see future opportunities on the working capital side of things beyond inventories, receivables and payables?

Nik Jhangiani - Coca - Cola Europacific Partners PLC - CFO

So I think on receivables, we'll continue to work with our retailers because clearly, they've got a big benefit that comes through from the fact that depending on the retailer, you've got anywhere from 30- to 45-day payment terms. And typically, they rotate our inventory a number of times within that, right? So in some ways, we need to continue looking at *that to see what's fair for both sides, particularly given the size that we've grown their margins very healthily and our category continues to drive a lot of top line growth for them. So I think there will continue to be opportunities, but I wouldn't see it as radical, we'll do that over time.*

Inventories, it comes back to what we can do with better planning and how we're also looking at our whole supply chain network, our manufacturing footprint, our inventory levels, our service levels. And in some ways, that comes back to your equation with your retailers as well, right? So I would see those 2 being the big drivers going forward.

On the flip side, take a market like Philippines, and we talked about this a little bit earlier, that might be -- have a little drag on your working capital initially as we need to build up inventory levels to drive better service because we actually working on a very hot supply chain. But I would imagine that would be more than offset by better top line because I'm sure we have lost revenue as a result of that, right? So I look at it in the grand scheme of all the moving parts as opposed to one element only.

Sanjeet Aujla

Q. Got it. Nearly running out of time, but just a final one on the kind of FCA consultation and what that might mean for CCEP and a potential U.K. listing. What's your kind of understanding of where we are on that and potential timelines going forward?

Nik Jhangiani - Coca - Cola Europacific Partners PLC - CFO

So our understanding is the FCA is closing their consultation period next Friday. They will then put out the final rules. They're talking about early summer. We're all in wait-and-watch mode to see what the final rules come out as. I would hope that they will be business-friendly because that's the whole idea of wanting to have companies stay on or be attracted to coming on to that exchange. We have very strong governance. We're very proud of that. We actually obviously listed on 2 of the other jurisdictions that are very stringent in terms of their governance requirements, the U.S. and the Netherlands. And then obviously, then it's about the FTSE affirming their rules for inclusion into what seems to be collapsed into a single segment from what is today a dual segment of standard and premium listing.

Sanjeet Aujla

Q. Got it. And should all of that play out, how can you shift liquidity from the U.S. to the U.K. in a sustainable way.

Nik Jhangiani - Coca - Cola Europacific Partners PLC - CFO

That's for you guys to do.

Sanjeet Aujla

Q. We'll try our best. Great. I think with that, we're out of time. Thank you, Nik, again.

Nik Jhangiani - Coca - Cola Europacific Partners PLC - CFO

Terrific. Thank you for having me.

Sanjeet Aujla

Q. Thank you.

Nik Jhangiani - Coca - Cola Europacific Partners PLC - CFO

Thank you.